

## STUDIES AND REPORTS SERIES

# Reform of the public pension system in Spain

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As growth of financial obligations arising from the existing public pension system becomes evident, clouds are gathering over the viability of the system in coming years. The enormous importance of retirement benefits for the proper functioning of the society and the State, the controversy around the proper analysis of the problem, the multiplicity of reform instruments applicable and the difficulty in implementing any possible solution make this one of the most sensitive questions in the current political debate. This is a debate still being carried on between frontiers which run from a reality poorly perceived, a future scarcely explored to any depth along with a considerable dose of alarmism.

The aim of this monograph is to contribute to improving the quality of the debate about the future of pensions with two complementary studies, one economic and the other sociological. It starts out from a reference scenario based on a core projection of a demographic and macroeconomic nature, with a time horizon up to the year 2025, which establishes the financial prospects of Spain's contributive or Social Security pension system under the supposition that no changes are made in existing legislation. In virtue of the model applied it is possible to deal in substantial detail with the trend in spending and revenues in the system making a distinction between the general regime and special regimes, the latter treated as a whole, while taking into account the types of benefits and breaking data down by sex and age. This projection facilitates the evaluation of a series of possible pension reform measures in which consideration is given to maturation time, long-term effects, groups affected and the sacrifice such measures would mean for individuals making up those groups. Furthermore, an analysis is also made of the sensitivity of the pension system to alternative scenarios for processes of job creation in the economy.

In the sociological exercise the study examines the positions of a series of key players in the debate and the decision taking on pension reform beginning with a discussion of the positions of the political parties in relation to the Toledo Pact treated as a possible point of departure for a reform process. Latter on, the study analyzes the background and arguments put forward by a series of strategic players (political, social, economic and cultural). Finally, it sets out the results of a public opinion survey using a representative sample of the Spanish population carried out in April 1995 through which it examines Spaniards' perception of the problem and their opinion about various possible solutions.



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## FOREWORD

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*The Welfare State is today one of the basic references of Western economies. The assistance of the State to underprivileged groups in society came strongly to the fore following World War II because of a series of circumstances. In the first place, there was the ethical need to deal with situations of poverty which economic development, however rapid and balanced it might be, could not avoid. Secondly, because of the political necessity to counteract the attraction exercised by the creation of Communist regimes in Eastern Europe intended for the achievement of a presumably classless society in which all material needs were fully provided for. Finally, because of the growing conviction that the intervention of the State in the economy was not only necessary to avoid the failures of the free market but was desirable in order to achieve maximum levels of progress and efficiency. With this in mind, states developed a complex administrative framework which was basically oriented in two directions – the stabilization of activities considered of a social nature such as in the case of health and the creation of mechanisms for redistribution of income (benefits to the unemployed, pensions of various types, etc.).*

*In the last twenty years a number of factors have had the effect of worsening the economic base on which the Welfare State rested. The energy crises in the Seventies put an end to cheap energy and, as a result, to the development model of the Sixties –high growth, low inflation, full employment– which had made it possible to comfortably finance social assistance programmes. The low capacity of the European economies to create jobs has raised unemployment rates –and demand for unemployment benefits– to levels unthinkable in the Sixties. The gradual aging of the population has worsened the ratio between active workers and the retired. Abuse by governments in generating the public deficit even in*

*economic boom years has brought about the accumulation of high levels of public debt which must be continually refinanced bringing about high interest rates and frequent episodes of instability in foreign exchange markets. The increase in foreign trade and globalization of economies has given emphasis to the comparatively high costs European companies must bear in comparison with their competitors from other areas due to the existence of the Welfare State which has finally contributed to lower competitiveness and a lower capacity to create jobs.*

*At this time, the reduction of public deficits and containment of the public debt is the matter galvanizing Western economies. In the United States the sharp discussion about how and when to definitively eliminate budget deficits is generating an historic confrontation between Congress and the President. In the European Union, the requirements regarding deficit and public debt set out in the Treaty of Maastricht in order to join the third stage of the Economic and Monetary Union (EMU) have finally managed to make public officials aware of the need to face up to the problem. But it is not simply a matter of issuing some legal guidelines and assuring they will be met. Controlling the deficit means reorganizing, modifying and altering a whole series of rights which are taken for granted and which directly affect individuals and families. The task therefore is not easy and furthermore gives rise to certain conflict. The recent case in France serves as an example with the proliferation of strikes and citizen protests as a result of the mere announcement of cuts in social benefits.*

*In all Western countries people have become aware of the need not to eliminate the Welfare State but to adapt it to the present economic context. Not simply to suppress its benefits and advantages but to ensure that these do not indirectly and involuntarily put a brake on the creation of the wealth on which they depend. Sweden, which took on the category of a model for the coexistence of a competitive capitalist eco-*

*economy with a generous social assistance system, has had to drastically revise its programmes after finding that the two are not compatible and that they end up creating a crisis of serious proportions.*

*Spain is now fully immersed in these problems. There is a notable imbalance in public finances even if it is not among the worst in Europe. The desire to move into the third stage of the EMU and to enjoy the benefits of the Cohesion Fund of the European Union makes it essential to meet a Convergence Programme, the key element of which is the reduction of the deficit in all areas of public administration. Furthermore, until the deficit and public debt are reoriented to lower levels it will be difficult to reach more moderate interest rates that allow more stable and balanced economic growth.*

*Spain's Welfare State, of course, has not reached the levels of development of the most advanced European economies. But each year the Social Security system presents a deficit which the State must cover. In this context, spending on pensions is the largest item in budgetary allocations. And each year this spending on pensions grows much faster than the total State revenues due to demographic circumstances, the labour framework and existing legislation. The fear that this trend will come to weaken the financial capacity of the public pension system has come to the fore in various quarters and has created understandable concern among present and potential beneficiaries. As this is a question which must be solved over the long term and which requires the drawing up of estimates for the performance of the economy over time periods of ten or twenty years, it is not easy to find accurate studies which shed light on this key matter. It is therefore the right moment for the series «Studies and Reports» to publish the work carried out jointly by FEDEA and ASP in this issue. This work not only sets out an economic study of the possible trends of the public pension system in the future but it brings together valuable evidence on how this matter is perceived by*

*various key groups in society and by public opinion. As a whole, this represents a contribution with which the Research Department of "la Caixa" hopes to contribute to a sound and fruitful debate on a question which will affect all citizens in coming years.*

Josep M. Carrau

Director Research Department  
December 1995

## I. INTRODUCTION

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- In recent times a broad consensus has taken shape in Spain regarding the possibility that the provision of public pensions may represent a problem in the future. To the extent that we begin to see the growth of financial commitments arising from the growth in the dependency rate between the retired population and working population clouds begin to form over our public pensions system. The enormous importance of retirement benefits for the correct functioning of the society and the State, the controversy around the nature of the problem, the multiplicity of reform measures applicable and the difficulties involved in any possible solution make this one of the most sensitive questions in current political debate. It is a debate which is still being carried on within frontiers which sketch out a reality poorly perceived, a future scarcely explored to any great depth along with a considerable dose of alarmism.
- With this monograph we want to contribute to improving the quality of this debate about the future of pensions through the presentation to the public of the results of two complementary studies, one economic and the other sociological. Before briefly setting out the contents of each of these reports we would like to make three comments.
- Firstly, we will start out from the assumption that the debate on pension reform should in no case be left to elite groups (such as political, trade union, business or academic groups). In reality any opposing aim would be fanciful. Pensions represent a question of far too great importance for the ordinary citizen to give up dealing with it. In fact the dialogue between government and opposition, the political parties and, in general, the elite groups or the so-called strategic players is taking place quite apart from a citizenry which has its own experience in this matter, which listens to them with varying degrees of interest, and which is formulating its own

arguments and adopting different opinions and attitudes on the matter. These opinions and attitudes coincide only partly with the positions of the strategic players. It is essential that these coincidences, discrepancies and nuances be made public and widely known, that they be expressed and compared in a serene, reasonable and ready manner.

- Secondly, we want to underline that our contribution to the debate on reform of pensions is set out within thematic limits. We have limited the problem to the so-called «financial balance» of the system and its long-term economic viability (and, although we refer to pensions as a whole, a large part of the detail of our calculations, observations and arguments refer to retirement pensions which make up more than 50% of total spending on pensions). The reader should be aware from the beginning that we scarcely have paid any attention here to other aspects of the question, those relatively specific aspects such as the «rationalization» of pension management or its geographical decentralization and other broader general questions such as those involving inclusion of a pensions policy in a general policy of deficit reduction of various levels of government as a whole.
- Thirdly, it is important that Spaniards be aware that the problem of pensions represents a central concern of the majority of industrialized countries and not only of Spain although here it takes on more troublesome aspects especially because of the high level of unemployment. Taking into account the international dimension of the problem may be very useful in order to forge the debate thus avoiding that it becomes a discussion charged with «specifically national» arguments. It may also be useful in the search for solutions given that many countries have begun to take some early steps in this direction.
- We have divided our work into two major sections –economy and sociology. The first part is dealt with in Chapters 2 and 3. In Chapter 2 we set out a reference scenario based on a central projection starting out from

demographic and macroeconomic hypotheses looking forward to the year 2025 which establishes the financial perspectives of Spain's contributive pension system or Social Security pensions (hereinafter called «pension system» or «pensions») on the assumption of no legislative changes being made. In virtue of the model applied it is possible to deal with the trend in spending and revenues of the system in considerable detail distinguishing between the different pension regimes and furthermore taking into account the types of benefit and breaking these down by sex and age. We have also calculated the difference between spending and revenues of the system both in constant pesetas (1995) and as a percentage of Spain's GDP for each year between 1995 and 2025. This projection facilitates the evaluation of a series of pension reform measures set out in Chapter 3 in which we consider maturity period, long-term effects, groups affected and the sacrifices which such measures could impose on the individuals making up those groups. In this chapter we also look into the sensitivity of the system to alternative hypotheses for job creation in the economy.

- The sociological exercise is laid out in Chapters 4 and 5. In Chapter 4 we examine the positions of a series of key players in the debate and decision-making on pension reform beginning with a discussion of the positions of the political parties in relation to the Toledo Pact treated as a possible point of departure for a reform process. Later on we analyze the background and arguments put forward by a series of strategic players (political, social, economic and cultural). In Chapter 5 we set out the results of a survey using a representative sample of the Spanish population carried out in April 1995 through which we examine Spaniards' perception of the problem and their opinion about various possible solutions.
- In this manner, each exercise be it economic or sociological is linked and each one complements the other. On the one hand, unfavourable «predictions» may turn out to be the best antidote to their realization given that the more accurate and sober these predictions are the easier it may be that

individuals in the society, after taking these as points of reference for reflection and discussion, may understand the problem and be prepared to face up to it. On the other hand, however pertinent the analyses and recommendations of economists may be, the theory of social choice suggests that voters will not lend their support to those proposals at the polls if they see these as prejudicial to them and the parties will not even mention them in their programmes (and this is a crucial point) if they do not introduce sufficiently persuasive considerations so that from the point of view of the «common interest» they redefine the premises of the real long-term interests of those voters.<sup>(1)</sup> It is precisely to this redefinition of long-term interests that analysis of the strategies of the players and public opinion may contribute, an analysis which makes it possible to explore our knowledge of the limits and opportunities which politics and society impose and offer to a public policy of reform which aims at real effects and not simply a declaration of intentions.

- We should like to express our conviction that alongside the findings of the «dismal science», as John Carlyle called economics, perhaps thinking of the counterpoising of scarce resources and apparently ambitious aspirations, we must also put the capacity and civic courage of all the individuals in the society in order to understand those findings and to reasonably deal with the difficulties a society is faced with. To be honest, economics, sociology and political science are not so much «dismal sciences» as indispensable instruments for taking steps requiring a sense of hope and therefore that people have a good deal of confidence in themselves.
- A certain dose of confidence must be applied to individuals and institutions but it should not be exaggerated. It should be tempered with reflection about some of the trends which can be observed in Spanish life. One is the tendency of the strategic players to not take the necessary decisions

(1) See Oller (1995).

perhaps because they put their own short-term interests above the common interest. Another tendency of the society is to give priority to its rights rather than to its obligations, to the levels of its aspirations rather than to its levels of effort. Today it seems that there are still many Spaniards who believe that the pensions problem may be solved by simply thinking that «a life of work» gives the right to «a proper pension». They perhaps do not realize that only if the working life of each and every one of us has effectively generated a sufficient fund of economic resources can that right to a proper pension be effectively provided rather than remain an aspiration incapable of being met.

■ Before ending this introduction, the authors would like to acknowledge the invaluable help of Carmen Arias and Ana Velarde of FEDEA and Juan Carlos Rodríguez and Josu Mezo of ASP in preparing the manuscript.

## II. FINANCIAL PERSPECTIVES OF SPAIN'S PENSION SYSTEM: 1995-2025

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- This chapter presents a core projection based on current trends for the analysis of financial perspectives of Spain's pension system for the period 1995-2025. The pensions which the various Social Security regimes provide Spaniards with apply to very large segments of the population which are covered against a broad range of contingencies while contributions come from those workers affiliated with the system, both those actually working and those temporarily not working as well as those unemployed. The model used treats all these situations and their economic implications which gives rise to our calculations of total revenues, total spending and the balance for the system.
- The analysis of the trend in number of pensioners, employment, bases for contributions, average pensions, etc. require specific demographic and macroeconomic scenarios descriptions of which are given in Sections 2.1 and 2.2 respectively. Section 2.3 sets out the projection of human numbers in the system up to the year 2025, that is to say the number of pensioners and contributors resulting from hypotheses previously established on population growth and employment. The economic flows associated with such numbers are dealt with in Section 2.4 where we set out the balance of revenues and spending for the system distinguishing between the various pension regimes. Finally, Section 2.5 shows calculations relating to average benefits for the main contingencies contemplated by the system and trends up to 2025. All the monetary figures are expressed in 1995 pesetas so that information relative to average pensions, for example, reflects the trend in the real pension received by the various beneficiaries.
- As mentioned at the beginning of this section, the chapter deals with the so-called base projection. We have opted not to develop variants of this

projection except in the specific cases described in the following chapter with the object of keeping our attention on those perspectives which, in our opinion, are most likely to actually take place in the pensions system in the future if there are no changes in the parameters which characterize it at present. We have therefore decided to operate with what is known as the «constant legislation» hypothesis. The parameters mentioned refer to such aspects as retirement age, minimum number of contribution years to have the right to a pension, the formula for calculating the so-called «regulatory base» or pension base and the pension itself, etc.

