THE REFORM OF THE PORTUGUESE PUBLIC EMPLOYEES’ PENSION SYSTEM: REASONS AND RESULTS

Cover note

An ageing population raises economic, cultural and organizational challenges for our societies and economies. These challenges have budgetary implications for all European Union (EU) Member States due to present and projected age-related expenditure path, which might endanger the long-term sustainability of public finances. Looking forward, policy makers should guarantee long-term fiscal sustainability anticipating risks and significant uncertainty while adapting to the new demographic conditions.

The ‘2009 Ageing Report’ joint report of the European Commission and the Economic Policy Committee, based on national models, projected an average increase in public spending of about 4.7 percentage points (p.p.) of GDP by 2060, as a direct result from the effect of ageing, under a “no policy change” assumption. This increase reflects essentially the projected trend for pension expenditure and, to a lesser extent, health care and continuing care. In Portugal, the projected increase of age-related expenditure is lower than the EU average, standing at 3.4 p.p. of GDP and reflecting the effects of the recent reform of the public social security system. In the ‘2009 European Sustainability Report’, Portugal is thus classified as a medium risk country, while in the ‘2006 Report’ it was classified as a high risk country in terms of public finances sustainability, with the pension reform being one of the main reasons behind this improvement.

The paper “The Reform of the Portuguese Public Employees’ Pension System: Reasons and Results” describes the aforementioned reform that was applied not only to the general regime of social security but also to the public employees’ pension system, “traditionally” more generous. In particular, it specifies the main measures adopted, namely i) the introduction of the “sustainability factor” in the pension benefit formula indexing the new pension’s value to the evolution of life expectancy - this factor accounts for more than 50% of the reform effect and for the minimization of the impact of uncertainty underlying demography projections; ii) the new rule for pensions updating; iii) the earlier transition to a new pension benefit formula that considers the whole contributive career; and iv) the promotion of active ageing. It also illustrates their impact on the Portuguese public finance sustainability and discusses the potential distributive impact of the new rule on pensions indexation.