mobile welfare

European welfare systems in times of mobility

Scoping study – Portugal
Retirement

Pensions in Portugal

Old-age pensions are estimated on one's average monthly earnings over a period of deductions (up to a maximum of 40 years). For those with fewer than 20 years of deductions, the pension rate is the outcome of two percent of one's average earnings during the deduction period added for each of calendar year (a minimum of 30% and up to 92% of reference earnings). For those with more than 21 years of contributions, the pension rate varies between 2 and 2.3 percent depending on earnings, relative to the social support index (*indexante dos apoios sociais*).* For those who have worked for at least 15 years and are older than the standard pension age, the pension's value increases (0.65% per month). Nonetheless, the working age limit is 70 years. In Portugal, there is a minimum pension of 199.53 Euros guaranteed for those aged 66 or more who do not qualify for the earnings-related scheme. From January 2015, workers aged 60 with 40 years of contributions can retire with a penalty of 0.5% for each month previous to the time they reach the age of 66.

* This index is the basis for the calculation of several allowances that were previous calculated based on the minimum legal salary. In 2015, the value of this Index is 419.22 Euros.

Poverty among the elderly in OECD countries

According to the OECD (2013), the rate of old-age poverty in Portugal was below that of the overall Portuguese population, decreasing by more than twice the OECD average in the last few years. OECD statistics show a decrease of 5.3 percentage points in the time spanning from 2007 to 2010, compared to the 2.2 percentage points for the general Portuguese population. This is by and large due to two main factors: 1) the protection given to pensioners (namely the ones with lower income) in a period of deep financial and economic crisis; and 2) the associated decrease of income in the total Portuguese population, contrasted with the improvement of old-age pension (*pensão de velhice*). By 2012, among the EU member states in this study, Portugal had the highest expenditure on pensions as a percent of GDP, at 14.5% (Table 1, below).

	Pension Expenditure as % of GDP	Pensioners as % of Active Population	Pension Expenditure per Inhabitant
Netherlands	12.5	38.3	4,785.30 €
Norway	-	45.2	6,746.20 €
Poland	11	55.6	1,111.20 €
Portugal	14.5	56.1	2,326.80 €
Spain	11.7	38.9	2,637.10 €
UK	11.5	47.8	3,701.00 €
EU28 average	12.8	-	3,402.60 €

Table 1. Selected pension data, 2012
Source: PORDATA

Sustainability of the System

With high life expectancy and low fertility rates, the implications for the future financing of pensions in Portugal are highly problematic. The state of social pensions – and its future – is one of the most important socioeconomic and policy concerns in the country at present. The ominous reality is reflected in the data on pensioners as a percent of the active population displayed in Table 1. Moreover, in the short run, today's austerity measures brought about by the economic and financial crisis have led to cuts to the pension system and in turn threaten to provoke higher poverty rates for the elderly. Though longer working lives (increasing and incentivizing higher retirement ages) could help ameliorate the medium and long-term perspectives on the sustainability of the pensions system, the country has already a high average in terms of labour market exit. On paper, the standard pension age in 2015 is 66 for both men and women; in comparative reality, in Portugal in 2013 the average retirement age was 68.4 for men and 66.4 for women, compared to 64.2 and 63.6 in the OECD, respectively.

References

OECD. (2013). http://stats.oecd.org/Index.aspx