■ The assumption of «constant legislation» is crucial to the analysis and at the same time should be understood as a hypothesis unlikely to be fulfilled. Its role is to make it possible to establish a basis for quantitative comparison for those cases where certain changes in the abovementioned parameters are introduced, the consequences of which we want to study in detail. It is therefore the carrying out of such changes which in fact will determine the future course of the system. In the meantime, the constant legislation reference base will have served to determine the order of magnitude and the time-frame of the necessary reforms.

## 2.1. Demographic scenario

- The contingencies foreseen by the various pension regimes are distributed among the various population groups with a breakdown by sex and age. Later on it will be pointed out that the relation between population and beneficiaries is not a strict one which does not prevent the point of departure of any exercise such as that in this chapter from being a projection of the population.
- Spain's population, at this time close to 39.5 million persons, will reach its highest numbers around the year 2015 with an estimated 41.3 million

persons.<sup>(1)</sup> After that it will decrease progressively to reach a total of 40.8 million in 2025 which implies an absolute growth of 1.3 million persons between 1995 and 2025. By age group, the future trend in the population is very much differentiated. The total number of persons between 0 and 14 years of age will grow by 800 thousand persons up to 2015 but will then decrease by more than one million up to 2025. The population between 15 and 59 years, which forms the basis of the working population, will reach its highest figure around the year 2000 and by 2025 will have decreased by two million persons compared with 1995. The population between 60 and 64 years, which will decrease up to the end of the century due to the inclusion of the lower numbers born during the Spanish Civil War, will progressively increase by a million persons from then up to 2025. The population of those aged 65 years or more will not stop increasing in the next thirty years and will rise from 6.1 million persons today to an estimated 8.7 million persons in 2025. In summary, this represents a decrease of somewhat more than 6% in the number of persons less than 60 years of age in thirty years and an increase of 40% in the number of those 60 years or more.

- In demography it is common to obtain the so-called «dependency rates» which reflect the hypothetical dependence of those persons who do not yet form part of, or have abandoned, the population group of working age compared with the latter group made up of those persons between 15 and 64 years of age. Of course, the notion of dependency is applied in hypothetical terms given that in general many persons in the 15-64 age group will be dependent and that some of those in the group of age over 64 years may be actually working.

(1) Estimated by Instituto de Demografía (ID), average variant. See ID (1994). The contents of this section are based on this reference.

Table 2.1, along with the absolute population figures mentioned earlier, shows the various dependency rates which may be calculated based on these figures. The dependency rate of young people rises between 2000 and 2015 to decrease appreciably afterwards. The rise in the dependency rate for older persons is very strong given that this indicator rises from a value of 22.5 in 1995 to 33.4 thirty years later. As a result of the trend in both dependency rates, the demographic or total dependency rate also rises considerably although it stabilizes in the final years of the period studied. This may be seen in Figure 2.1 along with the progression of the aged dependency rate from 2015 onwards.

Figure 2.1

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DEPENDENCY RATES IN SPAIN'S POPULATION. 1995-2025

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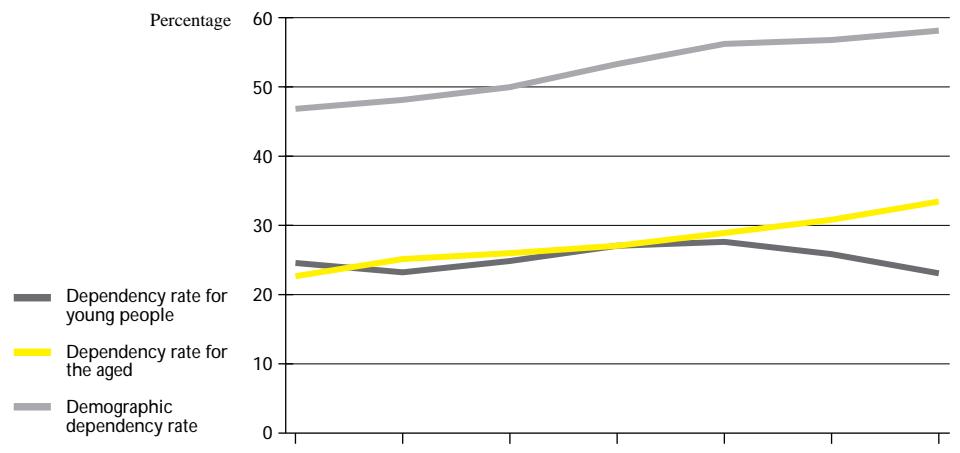


Table 2.1

## PROJECTIONS FOR POPULATION AND DEPENDENCY RATES.

SPAIN. 1995-2025<sup>(1)</sup>

(Thousands and percentages)

	1995	2000	2005	2010	2015	2020	2025
Total population	39,416	39,929	40,562	41,110	41,313	41,142	40,768
Population 0-14 years	6,522	6,267	6,622	7,198	7,336	6,941	6,208
Population 15-59 years	24,690	25,093	24,948	24,460	24,069	23,571	23,014
Population 60-64 years	2,154	1,879	2,047	2,244	2,334	2,660	2,887
Population 65 years or older	6,050	6,690	6,944	7,209	7,574	7,971	8,660
Dependency rate for young people <sup>(2)</sup>	24.3	23.2	24.5	27.0	27.8	26.5	24.0
Dependency rate for the aged <sup>(3)</sup>	22.5	24.8	25.7	27.0	28.7	30.4	33.4
Demographic dependency rate <sup>(4)</sup>	46.8	48.0	50.3	53.9	56.5	56.8	57.4

(1) Source: Instituto de Demografía (1994). Population as of December 31 (as of January 1 of following year in Instituto de Demografía).

(2) Population from 0-14 years for every 100 persons aged 15-64 years.

(3) Population 65 years or older for every 100 persons aged 15-64 years.

(4) Population from 0-14 and 65 years or older for each 100 persons aged 15-64 years.

## 2.2. Macroeconomic scenario

- The bulk of contributions to the pension system grows with the number of contributors and the contribution of each person. The calculation of new pensions incorporates a mechanism for bringing past contributions up to date which is linked to the trend in inflation. Social security contributions themselves reflect the growth of wages and productivity. It is evident that we need a macroeconomic scenario in which the trend in all the abovementioned elements (and others) are set out with the maximum coherence. Ideally, this coherence should be determined by application of a long-term model of Spain's economy in which all the abovementioned elements are linked through their behavioral equations.
  
- The long time horizon adopted, however, makes it difficult to have available a macroeconomic scenario of such characteristics and in its place we

put forward a macroeconomic scenario for 1995-2025 in Table 2.2 in which the only explicit coherence refers to the overall trend in the GDP, productivity, employment and the unemployment rate. The trend in the «activity rate» (rate indicating the proportion of persons making up the active population),<sup>(1)</sup> given the trend in the population aged 16 or older contained in the population projections used, is that needed in order that the overall trend in employment and unemployment be compatible with that of the active population. In turn, the trend in the GDP is determined by that in employment and productivity. Finally, real wages take up the main part of the productivity gains.

Table 2.2

MACROECONOMIC SCENARIO. SPAIN. 1995-2025

	1995	2000	2005	2010	2015	2020	2025
Real GDP <sup>(1)</sup>	3.0	2.0	2.5	2.5	2.5	2.5	2.5
Employment <sup>(1)</sup>	1.8	0.5	1.0	1.0	1.0	1.0	1.0
Labour productivity <sup>(1)</sup>	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Real wages <sup>(1)</sup>	0.5	1.2	1.3	1.3	1.3	1.3	1.3
Inflation rate <sup>(2)</sup>	4.5	3.0	3.0	3.0	3.0	3.0	3.0
Unemployment rate	23.9	24.2	22.0	18.6	14.9	11.4	7.2
Activity rate <sup>(3)</sup>	59.7	64.0	65.2	66.3	67.5	68.7	70.0

(1) Annual growth rate that year.

(2) GDP deflator used both to index benefits and contributions in each case.

(3) Of population 16 years or older as a percentage.

Source: FEDEA.

- In the period 1995 to 2000 the above macromagnitudes develop according to the economic cycle (the intermediate years of which are not shown due to their little interest for the long-term exercise here undertaken) which will have completed its present expansion and the corresponding recession by the year 2000. As of that time, the various macromagnitudes

(1) Percentage of population 16 years or older classified as working in the Spanish Labour Force Survey (EPA).

show a trend which maintains some change rates constant, such as the GDP growth rate and the employment growth rate and regularly brings down or raises the other rates such as the unemployment rate or the activity rate, respectively.

What are the most salient features of this scenario?

- Firstly, given its importance for the future of the pension system (as we shall see in the following chapter) it is worth underlining the hypothesis relating to the trend in employment. This will tend to grow at a cumulative annual rate of 1% from the year 2000 which in thirty years will show a growth factor of 1.35 in relation to employment existing in 1995, that is to say, 35% more in the period. Is this a realistic hypothesis? It should be remembered that Spain's economy has scarcely created net employment in the last thirty years. Why should it create more than four million net jobs in the next thirty years? It is difficult to give a conclusive reply to this question. All we can do is put forward two arguments. Firstly, that one of the characteristics of the recent history of the labour market in Spain has been that the employment created in services and the public sector has been compensated by the massive destruction of jobs in agriculture and that this latter phenomenon holds a very narrow margin in the future which will make it possible for employment created in services to come to the surface of total employment. Secondly, that the rate of employment growth chosen is consistent with the proven capacity of Spain's economy in the best moments of the most recent economic cycles and appears to us as achievable although not without risks which will be examined in the following chapter.
- Another outstanding aspect of this macroeconomic scenario is related to the trend in the unemployment rate. We suppose that this rate will decrease regularly from 24% (in terms of the Spanish Working Population Survey) in the five-year period 1995-2000 to little more than 7% in 2025. Furthermore this sharp decrease is not inflationary which requires an almost parallel

decrease in the Spanish NAIRU,<sup>(1)</sup> something which can only be achieved through structural adjustment of the labour market which we suppose will take place between 2000 and 2025 in a way not specified in this simulation exercise. This reasoning in turn constitutes a third argument in favour of the hypothesis previously discussed regarding employment growth.

Finally, we should mention the hypothesis adopted on the activity rate. Spain has one of the lowest activity rates of the entire European Union with a female activity rate which is growing slowly while the male activity rate is stabilizing or dropping. Our hypothesis presupposes an increase in the recent trend in this respect reflecting the response of the population of working age to structural change in the labour market. In any case, this trend is necessary to make compatible the growth of employment and the drop in the unemployment rate set out in Table 2.2.

### 2.3. Projection of demographic numbers

The pension system in Spain today covers nearly seven million persons in all categories and pension regimes with somewhat more than twelve million contributors. To these should be added two million unemployed (those receiving unemployment benefits) on whose behalf the National Employment Institute (INEM) pays Social Security contributions and which accumulate pension rights. These are the main numbers estimated by the model for 1995. The general regime covers 70% of actual contributors and 52% of pensions while special regimes as a whole cover the remaining 30% of contributors and 48% of pensions. This obvious imbalance between the contributors/pensions ratio (2.4 in the general regime as against 1.1 in special regimes) is the result of a very different historical development during

(1) NAIRU: «Non-accelerating inflation rate of unemployment». If the economy is near this rate (structural and non observable), any demand policy which brings down the observed rate of unemployment below the NAIRU would cause inflation and could end up bringing back the tendency for unemployment to fall. Estimates for Spain's NAIRU stand close to the observed rate of unemployment. See Dolado (1993).

which priority was given to extending the protection offered by the pension system to very different population groups with short contribution periods.

- The projections provided by our model for these large groups covered by the pension system, contributors and pensioners are set out by regime in Table 2.3, Figure 2.2 shows the trend in corresponding contributors/pensions ratios.

Table 2.3

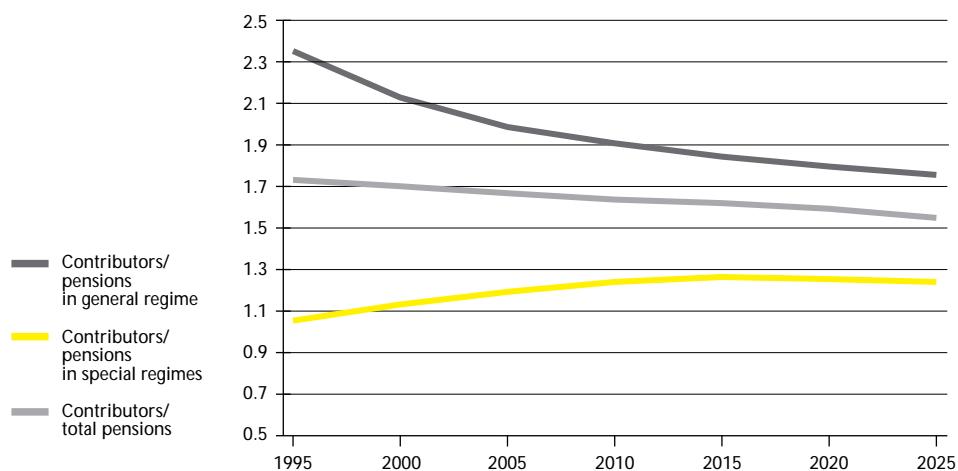
NUMBER OF PERSONS COVERED BY SPAIN'S PENSION SYSTEM. 1995-2025  
(Thousands)

	1995	2000	2005	2010	2015	2020	2025
<i>General regime</i>							
Contributors	8,482	9,139	9,606	10,096	10,611	11,152	11,721
Pensions	3,609	4,302	4,816	5,301	5,753	6,186	6,667
<i>Special regimes</i>							
Contributors	3,613	3,893	4,091	4,300	4,519	4,750	4,992
Pensions	3,378	3,426	3,412	3,464	3,589	3,790	4,052
<i>Total system</i>							
Contributors	12,095	13,032	13,697	14,396	15,130	15,902	16,713
Pensions	6,987	7,727	8,229	8,764	9,342	9,976	10,719
<i>Pro memoria: those receiving unemployment benefits</i>							
Beneficiaries	2,191	2,403	2,226	1,890	1,511	1,159	719

Source: FEDEA

Figure 2.2

CONTRIBUTORS/PENSIONS RATIO BY REGIME AND TOTAL



■ The trend in number of contributors depends on the creation of employment in the economy during the period under consideration already described in the previous section. This trend shows up as an increase in the number of contributors which goes from an estimated 12.1 million in 1995 to 16.7 million projected for 2025 at a cumulative annual increase of 1.08%. Both for the general regime and for the special regimes as a whole the pattern for the trend in the number of contributors is the same so that at the end of the period the relative participation of each regime in total affiliation is maintained.

