
Spain wants to link pension benefits to longevity, not inflation

By Editor Test *Thu, Sep 5, 2013*

Spain's employment minister, Fatima Bañez, stressed that there would be no hike in the legal retirement age in Spain - which currently stands at 67 and is among the highest in Europe.

The Spanish government has proposed reforms to the country's national pension system that would "decouple" pension payments from inflation and would instead link them to life expectancy and economic conditions. It has sent the proposal to trade unions for comment.

In a speech earlier this week, however, Spain's employment minister, Fatima Bañez, stressed that there would be no hike in the legal retirement age in Spain - which currently stands at 67 and is among the highest in Europe.

But with the country's budget deficit now at 10.6% of GDP and growing, she said that the new measure would have to be introduced as early as the beginning of 2014. Her announcement echoed recommendations made by a pension steering committee last July.

The proposed measures include a limit on inflation indexation from 2014 onward. Instead, the government would introduce a minimal increase of 0.25% per annum on pensions, as well as a cap to prevent pension valuation from exceeding this percentage.

The government also plans to strengthen the "pension sustainability factor" in 2019, which would aim to replace the traditional inflation-linked revaluation of pensions.

Instead, the revaluation would be based on the life-expectancy ratio, as well as the balance of revenues and expenses of the social security system in the years prior to a given year.

In its report, the pension steering committee said new criteria should be taken into account in the calculation method used to determine the "sustainability factor," which was introduced during a previous reform in 2006.

The group also recommended taking into account probable life expectancy at the time of retirement, so that people retiring sooner will receive a lower pension for a longer period.

In parallel to the state pension reform, the government is also looking at ways to strengthen its "second-pillar" personal accounts system.

In July, Angel Martinez-Aldama, director of INVERCO, Spain's investment and pension fund association, said the government was expected to present a report to Parliament that would describe new measures intended to boost participation in and strengthen the second pillar.