■ So far as concerns the number of pensions, we have projected the trend by distinguishing between new pension start-ups in each year and surviving pensioners from the year before. For new start-ups we have maintained the relation observed between these by type of pension and age and population. In this way it is assumed that special regimes as a whole provi-

de pensions at the same rate as the general regime depending basically on the total demographic trend and taking into account the differences in initial composition by type of pension and age particular to each regime. In other words, it is assumed that the reasons which in the past led Social Security to the inflation of pensions in special regimes will cease to operate in the future. In addition, the number of pensions already being paid in any one year will translate to the next reduced by the death of part of the beneficiaries. As a result, in each year the number of pensions corresponding to surviving pensioners is calculated by multiplying those from the previous year by the survival probabilities shown that year by the population projections used.

- The result of the foregoing is that the distribution of pensions between the general regime and special regimes would vary from the 52%-48% in 1995 to 62%-38% in 2025. The sharp increase in pensions under the general regime which are almost doubled is mitigated by the more moderate rise in pensions under special regimes. Overall, the number of pensions in the system grows at a cumulative annual rate of 1.4% which is substantially above the rate of increase in the number of contributors which stands at 1.08% a year. This difference means that the contributors/pensions ratio decreases regularly from 1.73 in 1995 to 1.56 in 2025 as shown in Figure 2.2. We also see how the contributors/pensions ratio for the general regime falls rapidly in the period under study from 2.35 to 1.76 while the ratio for special regimes rises up until 2015 to begin a slow descent from then on.
  
- Let us compare the trend in contributors/pensioners ratio with that of dependence rates in Section 2.2. The affiliates/pensioners ratio may be interpreted as the inverse of the dependency rate of the pension system but, while the dependency rate for those over 65 rises by 50% between 1995 and 2025, the pensioners/contributors ratio of the pension system increases only by 11% in the same period. This is due to the fact that we have supposed an appreciable increase in the activity rate of the popula-

tion and the employment rate, a phenomenon which does not show up in the demographic dependency rates. This result warns against the risk of basing the analysis of pensions exclusively on demographic information without taking into account the influence of the labour market. Although demography is the cause of the expected growth of pensions it is the growth of employment which is the key to the trend in the actual dependency rate of the system, that is to say the pensioners/contributors ratio.

- The growth of the number of pensions furthermore presents a time pattern which should be discussed in some detail. The sharpest growth occurs in the 1995-2000 period at slightly above 2% annual rate to drop immediately after 2000 to rates near 1.3% a year. Nevertheless growth increases from then on running close to 1.5% a year in the period 2020-25. This pattern makes it advisable to carry out an exercise prolonging the population projections and exploring the consequences for the pension system over a longer term than that adopted in this study. Exercises of this type already carried out<sup>(1)</sup> suggest that up to the year 2045 the population will follow a strong process of aging which will be reflected in a contributors/pensions dependency in the pensions system much sharper than suggested in the figures shown in Table 2.3. As of that date a rejuvenation of the population will take place due to the disappearance of those born during the «baby boom» and the effects of the recovery in the birthrate expected for coming decades.
- In Table 2.3 we also indicate figures relating to the trend in the number of those receiving unemployment benefits. These will decrease sharply in accordance with the increase in employment and the reduction of unemployment contemplated in the macroeconomic scenario described in the previous section. Such a trend implies that the National Employment

(1) See OECD (1988), Herce (1992) and Sánchez Álvarez (1992).

Institute (INEM) will cease to pay contributions on behalf of those who get a job. This has economic consequences, basically for this institute, which will no longer pay both unemployment benefits and contributions thus considerably improving its accounts.

## 2.4. Projection of spending and revenues

Once we have estimated the trend in persons in the pension system we calculate the spending and revenues of the system in the 1995-2025 period based respectively on benefits received by each pensioner, by specific age, type of benefit and regime and on contributions paid by each contributor or person assimilated to this situation also by sex, age and regime. The overall result of the projection of spending and revenues described in this section may be summarized in a few words. Our estimate of the difference between spending and revenues of the pension system in 1995 is 1,500 billion pesetas, that is to say 2.16% of Spain's GDP that year whereas this difference in 2025 will be 5,200 billion in 1995 pesetas, equivalent to 3.46% of the GDP in 2025. Thus in this period the deficit in the pension system would increase by 1.3 percentage points of the GDP. The details are shown in the following Table 2.4.

Table 2.4

SPENDING AND REVENUES OF SPAIN'S PENSION SYSTEM. 1995-2025  
(Billion 1995 pesetas)

	1995	2000	2005	2010	2015	2020	2025
<i>General regime</i>							
Imputed revenue <sup>(1)</sup>	4,433	5,049	5,588	6,149	6,763	7,456	8,203
Spending	4,240	5,351	6,234	7,167	8,145	9,213	10,489
Balance	192	-302	-646	-1,018	-1,382	-1,757	-2,286
Balance as percentage of GDP	0.28	-0.38	-0.71	-0.99	-1.19	-1.34	-1.54
<i>Special regimes</i>							
Imputed revenue <sup>(1)</sup>	750	855	944	1,034	1,132	1,244	1,362
Spending	2,446	2,642	2,793	3,034	3,354	3,745	4,230
Balance	-1,696	-1,787	-1,849	-1,999	-2,221	-2,502	-2,867
Balance as percentage of GDP	-2.44	-2.23	-2.04	-1.95	-1.91	-1.90	-1.93
<i>Total Social Security system</i>							
Imputed revenue <sup>(1)</sup>	5,183	5,904	6,532	7,183	7,895	8,700	9,565
Spending	6,687	7,994	9,027	10,200	11,498	12,959	14,718
Balance	-1,504	-2,090	-2,495	-3,017	-3,603	-4,259	-5,153
Balance as percentage of GDP	-2.16	-2.60	-2.75	-2.94	-3.10	-3.24	-3.46
<i>Pro memoria: Balance of National Institute of Employment as percentage of GDP</i>							
Balance of National Institute of Employment	-2.16	-2.20	-1.70	-1.00	-0.31	0.27	0.90

(1) We impute to the pension system 80% of total contributions received by Social Security. The remaining 20% is estimated as earmarked for financing of health benefits, other universal benefits and overheads.

Source: FEDEA

- Our model takes into consideration the contingencies of retirement for old age and invalidity, widowhood, orphanhood and similar situations (so-called family support benefits), temporary work incapacity and illness resulting from work and work accidents for individuals by each age and for both sexes in the general regime and special regimes as a whole. It also calculates total spending of the system for each year accumulating spending for pensions already being paid for pensioners surviving from the year before, duly brought up to date, and spending for new pension start-ups in each of the contingencies shown.

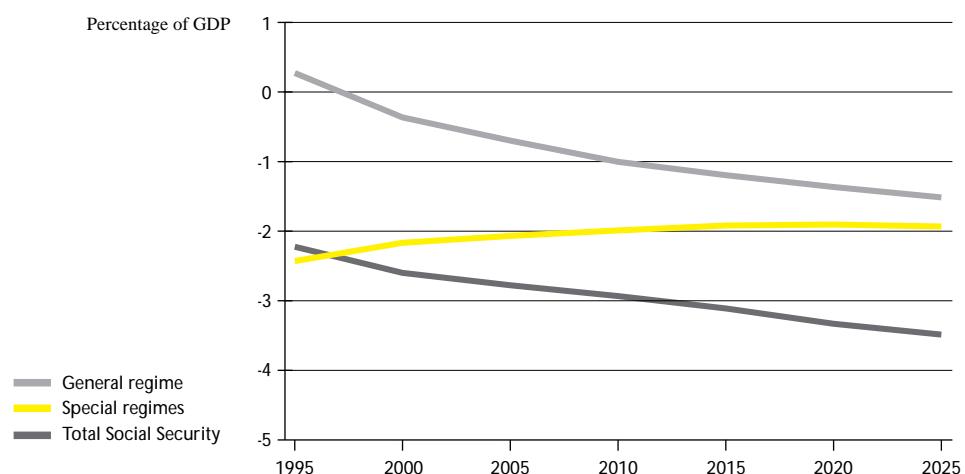
- The model simultaneously takes into consideration all affiliated workers and those assimilated as contributors by age, sex and regime and obtains the total resources of the system through application of the contribution rates<sup>(1)</sup> (corresponding to each regime or contingency) to the effective average contribution bases of each individual according to sex, age and regime, the trend of which follows that for growth of wages in the macroeconomic scenario.
- In Table 2.4 we present figures for revenues, spending and balance in 1995 pesetas and as a percentage of the GDP for the general regime, special regimes and the system as a whole between 1995 and 2025. This is the reference projection on which the evaluation of a series of reform measures set out in Chapter 3 is based.
- We call the amounts which result from assigning 80% of total social contributions obtained by the Social Security system «Imputed revenues» (for paying pensions) while supposing that the remaining 20% will go to paying health benefits and other benefits of a universal type as well as overheads. As a result we see that at present the revenues of the general regime slightly exceed spending on pensions while special regimes show a marked deficit. The pension system as a whole in 1995 shows total revenues of 1,500 billion pesetas less than spending which means a deficit equivalent to 2.16% of the estimated Spanish GDP for that year.
- The criteria for imputing contributions to the pension system described above determines the deficit under the heading. Taking this into account, if present legislation is maintained in the macroeconomic context foreseen, the deficit for 2025 will rise to 5,150 billion in 1995 pesetas and the percentage of the GDP will rise to 3.46% which means an increase of 1.3 percentage points compared with 1995.

(1) The contribution rate for the general regime is the total legal rate, whereas for special regimes as a whole a total effective average rate has been estimated which turns out to be approximately half the total legal rate applicable to the general regime.

■ In 2025 the deficit of Spain's pension system will affect both the general regime and special regimes. The worsening of the position of the general plan (which today has a surplus) will be considerable while the special regimes as a whole will be able to slightly reduce their present large deficit as a percentage of the GDP (although not in absolute terms). Figure 2.3 shows the trend in the various balances of the pension system as a percentage of the GDP. We can see how the total deficit has two points of inflection, one around 2000 when it rises sharply to 2.6% of the GDP, another shortly after 2010 when the improvement in the deficit in special plans comes to an end as a result of which as of that moment on both special regimes and the general regime combine in a potentially explosive way. The deficit increases from 2.94% to 3.46% between 2010 and 2025 and everything indicates that deterioration will be greater from then on.

**Figure 2.3**

**DEFICIT IN PENSIONS SYSTEM**



- In the light of these estimates, how should we describe the financial prospects of Spain's pension system? Are they «unsustainable» and is the system «unfeasible» or bankrupt or quite the reverse? Finally, what is the degree of «seriousness» of the problem in question?
- Such prospects are credible in the sense that they have a higher probability than any other alternative in some of their basic assumptions with regard to those of the base scenario unless legislative change is brought about with the introduction of reform measures (the analysis of which is the subject of the following chapter). We should also take into account that the progression in the imbalance between spending and revenues which already is troubling will sharpen as of 2025 when massive retirements of the «baby boomers» take place. The difficulty of the situation comes out, both in the deficit figures themselves and the resulting trend, as well as the extraordinary sensitivity of the system balance to a hypothesis of employment growth which may take place as foreseen or be distorted by an unfavourable outcome. Under these conditions, if we had to characterize the situation of the pension system described above, we should opt for saying that the situation appears very serious and we should immediately add a recommendation for trying to contrive a series of reform measures.
- Table 2.4 contains pro memoria the calculation of the Spanish Employment Institute (INEM) deficit carried out through application of our model to the hypothesis for the macroeconomic scenario established in Section 2.2. This deficit as a percentage of the GDP improves substantially (by more than three points) during the period under consideration. It may be believed that it would be possible to fund the excess spending on pensions with the savings on unemployment benefits to the extent that unemployment decreases. In fact, from 1995 to 2025 the consolidated deficit will go from 4.3% of the GDP to 2.6% – a trend which may be considered positive. Nevertheless, we believe that we should apply the principle according to which each imbalance, both that of INEM and that of the pension system, should be tackled separately.

- All this brings up a series of measures which are explored in the following chapter. Beforehand, however, let us continue our analysis of the average benefits of the system which are obtained from our base projection.

## 2.5. Average pensions

- Our model calculates spending and revenues of the system broken down by contingency, age, sex, and working or non-working situation of individuals. This makes possible the calculation of a large number of intermediate variables in the system such as average benefits or pensions related to the different contingencies and regimes. These calculations are shown in Table 2.5 (always in 1995 pesetas) in the form of monthly payments (which the system pays 14 times a year).
- The average pensions show big differences in level between regimes and contingencies. There are also marked differences between pensions for new contributors and those already being paid. Let us take, for example, the case of the 1995 retirement pension. The average monthly retirement pension for new beneficiaries for this contingency in the general regime is estimated at 106,275 pesetas while the same pension for the special regimes as a whole is 82,985 pesetas, that is to say 78.1% of the former. This difference is explained by the lower contribution base of contributors to the special regimes. In any case, the difference is considerably mitigated by the nature of the Spanish pension system which does not take into account the contribution rate (less in special regimes than in the general regime) when calculating the pension. Average pensions of previously existing pensioners are estimated at 89,911 and 42,179 pesetas for the general regime and special regimes respectively. These benefits also show a sharp difference between each other and in relation to those for new beneficiaries.

Table 2.5

**AVERAGE PENSIONS IN SPANISH PENSION SYSTEM  
BY REGIME AND CONTINGENCY. 1995-2025  
(1995 pesetas)**

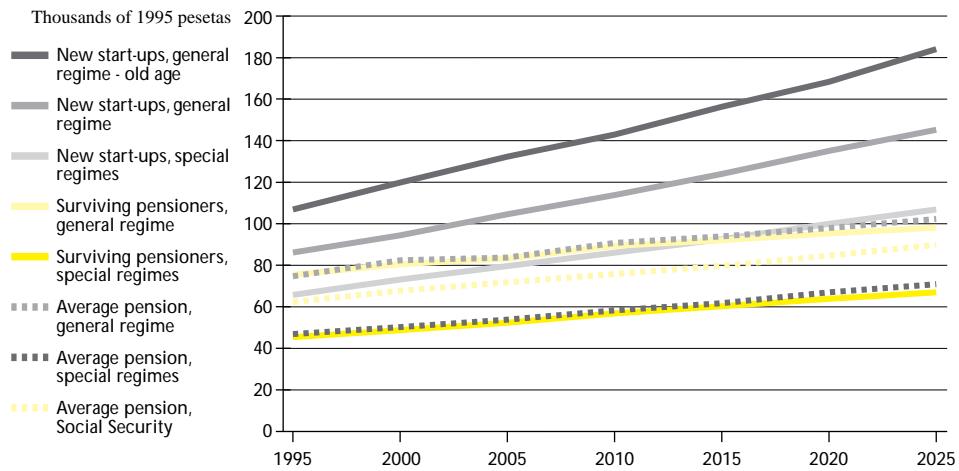
	1995	2000	2005	2010	2015	2020	2025
<i>New start-ups. General regime</i>							
Invalidity	93,151	102,348	112,203	122,483	133,836	146,433	161,097
Old age	106,275	119,350	132,049	142,146	155,148	167,225	182,674
Widowhood	53,526	55,950	58,632	61,654	65,011	68,606	72,285
Orphanhood	39,169	41,745	45,383	50,090	55,455	60,934	66,653
Family support benefits	38,338	38,959	39,832	40,640	41,372	42,060	42,716
<i>New start-ups. Special regimes</i>							
Invalidity	71,040	78,148	85,738	93,808	102,581	111,886	122,039
Old age	82,985	94,597	106,170	113,577	122,015	130,620	140,412
Widowhood	45,290	47,194	49,483	52,138	55,118	58,370	61,801
Orphanhood	36,084	38,492	41,797	46,035	50,906	55,983	61,283
Family support benefits	39,658	40,228	40,991	41,680	42,369	43,090	43,885
<i>New start-ups. All contingencies</i>							
General regime	87,849	96,144	104,966	113,735	123,858	134,348	147,210
Special regimes	66,906	73,350	79,644	85,974	93,069	100,116	108,642
<i>Surviving pensioners. General regime</i>							
Invalidity	78,836	82,165	86,289	90,791	95,564	100,246	104,542
Old age	89,911	96,763	99,293	102,139	105,207	109,680	115,513
Widowhood	48,513	50,410	52,492	54,832	57,516	60,466	63,564
Orphanhood	32,599	32,715	34,203	37,484	41,560	45,371	48,370
Family support benefits	30,645	34,730	37,169	38,935	40,154	41,111	42,012
<i>Surviving pensioners. Special regimes</i>							
Invalidity	63,087	65,525	68,858	72,712	77,103	81,307	85,185
Old age	42,179	44,989	46,704	49,713	52,658	55,013	58,063
Widowhood	41,138	42,891	44,910	47,223	49,831	52,685	55,720
Orphanhood	29,325	29,884	31,354	34,621	38,544	42,373	45,493
Family support benefits	39,577	40,096	40,690	41,314	42,075	42,888	43,763
<i>Surviving pensioners. All contingencies</i>							
General regime	73,970	79,288	82,616	86,298	90,235	94,755	99,904
Special regimes	47,990	50,827	53,572	57,066	60,679	64,044	67,477
<i>Total average pension</i>							
General regime	75,099	80,438	84,027	87,990	92,254	97,137	102,751
Special regimes	49,031	52,072	55,054	58,801	62,682	66,268	70,038
Total system	62,495	67,862	72,011	76,455	80,893	85,409	90,385

Source: FEDEA

- In this way we can compare all the other average benefits in the Spanish pension system in order to see the differences due to the lower effective average contribution bases of each regime and the contributions gap between new pensions and those pensions set up in the past. The total average pension for the system in 1995 is estimated at 62,495 pesetas while that for the general regime is 79,099 (20% higher) while that for special regimes as a whole is 49,031 pesetas (22% less).
- In Table 2.5 we can also see the trend (in 1995 pesetas) of the various average pensions. The total average pension for the system will rise from 62,495 pesetas in 1995 to 90,385 pesetas in 2025, that is to say it will grow at a cumulative annual rate of 1.24%. The average old age pension of new start-ups under the general regime will grow at a rate estimated at 1.8% per year, similar to the rate for special regimes. Average pensions set up in the past will show more moderate annual growth rate trends, slightly above 1% under both regimes. This discrepancy is due to the fact that pensions already being paid rise with the cost of living while new pensions are calculated on updated contribution bases in order to take into account wage increases. These average contribution bases include the assumption that the incidence of unemployment will be less and less in the period covered by the projection. In Figure 2.4 we can see how average pensions of new start-ups progressively move away from the average of pensions already being paid as the period of the projection advances.
- In summary, the future aging of the Spanish population and the extension of the present model for contributive pensions in a macroeconomic scenario as assumed in this exercise, for the next 30 years, will determine the progressive worsening of the present deficiency in coverage of spending by imputed revenues in the pension system. Specifically the deficit in the pensions system as a percentage of the GDP will rise by 1.3 points between 1995 and 2025 up from the present level estimated at 2.13%.

Figure 2.4

AVERAGE PENSIONS IN THE SPANISH PENSIONS SYSTEM. 1995-2025



- The rate at which this indicator worsens will be sustained up to the beginning of the last five years of the period under study when an increase in this rate will begin closely linked to the arrival at retirement age of those born during the «baby boom» (that took place in Spain between 1965 and 1975) which our exercise can scarcely begin to look at.
- From an economic point of view, this prospect must be characterized as a very serious situation which, if not corrected, would lead to a progressive and unacceptable increase in the public deficit to such an extent that, while the purchasing power of average benefits would increase over the short and medium term, the viability of the system over the long term would be compromised.
- This result depends to a crucial extent on the assumptions adopted in our reference scenario on the expected growth of employment and productivity. These assumptions are moderately optimistic. If they are not

achieved because in fact lesser growth were to take place than foreseen, the situation would become still more serious, something which will be examined in the following chapter.

- Without ending up characterizing the financial prospects of Spain's pension system in catastrophic terms over the next 30 years, indeed we do find sufficient reasons for concern about its viability over this period and it seems to us opportune to warn about the imperious necessity of eliminating those factors leading to a progressive increase, eventually explosive, in the pension system deficit as soon as possible. All the mechanisms of the present pension system contribute to the increase both to the number of beneficiaries and of average benefits and thus to a rise in spending. On the other hand, the increase in contributors and resulting contributions depends on the performance of the labour market and productivity. This dependency means that a policy oriented to stabilize or reduce the pension system deficit through an increase in contribution rates is clearly inappropriate. Such a measure would not be positive for employment and possibly would be counterproductive in that regard thus turning out, at least, to be innocuous in terms of an increase in revenues while the mechanisms which cause an increase in pension spending would not be affected by it.
- Therefore, reform measures to the pension system compatible with the analysis set out above must above all have an effect on the factors which cause spending and only indirectly on the determinants of revenues by stimulating growth of employment. The following chapter deals precisely with exploring the economic consequences of some of these measures and analyzing the sensitivity of the revenues of the system to alternative realizations of the hypotheses on growth of employment adopted in the exercise carried out in this chapter.

### III. ECONOMIC EVALUATION OF VARIOUS REFORM MEASURES

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- In this chapter we analyze in some detail the consequences for the balance between spending and revenues of the pension system resulting from the adoption of a series of measures. These measures have been widely called for in the national and international literature on pension reform over the past decades. Some of these measures were incorporated in the Toledo Pact.
- The reference projection of the previous section now takes on its true dimension given that it serves as a basis for the simulations contained in this chapter which show us the effects which can be imputed to the adoption of one or other of the measures analyzed. In this way, we hope that we shall help consolidate a new way of thinking about pension reform in our country far from a general characterization and closer to the definition of a realistic scenario, given that it deals with probable orders of magnitude of the resulting effects, time horizons for the taking of decisions and for the maturing of reforms. In any case, it represents a first approach to be completed in the future with a treatment based on economic behavioral models, macroeconomic models and computable general equilibrium models and a projection of Spain's population all covering the period up to 2050.
- Reform of a pension system like that of Spain is not an easy task (as we will attempt to argue in following chapters). Along with the economic aspects of the measures adopted we must consider social and political dimensions as well as time elements such as the moment of their being made public in relation to the date they would come into effect given that many of these measures could bring a reduction in the expectations of those persons protected by the system especially the contributors. Even if

they are duly explained and legitimized, and applied at the right moment, these measures will require transitional adjustment periods. In what follows, however, we have left aside questions related to the detailed reactions of contributors and the optimum time for the introduction of these measures. In general we have supposed that these would be introduced in the year 2000 and would have their effects as of that year after the mechanical correction in each case of the contribution periods or other elements in order to preserve the coherence of the corresponding calculations.

### 3.1. Description of reform measures

■ Using the reference projection set out in Chapter 2 we have carried out a series of simulations with the object of quantifying the consequences of changes in criteria for providing pensions and for their indexing once they have started to be paid. In general it may be anticipated that those measures which mature slowly, that is to say those which affect only new pensions will have lesser effects on the large numbers of the system at the expense of a significant impact on a small number of pensioners. On the contrary, measures to be applied universally will have sharper effects on the balance of the pension system with an impact affecting all pensioners also in a significant way.

■ The measures examined are as follows:

- i) A reduction in pension points per year of contribution
- ii) An increase in years of contribution in calculation of the regulatory base or pension base
- iii) An increase in the retirement age
- iv) An increase in the penalty for early retirement
- v) Indexing pensions by 0.5 percentage points below the Consumer Price Index

■ Of all these measures, the first four are measures which mature slowly given that they affect only new pensions (which substitute old pensions at a rate of 7% a year) whereas the last measure is one of universal application. Later on we describe these measures in some detail given that they affect a broad range of parameters in the system on which depend the conditions for granting pensions and the amount of pension to be paid. In following sections we present calculations showing the effects which such measures have on the balance of the pension system and on the most representative average pensions.

### Reduction in pension points per year of contribution

■ This measure would be established as of the year 2000 and would affect only new retirement pensions. It is made up of three adjustments. Firstly, each of the first fifteen years of contribution provides 3.3 percentage points of the regulatory base of the pension instead of the current 4 points. As a result, the first fifteen years provide 50% of the regulatory base as against 60% at present. Secondly, each subsequent year of contribution up to a maximum period of forty years provides an additional 1.6 points instead of the 2 points at present with a maximum period of 35 years. Thirdly, the complete period, after 40 years of contribution, provides 90% as against the present 100% after 35 years. For invalidity pensions for which the calculation method is different it is supposed that the divergence between the average pension for new pensions and the total average pension would be reduced by 20%. Other pensions in the system would not vary.

■ Spanish analysts have systematically considered the present practice under which pension points are accumulated as very unbalanced and unjust for the years of contribution after the first fifteen years which receive an excessively generous treatment (Durán, 1995). The proposed change

involves an adjustment of pension points per year of contribution and at the same time a lengthening of the maximum period of contribution.

#### An increase in years of contribution in calculation of the regulatory base

- This measure, as with the previous one and those following, would begin as of the year 2000 and would affect only new retirement pensions. It consists of calculation of the regulatory base or pension base in 2001 taking into account the last fifteen years of contribution instead of the present eight years. As of that year one year more is added to the regulatory base until reaching 25 years in 2010 and remaining so from then on. The mechanism of updating historical bases continues to be the same as at present. Other new pensions would have the same treatment as in the previous measure.
- This is a measure especially called for by analysts who have nevertheless warned about the risk that the regulatory base for some persons, who have seen their incomes reduced by unemployment or other causes in recent years, may thus increase spending on pensions. For the representative contributor, however, given the macroeconomic scenario established, the resulting regulatory base would be reduced and at the same time average pensions and spending on pensions would do the same.

#### An increase in retirement age

- This measure would also be adopted as of the year 2000 and would affect new retirement pensions. It consists of a delay in the legal age and the effective age of retirement by three years with the first going to 68 years instead of 65 years at present. The effective age at present is estima-

ted at 62 years and this would be modified by the same figure. We have opted, as of 2001, to make observed retirement probabilities apply to relevant ages delayed by three years so that the savings in the system are appreciable although they stabilize over time once the «calendar effect» induced by the measure has worn itself out.

■ This measure has also been widely demanded by analysts after having already been announced in various developed countries and even applied in some countries such as Italy and France. Justification of the measure lies in the persistent advance in life expectancy for ages around 65 which brings about a considerable increase in pension spending because of the greater longevity of pensioners. The poor results of most labour markets in Europe however warn against application of this measure which would have undesirable consequences on work-leisure options for those over 60 years of age. Nevertheless, one way of easing the transition would be to «twin» the delay in full retirement age with a period of part-time retirement, that is, compatible with work activity which would also be part-time. This «twinning» measure could be designed so that it did not have negative consequences for the rest of the pension system although it would considerably increase the options for individuals and thus their wellbeing.

### An increase in penalty for early retirement

■ This measure would be applied as of the year 2000 to new retirement pensions while maintaining the previous treatment for other pensions. It consists of an increase in the penalty for each year in which retirement is advanced in relation to 65 years. Such a penalty would go from 8% at present to 10% so that those who bring forward their retirement to 60 years of age would receive 50% of the regulatory base as against 60% at present. The simulation of this measure shows that it would have certain positive effects on the balance of the system although it should be mentioned that it would sharpen a series of distortions presently operating.

- In the first place, the present 8% penalty is «actuarially» unjust, that is to say, in effective cases where the penalty is applied the present discounted value of the benefits to be received is less than if the person were to retire at the legal age. This is because in spite of the fact that a pension is received during more years it is less than would come from a strict actuarial adjustment. Thus, increasing the penalty, as assumed in this simulation, distorts even more this feature of the present system.
- Secondly, two thirds of new retirement pensions today are for early retirement to which no penalty is in fact applied for two basic reasons –either because the reduction of the regulatory base still leaves the resulting pension above the maximum in which case the maximum pension is always applied or because it leaves the resulting pension below the minimum in which case complements to the minimum pension are applied. In both cases the decision on early retirement leaves the beneficiary of the pension considerably better off as he or she enjoys the pension which in any case will be received for some years more during which, in addition, no contributions are paid. Early retirement is very rare among those who have the right to a pension standing between the minimum and maximum extremes and those who take this option, in spite of the actuarial penalty they clearly suffer, obtain gains in wellbeing of a non-monetary nature (more leisure, for example) which no doubt must compensate them.

### **Indexing all pensions by 0.5 percentage points below the Consumer Price Index**

- The last of the measures analyzed differs from the earlier ones in that it is equally applied to both new pensions and pensions already being paid. It would involve all pensions being indexed from 1996 on by 0.5 percentage points below the CPI. This would mean a systematic loss of purchasing power for all pensioners which would be reflected in an appreciable decre-

ase in the deficit in the pension system. This measure is representative of what were earlier called measures of universal application as against those of slow maturity which is a characteristic of all the preceding measures listed.

- Undoubtedly this is a drastic measure given that the factor of real pension erosion which it incorporates in 30 years is 1.16, that is to say, that the average pension resulting at the end of that period of time would be 16% less than that resulting if such a measure were not applied. When evaluating this measure two considerations must be kept in mind. Firstly, many pension benefits now being paid are small and this mechanism would rapidly leave them out of line with the «basic» basket (not to speak of a full basket). Secondly, we can imagine a qualified application of this measure based on the tradition of the system up to now which consists of freezing the highest pensions and indexing the lowest even beyond the CPI.
- Below we see the consequences which can be expected from the application of the various measures described in terms of the reduction of the deficit in the pension system.

### 3.2. Effects on the balance of the pension system

- Table 3.1 shows (along with the reference calculations from the previous chapter) the balance between spending and revenues, both absolute and as a percentage of the GDP, resulting from the application of the various measures. Given that the delay in the retirement age also affects the number of pensions this indicator is provided in this case. Figure 3.1 shows the trend in the pension system deficit and makes it possible to compare the effects of the various measures.

Table 3.1

BALANCE OF THE PENSION SYSTEM UNDER ALTERNATIVE REFORM  
MEASURES. 1995-2025  
(Billion 1995 pesetas)

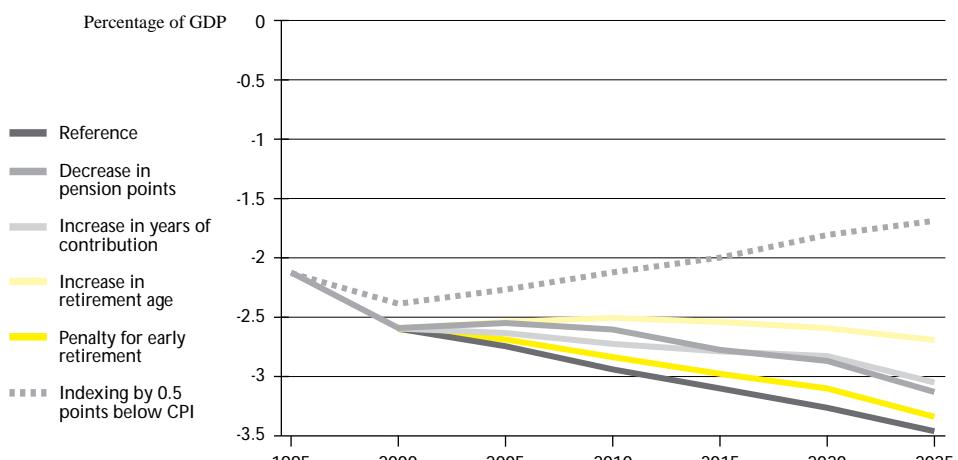
	1995	2000	2005	2010	2015	2020	2025
<i>Reference projection</i>							
Number of pensions	6,987	7,727	8,229	8,764	9,342	9,976	10,719
Balance	-1,504	-2,090	-2,495	-3,017	-3,603	-4,259	-5,153
Balance as percentage of GDP	-2.16	-2.60	-2.75	-2.94	-3.10	-3.24	-3.46
<i>Pension points</i>							
Balance	-1,504	-2,090	-2,292	-2,723	-3,245	-3,799	-4,560
Balance as percentage of GDP	-2.16	-2.60	-2.52	-2.65	-2.79	-2.89	-3.06
<i>Years of contribution</i>							
Balance	-1,504	-2,090	-2,403	-2,808	-3,257	-3,753	-4,461
Balance as percentage of GDP	-2.16	-2.60	-2.65	-2.73	-2.80	-2.85	-3.00
<i>Retirement age</i>							
Number of pensions	6,987	7,727	8,007	8,434	8,897	9,363	9,935
Balance	-1,504	-2,090	-2,274	-2,550	-2,933	-3,349	-4,008
Balance as percentage of GDP	-2.16	-2.60	-2.50	-2.48	-2.52	-2.55	-2.69
<i>Early retirement</i>							
Balance	-1,504	-2,090	-2,445	-2,927	-3,470	-4,070	-4,904
Balance as percentage of GDP	-2.16	-2.60	-2.69	-2.85	-2.98	-3.09	-3.30
<i>Indexing of pensions</i>							
Balance	-1,504	-1,897	-2,033	-2,195	-2,317	-2,389	-2,557
Balance as percentage of GDP	-2.16	-2.36	-2.24	-2.14	-1.99	-1.82	-1.72

Source: FEDEA

- The projection of the deficit in the Spanish pension system, if there is no change in present legislation, shows a worsening of the deficit by 1.3 percentage points of the GDP between 1995 and 2025 which would accelerate as of 2020. We should underline that of all the measures described only the last, which is consistent with indexing of all pensions below the CPI, would by itself manage to stop this worsening of the deficit. None of the other measures taken individually would achieve this.

Figure 3.1

BALANCE OF THE PENSION SYSTEM UNDER ALTERNATIVE MEASURES



- An increase in the penalty for early retirement is the measure having least effect on the balance of the system with less than two decimals of a point of the GDP of correction in terms of the reference projection in 2025 (some 250 billion 1995 pesetas).
  
- Measures related to modification of pension points per year of contribution and number of years of contribution in the calculation of the regulatory base have similar effects on the deficit in the pension system over the long term. They consist of a reduction of somewhat more than four decimals of a point of the GDP in 2025 compared with the reference simulation, that is to say, between 600 and 700 billion pesetas at 1995 values. Nor do they eliminate the progression of the resulting deficit as of 2020 although readjustment of pension points, which has greater immediate effects than a change in the formula for the regulatory base, insulates the system against aging of the population.

- Delaying the retirement age is a measure which appreciably reduces the number of pensions compared with the core projection due to the fact that a series of age groups provide a smaller number of retired persons for reasons of age. Thus, as against 10.7 million pensions foreseen in the reference projection for 2025, following adoption of this measure we can expect a figure of 9.9 million pensions. The deficit in the pension system in this simulation is nearly eight decimals of a point of the GDP below that for the reference projection which means a correction of more than a 1,000 billion constant pesetas (at 1995 values). It may be said that this measure stabilizes the pension deficit at around 2.5% of the GDP between 2005 and 2020 although it does not prevent it from rising sharply from the latter year onward. Once more the adverse demography after 2025 appears to subtract efficacy from this measure which however has appreciable effects.
- Finally, the indexing of all pensions by 0.5 percentage points below the CPI from 1996 onward very rapidly halts the worsening of the deficit in the pension system which in 2025 would be close to 1.7% of the GDP, a reduction of somewhat more than 2,600 billion pesetas (at 1995 values), without any sign of a rapid reversion of its effects being noted after that year. This measure is one that is universally applied and affects all pensions and not only 7% of the total (which new pensions make up) as in the case of the previous measures outlined. It does not need a period of maturation given that all pensions are treated equally each year. This is a mechanism for correcting the financial imbalances which would have important effects on average pensions received by pensioners which, along with those of the other measures, is examined in the following section.

### 3.3. Effects on average pensions

- It has already been shown in the previous chapter (see Table 2.5) that real average pensions would keep growing in a scenario in which no change in legislation took place. In earlier sections of this chapter we have exa-

mined some reform measures for the pension system which tend to reduce the deficit, the consequences of which are reflected in real average benefits and in the case of delaying the retirement age in the number of pensions. It is to be expected that according to the nature of the various measures some average benefits would be affected downward. Our calculations however show that under none of the measures considered would the real average pension in the system drop below the 1995 level although indeed it would do so in terms of the pension which would have been received if the corresponding measure had not been applied.

Table 3.2

AVERAGE PENSIONS UNDER ALTERNATIVE REFORM MEASURES. 1995-2025  
(1995 pesetas)

	1995	2000	2005	2010	2015	2020	2025
<i>Reference projection</i>							
New retirement pensions							
under the general regime	106,275	119,350	132,049	142,146	155,148	167,225	182,674
Total system	62,495	67,862	72,011	76,455	80,893	85,409	90,385
<i>Pension points</i>							
New retirement pensions							
under the general regime	106,275	119,350	108,280	124,911	139,633	150,502	164,407
Total system	62,495	67,862	70,251	74,057	78,158	82,116	86,434
<i>Years of contribution</i>							
New retirement pensions							
under the general regime	106,275	119,350	123,384	127,162	135,705	143,519	155,860
Total system	62,495	67,862	71,210	74,747	78,251	81,788	85,777
<i>Retirement age</i>							
New retirement pensions							
under the general regime	106,275	119,350	138,725	148,568	161,520	173,333	188,345
Total system	62,495	67,862	72,032	75,477	79,554	84,060	89,276
<i>Early retirement</i>							
New retirement pensions							
under the general regime	106,275	119,350	124,142	133,671	146,117	157,046	171,779
Total system	62,495	67,862	71,575	75,717	79,873	84,053	88,727
<i>Updating of pensions</i>							
New retirement pensions							
under the general regime	106,275	116,396	125,593	131,851	140,348	147,529	157,170
Total system	62,495	66,080	68,005	69,756	71,061	72,020	73,085

Source: FEDEA

Table 3.2 shows the trend in the pension for new retirement pensions under the general regime and total pensions for the system in the reference projection and under the different measures considered (in 1995 pesetas) while Table 3.3 shows the same trends as a percentage of the respective average reference pensions in each year. It may be observed that there is a wide range of effects in terms of their size and time horizon.

Table 3.3

AVERAGE PENSIONS UNDER ALTERNATIVE REFORM MEASURES. 1995-2025  
(Percentage of respective average reference pensions in each year)

	1995	2000	2005	2010	2015	2020	2025
<i>Pension points</i>							
New retirement pensions under the general regime	100.0	100.0	82.0	87.9	90.0	90.0	90.0
Total system	100.0	100.0	97.6	96.9	96.6	96.1	95.6
<i>Years of contribution</i>							
New retirement pensions under the general regime	100.0	100.0	93.4	89.5	87.5	85.8	85.3
Total system	100.0	100.0	98.9	97.8	96.7	95.8	94.9
<i>Retirement age</i>							
New retirement pensions under the general regime	100.0	100.0	105.1	104.5	104.1	103.7	103.1
Total system	100.0	100.0	100.0	98.7	98.3	98.4	98.8
<i>Early retirement</i>							
New retirement pensions under the general regime	100.0	100.0	94.0	94.0	94.2	93.9	94.0
Total system	100.0	100.0	99.4	99.0	98.7	98.4	98.2
<i>Updating of pensions</i>							
New retirement pensions under the general regime	100.0	97.5	95.1	92.8	90.5	88.2	86.0
Total system	100.0	97.4	94.4	91.2	87.8	84.3	80.9

Source: FEDEA

First of all, it may be noted that the measure involving a delay in retirement age produces its effects on the pension system deficit through the reduction of numbers of pensioners given that the average pension of new

retired persons under the general regime following this measure rises slightly (5% compared with that in 2025) although this increase tends to disappear over time. In 2025 the total average pension in the system is somewhat more than 1% below the reference pension. It will also be remembered that this measure, among those of so-called slow maturation, is the one which has the greatest effects on the deficit in the pension system. The sacrifice for pensioners in this case shows up in increased years of working life imposed on them and the difficulty in adopting this measure lies in how it clearly interferes with the labour market.

- In the case of the other measures, the reductions are widespread although very different in terms of importance and time schedule as they consist of a reduction in average pension compared with reference pensions over the long term although not necessarily a reduction in real terms compared with their 1995 level.
- The increase in the early retirement penalty brings about the least effects on average pensions especially on the total average pension for the system which is reduced by scarcely 2% whereas the total average pension for new retirement pensions under the general regime drops by 6% in 2025. Such a decrease in benefits for new pensions comes about from the moment of application of the measure and is maintained from then on which brings about a gradual decrease in the total average pension in the system until it converges with the former well after 2025. These reductions in average pensions may be considered tolerable for those involved but the measure which would bring them about scarcely manages to correct the deficit in the pension system.
- The measure consistent with an adjustment of pension points per year of contribution and an increase in the period of contributions sharply reduces the pension for new retirement pensions in terms of the reference pension (by nearly 20%). It also reduces it in terms of the pension received before the measure is introduced. Progressively, as the new contribution

periods mature this average pension increases until it stands in stable form at 10% below the reference pension in 2025. The total average pension in the system is gradually reduced compared with the reference pension until it stands somewhat more than 4% below this in 2025. The sacrifice for new pensioners arising from this measure is soon felt very sharply although this is corrected to a large extent in the fifteen years following the reform.

- Extending the number of years taken into account in calculating the regulatory base over the long term brings about effects on average pensions which are sharper than the previous measure discussed. The pension for new retirement pensions is reduced in a relatively rapid manner until 2025, when it stands 15% below the reference. Such a reduction tends to stabilize over time once it has reached the 25 years taken into account in the new formula for the regulatory base. The total average pension for the system follows a trend similar to that resulting from the measure previously set out and in 2025 shows a reduction of 5% compared with the reference. The sacrifice for new pensioners shows up progressively until it stabilizes at a level which is the highest for all the measures considered.
- Finally, the indexing of pensions by a half-point below the CPI has effects on average pensions corresponding to the sharp effect it has on the pension system deficit. Specifically, the average pension for new retirement pensions goes through a gradual reduction compared with the reference which puts it 14% below the reference in 2025. But above all it is the average pension in the system which shows the biggest drop, close to 20% compared with its reference level. In this case the sacrifice is similar to that produced over the long term under the measure involving an increase in years of contribution for the regulatory base but affects all pensioners although in a gradual way. This is undoubtedly the measure which brings about the sharpest effects.
- Even so, it should be kept in mind that the trend in total average pension in the system is influenced by a composition effect in virtue of which

the pensions of older pensioners (which are comparatively smaller) have increasingly greater weight due to their greater number. Finally, only that measure which involves indexing below the CPI would be able to bring about a decrease in real pensions now being paid in terms of their 1995 level, an effect which may be varied by graduating the measure according to the amount of the pension.

### 3.4. Sensitivity to growth of employment

- The calculations for the preceding sections have shown the difficulty in halting the progression of the deficit in Spain's pension system without introducing measures which demand certain sacrifices by present and future beneficiaries. It should be remembered, however, that the reference scenario adopted was considered moderately optimistic although within reach of the Spanish economy over the long term. We also mentioned the existence of a significant probability that such a scenario could not be realized in strict terms which forces us to examine, at least partially, the consequences of a situation in which job creation does not hold to the established hypothesis.
- This leads us to two types of question. What employment growth should take place over and above the reference figure in order to stabilize the deficit of the pension system in the absence of corrective measures? And how would the deficit perform if employment were to grow substantially below the reference level?
- In principle, it would be of interest to know both the growth of employment and productivity given that both are substitutes for the purpose of our calculations. In fact, we could consider alternative situations in which, by maintaining the hypothesis of employment growth characteristic of the reference scenario invariable, productivity would show an increase or decrease in its growth rate. Nevertheless, with the aim of simplifying discussion we shall limit ourselves here to the consideration of employment growth.

■ Some analysts feel that proper employment growth is enough to maintain the financial capacity of the Spanish pension system it not being necessary to adopt corrective measures. This is not our opinion because, while this growth is indispensable, we doubt whether it will happen at a sufficiently high rate to resolve the problem of the financial viability of the system over the long term. In fact, our reference projection incorporates a forecast of employment growth at a cumulative 1% per annum as of 2000. The calculations set out below suggest that the rate required not to reduce but to simply stabilize the pension system deficit at its present level should be around 1.7% per annum –a hypothesis extremely optimistic in the light of recent experience. On the other hand, if the growth rate of employment goes below the reference hypothesis, that is to say, for example to 0.5% per annum, the deficit in Spain's pension system would increase to reach a volume of more than 6,000 billion pesetas (at 1995 values) in 2025 which would represent 4.63% of the GDP. This would mean a worsening of the deficit equivalent to nearly two and a half points of the GDP compared with its present level (which stands at 2.16%). Details of these alternative scenarios are to be found in Table 3.4 and Figure 3.2.

**Figure 3.2**

**BALANCE OF THE PENSION SYSTEM AND EMPLOYMENT GROWTH**

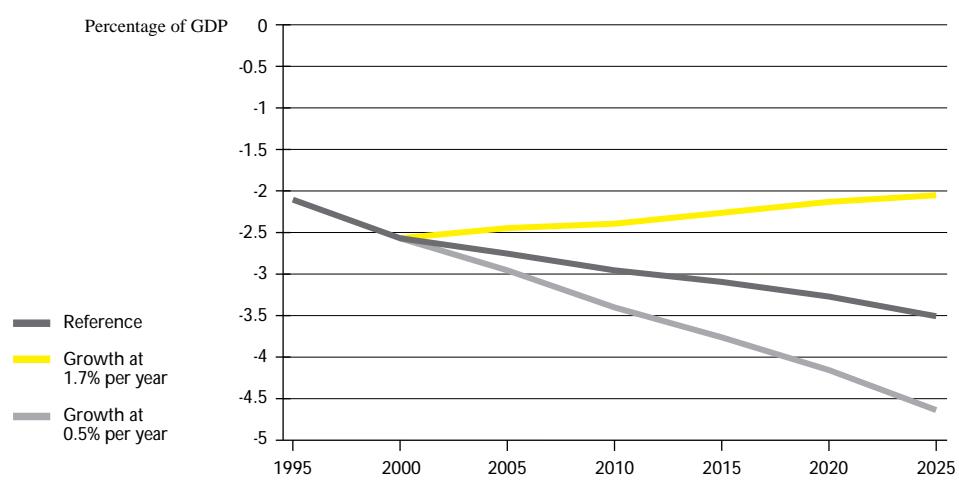


Table 3.4

BALANCE OF THE PENSION SYSTEM UNDER ALTERNATIVE  
HYPOTHESES OF EMPLOYMENT GROWTH AS OF YEAR 2000  
(Billion 1995 pesetas)

	1995	2000	2005	2010	2015	2020	2025
<i>Reference projection</i>							
Contributors	12,095	13,032	13,697	14,396	15,130	15,902	16,713
Balance	-1,504	-2,090	-2,495	-3,017	-3,603	-4,259	-5,153
Balance as percentage of GDP	-2.16	-2.60	-2.75	-2.94	-3.10	-3.24	-3.46
<i>Growth at 1.7% annual</i>							
Contributors	12,095	13,032	14,178	15,425	16,782	18,257	19,863
Balance	-1,504	-2,090	-2,314	-2,607	-2,902	-3,194	-3,633
Balance as percentage of GDP	-2.16	-2.60	-2.46	-2.37	-2.25	-2.12	-2.06
<i>Growth at 0.5% annual</i>							
Contributors	12,095	13,032	13,361	13,699	14,045	14,399	14,763
Balance	-1,504	-2,090	-2,621	-3,295	-4,063	-4,937	-6,091
Balance as percentage of GDP	-2.16	-2.60	-2.96	-3.37	-3.76	-4.14	-4.63

Source: FEDEA

- For employment to grow at 1.7% per annum as of 2000 (while also maintaining the unemployment rate of the core scenario) it would be essential that there be a very substantial stimulus to the numbers in the active population, to immigration or both. In fact, it should be noted that the number of contributors in the pension system should increase to nearly 20 million by 2025. From this we see that there should be nearly eight million more workers in the next thirty years.
- These figures raise some major questions. Firstly, with regard to the capacity of the Spanish economy to create such a volume of employment. Secondly, with regard to the actual availability of labour force in such proportions in our country in view of the numbers in our population if the present levels of those in the active population were not substantially modified or if there should be a massive emergence of the population involved

in activities in the black economy. To these questions we should add others about the viability and the social and political wisdom of policies designed to stimulate immigration inflows of the necessary size. In any case, none of this could take place without broad intense social and political debate which might lead to decisions charged with consequences of all kinds. From what we know about the political system and Spanish public opinion it is very unlikely that these decisions, which are so complex and so politically and culturally sensitive, will be taken in the near future.

- In any case, to all this must be added, always within the previous hypothesis, that in terms of the GDP the deficit in the pension system would not drop below the 1995 reference level up until after 2015. After that year the indefinite growth of employment at 1.7% per annum would exercise its effects up to 2025 but even so we should keep in mind that at some moment after 2025 the retirement of the «baby boomers» would begin to bend the trend downward.
- The above arguments show the unlikelyhood of employment growth as that just described with a rate of the order of 1.7% per annum to actually take place and therefore they also indicate the desirability of not relying on the solution of the problem of pensions to such a shaky possibility.
- At the opposite extreme, let us suppose that employment grows below the reference hypothesis with a growth rate of 0.5% per annum as of the year 2000. We shall further suppose that the unemployment rate in the reference scenario remains unaltered so that in this case it is the activity rate which is adjusted below the reference scenario. Just as when employment grows at 1.7% per annum the GDP grows at 3.2% (1.7% for employment and 1.5% for productivity), when employment grows at 0.5% and productivity grows at 1.5% the GDP shows a growth rate of 2%. Under this scenario of macroeconomic growth, the deficit in the pension system rapidly

worsens and shortly after 2010 exceeds the indicator corresponding to 2025 in the reference situation (see Table 3.4 and Figure 3.2). At the limit of the projection horizon (2025) the deficit reaches 4.63% of the GDP for that year while at the same time the poor job creation allows us to see how the progression of the deficit is dominated by aging of the population. The worsening of the deficit between 1995 and 2025 is thus nearly two and a half points of the GDP, one point more than in the reference case. This scenario is relatively plausible although we consider it less probable than the reference scenario and its implications should serve to reinforce the need to take strong action with regard to the mechanisms which cause the increase in spending.

- In summary, the need to halt the progressive financial insufficiency of our pension system determines the adoption of various measures basically aimed at limitation of the double mechanism which boosts spending in the system –the increase in the number of pensioners and the amount of benefits. Some of these measures apply to new pensions while others apply equally to all pensions.
- On the one hand, a delay in the retirement age turns out to be a powerful instrument to slow the rate of increase in the number of pensions although it involves a slight increase in benefits for new pensions. Both effects combine to make it the most efficient measure of all those affecting only new pensions although the difficulty with this lies in the distortion it could produce in the labour market unless formulas for partial retirement were worked out. Readjustment of the contribution period and lengthening of the regulatory base also have rather modest effects on the deficit because they concentrate sacrifice on new pensions for which the amount is reduced compared with the reference situation. All of these measures however are insufficient to stabilize the deficit in the pension system on the scale adopted in our exercise if carried out in isolation.

- In addition, the measures which affect all pensions have major effects on the deficit in the system although this is at the cost of spreading the sacrifices across the board. In this respect, we should bear in mind the specially low level of many benefits now being paid which would make it necessary to graduate this type of measure by rate of pension. In our exercise we have simulated indexing of pensions already being paid below the CPI which could bring the average pension in the system down to 20% below the reference figure which would make possible a significant correction of the deficit in the pension system.
- An examination of alternative employment scenarios strongly warns against the passivity of not undertaking corrective measures such as those indicated or other similar measures in one or another application or in combination. In the absence of such measures, in order for higher revenues from contributions to be able to stabilize the pensions deficit over the long term employment would have to grow by 1.7% as of the year 2000, an unlikely scenario for a multitude of reasons. If, on the contrary, the reference employment growth expectations are not met, by default the financial worsening of the system would be much more rapid and in this case passivity or lack of foresight would have to be paid for much earlier and in a much more costly and painful way.
- Naturally, this leads us to think of a complex reform which in prudent steps combines the various measures examined. In any case, given the fact that many of the measures studied should begin to show their effects very soon after the year 2000 they should be announced as soon as possible in order to allow the best possible adaptation by those concerned, that is to say present contributors, with regard to their contribution periods.

#### IV. POLITICAL, SOCIAL, ECONOMIC AND CULTURAL PLAYERS: ATTITUDES TO PENSION REFORM

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- Taking part in the debate on the future of public pensions is a group of key players which through their proposals and declarations set the agenda for the discussion and lay out the framework in which it is carried on. They form what has come to be called a «public policy network», that is to say, a group of players, each of which operates strategically always keeping in mind and anticipating the actions of the others, watching each other carefully, interchanging information directly or indirectly and reacting in the face of the positions of the others with moves of a symbolic or substantive nature. At times the players in this network reach formal or informal agreements. At other times, they establish partial coalitions while sometimes they carry on a discussion with agreement only on certain points or on procedure.
- Conspicuous at the centre of this «network» are the political decision makers. From the positions they hold in the legislative and executive power the parties and the Government have the responsibility to study the problem of the public pension system and to adopt the formulas they consider viable to resolve it. The most recent and important manifestation of this commitment was the so-called Toledo Pact, a reference document in the present debate on pensions which is worth examining in detail because it was presented by the political elite as a key instrument to move ahead with reform of Social Security.
- Located around the political decision makers, the trade unions and associations of retired people, acting as representatives of the beneficiaries of the public pension system, try to have their voice heard and taken into account. Business organizations are also extremely interested in the future of Social Security benefits to the extent that this affects their obligations to

the State and the general health of the national economy. Along with them, the financial intermediaries and insurance companies, which may possibly be favoured by changes in the system of provision for retirement, as recipients of private investment in the form of pension funds, also try to put forward their positions in this debate.

- To these political, social and economic players other groups become allied, which may make important contributions to addressing the problem and the search for solutions. On the one hand, these are made up of experts and international bodies whose studies and observations contribute to maintaining the debate alive and forcing those participating in it to define their positions. In addition, by presenting the contributions of one side and the other, the press takes part in the discussion from the point of view of its editorial approach.

#### 4.1. The political parties and the Toledo Pact

- At the beginning of 1995 the political parties reached a basic consensus on the need for reform of the public pension system. In the Toledo Pact, unanimously approved by the Chamber of Deputies in April, a series of measures was agreed upon through which to tackle the problem of the financial balancing of the Social Security system.
- In general terms, pacts or accords between the political parties may be examined from many different points of view. A pact may be considered from the perspective of whether its substantive content definitively resolves the matter in question or whether the pact puts in motion a process of reforms which may be expected to resolve that problem over a prudent time period. Or, it may be looked at from the perspective of its ability to trigger a process of public debate and civic education which in turn may foster the development of the reforms.

- Chapter 3 of this study has indirectly attempted to respond to the first of these questions. It is now of interest to examine the Toledo Pact as the starting point of a reform process and to some extent a process of public debate. Whether it is a solid starting point or one that is problematical or doubtful depends largely on the faithfulness with which it reflects the positions of the various parties on the matter and the existence of a genuine consensus between these parties on the questions being dealt with. Because of this it will be useful to place the discussion on the accords set out in the Toledo Pact in the context of the positions of the parties with regard to the moment when that agreement took place.
- It must be recognized that the very fact of signing a pact on the matter indicates a change in attitude of the parties (especially by the Partido Socialista Obrero Español, the Socialist Party) which appears to want to commit itself to the search for a consensus. Only ten years ago the Socialist Government decided on significant changes in the pension system without any previous agreement with other political or social forces, taking advantage of the weakness of the opposition and of the division among the trade unions, in spite of a general strike. It seems that the political and social (and trade union) circumstances of the Nineties do not now allow decisions of this nature.
- But once the parties adopted this decision to travel together along a path in search of consensus, at least part of the way, it seems that caution has again prevailed. In fact, their declarations and recommendations on reform contain major silences and ambiguities which are probably a consequence of two factors –uncertainty about the effectiveness and the economic and social consequences of the proposals and the fear (and possibly ignorance) of public opinion on the matter. The text of the Toledo Pact and the context of party declarations on the subject show a tendency to a vague eclecticism with regard to the possible steps toward a solution for the financial balancing of the system over the long term, and great caution

when it comes to taking a position on structural reform of the pension system.<sup>(1)</sup>

- Reform measures included in the Pact refer both to spending and revenues of Social Security. We shall follow this order in our exposition and analysis of the content of the text and, where possible, in the presentation of positions adopted by other strategic players.
- The first measure related to spending set out in the list of recommendations in the Toledo Pact consists of limiting the financial capacity of the contributive system of Social Security to spending related to contributions, while making all non-contributive and social assistance spending depend on the government budget. In this way, the problem of the financial viability of the Social Security system would thus immediately be «resolved» through the procedure of shifting it to another spot. Both PSOE (Socialist Party) and PP (Partido Popular), as well as IU (Izquierda Unida) and CiU (Convergència i Unió) have explicitly stated their agreement with separating the sources of funding for contributive benefits from those of a universal nature (such as health, social services and complementary payments on some low pensions).<sup>(2)</sup>
- This unanimity however sidesteps two ongoing discussions. In the first place, it is necessary to clarify whether the surplus in the contributive system resulting from this financial separation should be used to establish reserves which, over the short term, might mitigate the consequences of economic cycles on the public pension system and thus guarantee contributive benefits in years when revenues were insufficient or whether, on the contrary, the existence of this surplus should be used in reduction of

(1) Text of Pact in *«Boletín Oficial de las Cortes Generales»*, Series E, No. 134, 12-4-1995, hereinafter referred to as *BOCG* (*Official Bulletin of Parliament*).

(2) Borrell (1991: 220-3); interviews with Alejandro Cercas, Juan Carlos Aparicio, Ricardo Peralta and Francesc Homs in *«Temas para el Debate»* 4/1995: 40-43; Villalobos (1993: 34-5).

social contributions (both proposals included in the Pact). In second place, the plan to shift financing of all non-contributive and social assistance spending to the budget must at the same time lead to a discussion of what the relative volume of this spending should be and the additional tax load the real economy of the country is expected to bear through general taxation. In other words, it is necessary to clarify what is the immediate objective of the separation of contributive and non-contributive spending, and if the objective of balancing the Social Security budget stands within the framework of a general strategy aimed at financial balance of the government's accounts as a whole or no, and at a greater or lesser volume of public spending and possibly at a higher or lower public deficit.

- Apart from this demand for financial parcelling of social benefits, the proposals of the parties on spending basically refer to retirement age, coverage and proportionality of benefits and indexing of pensions.
- The possibility of delaying the retirement age (which would mean a cut in pension spending) or moving the age forward (which would imply an increase) gives place to contradictory proposals by the parties. This is happening at a moment when the dominant tone in European countries seems to involve encouraging a delay in retirement age (for example, in the United Kingdom, France, Germany, Belgium, Italy and most recently in Switzerland) against what had been the previous trend. The PP proposes delaying compulsory retirement to 70 years for some groups of public servants. On the contrary, IU opposes delay in the retirement age and inclines to moving it forward, within the framework of what would be a general policy of «work sharing». <sup>(1)</sup> The Pact limits itself to include a marginal reference to maintaining the legal retirement age at 65 years, that is to say, not to change the present situation.

(1) PP (1993: 88); Núñez (1993: 30-2); *«El Mundo»*, 27-3-1995; IU (1993: 16) and (1994: 156-7).

■ In contrast to the discordant positions on setting the legal retirement age, a relative convergence can be seen in the positions of the parties on the value of making it flexible on a voluntary basis. Nevertheless, this convergent position should be placed in the context of strategies oriented toward very different and even opposed final objectives. The Minister of Labour, José Antonio Griñán, holds a position (apparently supported by his party) which is favourable to the establishment of work incentives after retirement age compatible with the right to a pension. In an analogous way, the PP proposes to allow part-time work simultaneously with a partial pension.<sup>(1)</sup> Thus, in general, PSOE and PP would incline toward making the retirement age flexible linked with work incentives after 65. In fact, the Toledo Pact includes a proposal from both these political parties to reduce contributions and pensions depending on the hours of work once this age has been past. Nevertheless, in the case of IU making retirement age flexible goes hand in hand with a general strategy not in favour of delaying retirement age but moving it forward. Because of this, IU contemplates partial retirement accompanied by replacement contracts and voluntary social work by the elderly with the objective of moving forward the retirement age to 60 years over the medium term.<sup>(2)</sup>

■ In a similar way, the consensus in declarations by the main parties about the increase in the proportionality between pension system benefits and contributions made is also somewhat precarious. It is true that the last national congresses of both PP and PSOE set out the need to reinforce proportionality, a measure which in general would lead to a reduction in pensions. Nevertheless, IU opposed introduction of a reference to the calculation of pensions based on the total working life of the pensioner in the text

(1) Interview with José Antonio Griñán in «*Temas para el Debate*» 4/1995: 38-9; see also «ABC», «*El País*» and «*Expansión*», 6-4-1995; PP (1993: 88); Núñez (1993: 30); Villalobos (1993: 34-5); «*El Mundo*», 27-3-1995.

(2) IU (1994:156-7); see also «ABC», 24-3-1995.

of the Toledo Pact.<sup>(1)</sup> The document limits itself to stating the vague purpose of gradually reinforcing the proportionality of pensions from 1996 on.

- In addition, the Pact avoids formulating any new proposal with regard to another way of reducing spending involving an increase in the number of years of contribution required in order to give the right to a pension. This measure, adopted in the 1985 reform, extended the minimum number of years of contribution (waiting period) from ten to fifteen.
- A relevant theme in terms of ensuring the financial balance of the system through reduction of spending is the control of fraud which beneficiaries of the pension system may commit, as well as poor management by public servants. In fact, PSOE, PP and IU declare their interest in an improvement of the management and administrative mechanisms for public pensions. PSOE and PP insist on control of fraud especially with regard to invalid pensions, whereas IU puts the accent on control of collection of contributions.<sup>(2)</sup> These concerns were included in the Toledo Pact, thus giving rise to various recommendations including one asking for «structural integration of the functions of affiliation, collection and management of benefits»,<sup>(3)</sup> which might possibly lead to a reduction both in fraud in benefits received and default on payment of contributions.
- While the abovementioned measures generally seem oriented toward a reduction in spending on public pensions, other measures appear to be directed toward an increase in spending such as annual indexing of public pensions, selective improvement of certain pensions and bringing the minimum pension in line with the basic wage.

(1) Villalobos (1993: 34-5); PSOE (1994: 208); *«ABC»*, 24-3-1995; *«El País»*, 4-4-1995.

(2) Cercas (1991: 189); PSOE (1993: 51); Villalobos (1993: 22-4); interview with Ricardo Peralta (IU) in *«Temas para el Debate»* 4/1995: 41-2; PSOE (1994: 208); interview with Juan Carlos Aparicio (PP) in *«Temas para el Debate»* 4/1995: 41.

(3) BOCG 134-E:16.

■ The first two proposals were included in the Toledo Pact. Annual indexing of public pensions in agreement with the Consumer Price Index constitutes an apparently unanimous demand. PSOE insists on automatic updating of public pensions thus narrowing the margin of action in each year's budget. IU shares this objective of compulsory annual updating. In turn, PP talks of continuing revision and consolidation of the purchasing power of pensions increasing the lowest by a larger amount.<sup>(1)</sup> It must be kept in mind that these recommendations are taking place at a time when in other European countries the suspension or delay of indexing is being considered an instrument of some value and (presumably) of low political cost in order to achieve the objective of cutting spending on pensions. The Pact also includes a recommendation on improving orphans' pensions and the lowest widows' pensions «to the extent permitted by the financial situation».<sup>(2)</sup> Nevertheless, it does not include any proposal with regard to bringing the minimum pension in line with the basic wage, a measure which has merited the support of the three main parties as shown in the electoral programmes of PSOE, PP and IU in the last parliamentary elections.<sup>(3)</sup>

■ In addition, the objective of achieving a balance between pension revenues and spending may be approached on the revenues side (with or without a reduction in spending). Here it is worth including the widespread recommendation of increasing social contributions of farmers and self-employed persons –two interest groups which appear to have very limited influence over the political parties. In any case, carrying out these increases under cover of a bureaucratic rationalization operation or homogenization of the special and the so-called general regimes appears to be a shared aim (at least from their rhetoric) of the various political parties.<sup>(4)</sup>

(1) «ABC», «El País» and «Expansión» 6-4-1995; PSOE (1994: 208); IU (1994: 59); «El Mundo» 27-3-1995; PP (1993: 88).  
(2) BOCG 134-E: 17.

(3) Also in last national congresses of both PSOE and PP. See PSOE (1993: 51) and (1994: 208); PP (1993: 88); IU (1993: 16); Núñez (1993: 30-2).

(4) See recommendations 4 and 6 of Toledo Pact (BOCG 134-E: 16); PSOE (1993: 51) and (1994: 208); PP (1993: 88); Núñez (1993: 30-2).

- The same does not happen when it comes to contributions to the general regime. PP and CiU support a reduction of these contributions as part of a general strategy of employment incentives similar to the Delors Report «Growth, Competitiveness, Employment. The Challenges and Ways Forward into the 21st Century». In an early outline of their electoral programme the PP has quantified the desirable reduction in contributions at 5 points to be carried out over 3 years, while suggesting as a possible formula the reduction of contributions for those workers with the lowest wages. CiU in turn has proposed a reduction of between 3 and 5 points over a period of three years.<sup>(1)</sup> The Toledo Pact reflected these recommendations in a vague and wishy-washy way conditioning them to the «maintenance of financial balance of the contributive system».<sup>(2)</sup> This vagueness may be the result of the ambiguity of PSOE on the subject and pressure from IU opposing reductions. In fact, IU recommends not a decrease in contributions but an increase, especially in periods of economic recession.<sup>(3)</sup>
  
- Evidently, the reduction of social contributions and thus (at least in the beginning) a reduction of revenues of the public pension system, only makes sense within a certain framework of expectations and strategies – the optimistic expectation that a boost to the economy brought about through reducing business and industry contributions to the Social Security system would broaden the overall base of system revenues, and possibly the strategy of developing a complementary system of private pensions. The fact is that proposals for reducing contributions usually go hand in hand with demands for fostering a complementary system of private pensions by means of tax incentives. So it is that in this final question we perceive areas of dissent among the parties similar to those already described with regard to the increase or decrease in social contributions.

(1) «*El Mundo*» 27-3-1995; «*ABC*» 29-3-1995.

(2) *BOCG* 134-E: 16-17.

(3) «*El País*» 31-3-1995 and 4-4-1995; «*ABC*» 24-3-1995.

- Tax incentives for private pensions receive the explicit support of PP and the main nationalist parties but not of IU nor (with some doubt) of PSOE. In its electoral programme outline for the coming general elections the PP proposed more favourable tax terms than those existing for private pension funds (setting a period of 15 years at which time the fund could be recovered without fiscal costs and increasing the amount deductible to 850,000 pesetas which later would go up to a million pesetas) as in its amendments to the Toledo Pact. CiU and the Partido Nacionalista Vasco have allied themselves with the opinion of the PP on various occasions including during discussion of the Law on Private Insurance. IU has clearly opposed the fostering of private pension funds. PSOE stands by the «status quo» preferring not to change tax treatment at the moment while not rejecting the possibility of doing so in the future.<sup>(1)</sup>
- As a result of all this, the Toledo Pact contained a reference to the matter of a complementary system which was somewhat ambiguous. On the one hand, in the general considerations of the Pact it laid a certain amount of emphasis on defending a system defined as one of sharing the load and social solidarity, because of opposition both to (supposed) «theoretical demands» which attempted to substitute it for another of a «capitalization» type and to a system which would imply «the simple provision of minimum pensions» (perhaps by «minimum» meaning «insufficient»). Both models were judged to be «worthy of rejection». On the other hand, however, these same considerations included the recognition that it would be of value to strengthen the types of coverage based on «complementary benefits of a voluntary nature with private management» which according to the text «should be provided within a framework of financial solvency, efficient management, transparency and attention to its own purpose».<sup>(2)</sup> This recognition is compensated by the inclusion of a rather imprecise recommenda-

(1) Interview with Juan Carlos Aparicio in *«Temas para el Debate»* 4/1995: 41; *«El Mundo»*, 27-3-1995; *«ABC»*, 24-3-1995; *«ABC»*, 5-4-1995; *«El País»*, 31-3-1995; PSOE (1994: 192)

(2) BOCG 134-E: 15.

tion related to the updating and improvement of tax incentives to the complementary scheme, that is to say, to individual and group private pension funds characterized as «an important source of long-term savings, both individual and group».<sup>(1)</sup>

- Finally, if we focus our attention on the problems of financial balance, we see that the Toledo Pact opens up an area of consensus which offers some interesting paths of reform aimed at cutting spending – a general acceptance of the principle of proportionality, the desirability of greater flexibility in retirement age and an improvement in management and control of fraud. But the area of consensus among the parties signing the Pact appears to also extend to some paths leading to an increase in spending, as for example in the matter of indexing of pensions. There are also areas of consensus which cover up not very explicit points of dissent, such as that relating to the splitting of the financing of contributive and non-contributive benefits, which hushes up a shifting of the problem and hides the existence of opposing strategies. And finally an area of silence, imprecision and ambiguity which, on the one hand, concerns the reduction of spending, specifically measures such as delaying the retirement age or an increase in the waiting period and, on the other hand, questions about «structural reform» of the system such as that relating to the role of private pension funds.
- Let us now return to the initial question – whether we may consider the Toledo Pact a solid starting point for the necessary process of reforms and public debate. In view of the discussion set out earlier it appears quite clear that this is a very problematical starting point for a number of reasons.
- Firstly, because it skirts discussion of basic questions which directly affect the problem it is dealing with, such as the concept of the country's

(1) *BOCG* 134-E: 17.

welfare system itself, the policy of activating the real economy which constitutes the support for the system, the degree of tolerance of the black economy (which implies erosion of that support at times to considerable limits, as in the case of Spain) or the level and structure of the tax load considered compatible with such activation of the real economy. Without such a debate, discussion of the problem of public pensions in terms of the financial balance of the system remains incomplete and probably can only have limited persuasive effects on public opinion.

- Secondly, because the Pact cloaks major differences of opinion about the matter of financial balance of the system and structural reforms. This cloaking is understandable but lamentable. The matter requires clarification by the parties concerned which should be done in full public view. In the absence of such an effort to clarify things, the ritual invocation of the Pact may have little real effect and, over time, could simply become a drawback.
- Nevertheless, along with these two criticisms we should introduce a thought somewhat more qualified regarding, in particular, the sequence and time context in which the Toledo Pact stands as well as the political process in general. In this respect we should distinguish between the very short term, the medium term and the long term.
- Over the very short term, the Pact may have a positive effect to the extent that its evocation may inhibit the development of demagogic tendencies among the political parties in the immediate circumstances of the electoral contest, especially in the rarefied climate of Spain's political life which threatens to remain with us in coming months. Over the medium and long term the Pact is insufficient and the matters to which it refers must be clarified, the various positions made more precise and debated, and a body of coherent and reasonable decisions adopted and applied with the support of

a broad body of opinion. The reform process and the process of public debate must go forward side by side, because the solution of the problems of the public pension system demands the formation of a public opinion which, far from stimulating the demagogic proclivities of the political parties, will contain and sanction them with their electoral verdict.

#### 4.2. Government and the public administration

- Reform of the public pension system is basically incumbent upon two ministries –Economy and Finance and Labour and Social Security. The initiatives of each of these departments correspond to two different logics which are to some extent opposed. The priority of those in charge of Economy and Finance is to balance the government accounts, which at present necessarily involves reducing public spending. The Ministry of Labour and Social Security, on the other hand, is concerned with maintaining the level of social benefits. On this depends a good part of the influence of the department in the government administration and the influence of the Minister in the Cabinet. These intrinsic differences have shown up in various ways in recent years, including the lack of interdepartmental co-operation when drawing up demographic and financial projections based on the actuarial period of contributions.<sup>(1)</sup>
  
- Those in charge of the Ministry of Economy and Finance from time to time have expressed their concern for the future of the pension system. Pedro Solbes did so, for example, in statements which caused a considerable stir.<sup>(2)</sup> More recently, in the Spring of 1995 the Minister and the Secretary of State, Alfredo Pastor, made statements alluding to the need to

(1) On this lack of coordination and mutual confidence see *«Expansión»* 10-3-1995.

(2) Asked about the matter of pensions in a radio and television interview, Solbes tried to calm existing pensioners and those about to retire but declared that «those of us who are between 40 and 50 years of age must think what is going to happen within the next 15 to 20 years». On reaction to these statements see the national press between February 22-25, 1995.

freeze social spending and to decrease the growth of the corresponding heading which raised doubts about his intention to reduce this spending in real terms. Those in charge of the Ministry of Labour and Social Security were quick to qualify this project as «impossible» and to reiterate that their aim in 1996 was to increase pensions in line with the CPI. Some months later, Pastor again emphasized the need to revise the system of calculating pensions in an urgent and decided application of the Toledo Pact «so that it would have the desired effect as soon as possible». <sup>(1)</sup>

■ Whereas the Ministry of Economy believes it necessary to tackle the problem of pensions promptly, the Ministry of Labour and Social Security gives out signals designed to calm things down in the face of affirmations of a growing and unavoidable crisis in the pension system. The present holder of this portfolio, José Antonio Griñán, considers that the pension system «is consolidated and stable» and dismisses the need for drastic changes in it, although he considers it proper to arrive at greater proportionality between contributions and benefits, and to make retirement more flexible on a voluntary basis. The Minister praised the Toledo Pact as an «act of political will which was technically viable». He insisted on this latter aspect regarding financial viability of the present model which he termed «scientifically proven», given that projections carried out in his department foresee an increase in pensions of around 40% up to 2030 (from 7 to 10 million approximately) and an increase in employment of approximately 50% (from 12 to 18 million). <sup>(2)</sup> In line with these calculations, the secretary general of Social Security, Adolfo Jiménez, maintains that «there is no drama in the growth of pensions in the next thirty years if benefits are not increased and they merely maintain their purchasing power». In addition, Jiménez seems to dismiss any urgency in the Toledo Pact proposal to increase proportiona-

(1) «*El País*», «*ABC*» and «*El Mundo*», 4-4-1995; «*Cinco Días*», 4-7-1995.

(2) Interview with José Antonio Griñán in «*Temas para el Debate*» 4/1995: 38-39; TVE1 1995.

lity between contributions and benefits because that would require a long transition period of seven to ten years.<sup>(1)</sup>

■ The government intended to incorporate the Toledo Pact agreements in the 1996 Budget legislation, including decisions such as the gradual extension of the period considered for calculating the pension from eight to 15 years, and an increase in the reduction ratio applied for each year of no contributions within the 35 necessary to obtain 100 per cent of the regulatory base.<sup>(2)</sup> Nevertheless, the difficulties in maintaining political stability and probably the foreseeable electoral cost of these measures if they were confirmed, and still more if they were applied, led the government to postpone these reform plans. In any case, following parliamentary rejection of the budget in October 1995 Cabinet decided to simply update pensions by 3.5%.<sup>(3)</sup>

#### 4.3. Trade unions and pensioner associations

■ The two main trade union confederations, Union General de Trabajadores (UGT) and Comisiones Obreras (CCOO), at present maintain very similar positions on public pension reform. Proof of this is the recent publication of a joint article by their respective federal secretaries of Institutional Action.<sup>(4)</sup> UGT and CCOO have set out their positions in separate internal documents entitled *«Progress Proposal on Social Security in Spain»* and *«Social Security in Spain»* respectively. In general lines, they reject a cut in social spending, defend the maintenance of the purchasing power of present pensions and the improvement of benefits for some underprotected groups. They oppose the reduction of contributions,

(1) Jiménez (1995: 36); *«El País»*, 27-9-1995.

(2) *«ABC»*, 28-8-1995.

(3) *«El Mundo»*, 27-9-1995 and 28-10-1995; *«El País»*, 13-11-1995.

(4) Fidalgo and Díaz Chávero (1995).

recommend the matching of contribution bases to real wages and declare the need to combat fraud of affiliates in certain regimes.

- Present trade union positions on the matter of the calculation of pensions, their coverage and proportionality must be understood with some time perspective. The matter of «pension reform» marked the beginning of a process of a notable cooling of relations, at times quite dramatic, between PSOE and UGT in 1985. The Socialist trade union body at that time opposed the government plan to increase the minimum period of contributions from ten to fifteen years and to extend the period for calculation of the regulatory base from two to eight years. For its part, CCOO (excluded from the Economic and Social Pact under which the Social Security reform was to be negotiated) expressed its «total rejection» of what it called the «counterreform» of the Minister of Labour. CCOO called a general strike in which UGT declined to participate although it approved the calling of demonstrations and mobilizations. In a climate of social agitation with varying rank and file response, greater than that desired by the government but less than that planned or foreseen by the trade unions (which lacked a common strategy), the conversations and negotiations between one and the other brought forth no agreement. Neither the automatic updating of contributive pensions in line with the CPI forecast nor the increase in social assistance pensions by 40% obtained the assent, at least verbal, of the trade unions, particularly of the UGT.<sup>(1)</sup>
- Looking back to the confrontations of 1985 is enough to show the improvement in relations between the two big trade unions and perhaps between these bodies and the political parties. The trade unions today adopt an apparently less stubborn attitude toward reform of Social Security. They recognize that demographic trends and the employment situation in Spain may present problems for the future preservation of pensions but

(1) To follow this conflict see, for example, *«El País»*, 16/17-3-1985; 10-4-1985; 10/14-5-1985; 25/26/28-6-1985.

maintain the conviction that these difficulties can be overcome through «modifications» which do not question the present design of the system. In addition, they seem to lack a clear message so far as concerns the urgency of the need to tackle the problem.

- If we look at the proposals of UGT and CCOO on Social Security spending in more detail we see, first of all, their demand to separate the financing of contributive and non-contributive benefits. They also refer to this when they occasionally allude to the «clarification of the financing of the health system», given that a part of this is covered by contributive revenues.<sup>(1)</sup> Once health costs and other non-contributive universal benefits are separated from the contributive system, the surplus of the contributive system would be converted into a stabilization fund to compensate for years with insufficient revenues.
- In line with the argument that there is a scarcity of jobs, the trade unions reject delaying the retirement age. Nevertheless, they declare themselves in favour of including in the reform some proposals for providing incentives for later voluntary retirement under certain circumstances. Both trade unions in principle are opposed to including the entire working life in the period for calculating the regulatory base (at present eight years). Perhaps the resistance of CCOO is more emphatic and somewhat more ambiguous than that of UGT. Nevertheless, both are in favour of increasing proportionality between contributions and benefits. In order to reach this objective, CCOO appears to opt not so much for increasing the number of years included in the calculation of the regulatory base as for modifying the weight given to years of contribution, spreading the percentage of the adjustment over the regulatory base equally during the 35 years which confer the right to 100% of the pension.<sup>(2)</sup>

(1) *«El País»*, 27-9-1995.

(2) CCOO (1994: Appendix 5, p. 9). CCOO roundly opposed the possibility of reckoning contributions over full working life in the regulatory base for pension. The secretary of Trade Union Action called this proposal a «real blunder» because it would cut pensions between «30% and 50%. See *«El Mundo»*, 23-7-1994.

- The two large trade union bodies coincide in rejecting an increase in period of contributions to obtain the right to a contributive pension. On this point, they would also like to see suppression of the so-called «qualified waiting period», that is to say, the need to have contributed at least two years within the eight years immediately preceding retirement in order to obtain a contributive pension.
- Pointing in the opposite direction to a cut in spending are the trade union demands to maintain the purchasing power of pensions and improve the benefits of beneficiaries of the system who are underprotected such as (some) widows and orphans. So far as concerns indexing of pensions, the trade unions prefer a regulation for automatic updating to agreements with time limits such as those adopted up to now.
- But it is not in the area of spending but rather in revenues where the trade unions believe that the most significant changes should come about. Their demands are oriented, on the one hand, toward a reduction in fraud in contributions. On the other hand, UGT and CCOO share the desire to limit what they call «à la carte contributions» of those paying into special regimes and to «rationalize» the granting of complementary payments for low pensions of which the main beneficiaries are self-employed persons and domestic employees. In addition, both trade union bodies believe in the need to change the maximum ceilings of wages subject to contribution but while UGT is in favour of removing the ceiling on all the intermediate bases and the setting of a single maximum ceiling, CCOO also favours the suppression of this ceiling so that those receiving income of more than 350,000 pesetas a month would contribute for the entire amount earned.
- So far as concerns the private-complementary level of pension benefits, both trade unions have expressed their complete rejection of the «Chilean» capitalization model (which allows an option between a public and private

scheme for providing pensions) and the so-called «minimum pension» system. Nevertheless, their opposition does not go so far as putting in question the present tax incentives for private pension funds nor do they use a rhetorical discourse denouncing the extension of those incentives as if they were a step forward in a strategy of «dismantling of the Welfare State», a rhetoric to which they have had recourse with some frequency and vigour in the past.<sup>(1)</sup> While the trade union leaders had previously avoided any reference to the private component of the pension system, today they recognize it as a «third level» which is not only legal and recognized by the Constitution by also «legitimate».<sup>(2)</sup>

- Finally, the trade unions tend to minimize the perception that the public may have about the seriousness of the crisis in the pension system.<sup>(3)</sup> They identify the causes of the present problems with the maintenance of regimes which favour fraudulent attitudes (basically the regime for self-employed persons), the establishment of maximum contribution ceilings and use of contributive resources to finance non-contributive benefits. Furthermore, they believe in the value of including some measure to increase proportionality between contributions and benefits. By introducing the pertinent change in these directions, the trade union bodies believe that the system can and should be maintained in a form very similar to the present.<sup>(4)</sup>
- Regarding the proper moment to apply Social Security reform, the trade unions maintain a fairly ambiguous position. On the one hand, they say that the social importance of reform requires that it be carried out «in a calm manner».<sup>(5)</sup> In line with this view, UGT and CCOO announced mobilizations

(1) See, for example, *«El País»*, 17-3-1985 and 24-5-1985. Nevertheless, it is worth remembering the recent reference by CCOO to a «counterreform» in the context of «an attack on the Welfare State» (CCOO 1994: 2).

(2) As shown in statements by José María Fidalgo on TVE1 (1995).

(3) See, for example, the declarations by Nicolás Redondo in *«El Mundo»*, 8-3-1994. During his term of office at head of UGT, Redondo opposed any new reform of pensions. He criticized the fact that the government planned to introduce changes in the present system while the problem would not show up until the year 2020.

(4) Fidalgo and Díaz Chávero (1995: 34-35).

(5) Fidalgo and Díaz Chávero (1995: 34).

against any social spending cuts the government might have introduced in the 1996 budget. Nevertheless, representatives of these bodies also recently declared their desire to meet urgently with the political parties in order to deal with the implementation of the Toledo Pact.<sup>(1)</sup>

- Although today they have little public presence and apparently only a weak voice in the debate on pensions, pensioner associations coexist with the trade union bodies in the area of representation of those affected by reform of Social Security. Growth of the number of pensioners in coming years could foster a strengthening of these organizations which in neighbouring societies have taken on notable social and political importance.
- The central government appears recently to be interested in fostering this development as is shown by the recent creation of the State Council of Elderly Persons.<sup>(2)</sup> This is a consultative body under the auspices of the Ministry of Social Affairs which has been charged with functions connected with information and advice on matters related to the situation and quality of life of senior citizens. On the occasion of naming the members of this Council, a government disposition has listed the associations or federations of elderly persons which, after presenting a request to form part of this body, have been selected by the National Institute of Social Services in accordance with criteria such as how long they have been in existence, number of members, number of locations and volunteer collaboration with public bodies. Among the 23 groups listed (each of which sends a representative to the State Council of Elderly Persons) we should distinguish between associations and federations of associations with membership in the various autonomous communities, those with links to trade unions and political parties (CCOO, UGT and IU), professional groups (pensioners of

(1) «ABC», 28-8-1995; «El País», 27-10-1995.

(2) Royal Decree 2171/1994 dated November 4, 1994 (BOE 18-11-94).

the Armed Forces, professional bodies, local government) and others of national scope, universal membership and formal independence.<sup>(1)</sup>

- An association with such characteristics holds first place in order of priority of the selected organizations. Established in 1977, the Unión Democrática de Pensionistas (UDP) has a federal structure and, according to figures by the organization, has some 750,000 subscribing members. Socialist governments have tended to consider the UDP as the main representative of the pensioner movement to be consulted. In 1988 the Minister of Labour and Social Security even established a specific agreement with this organization with the explicit disapproval of the federations of retired persons and pensioners of UGT and CCOO.<sup>(2)</sup>
  
- With reference to retirement benefits, the majority of pensioner associations orient their interest toward maintenance of the purchasing power of pensions and the widening or improvement of pensions. More specific objectives are pursued by the group Seniors Españoles para la Cooperación Técnica (SECOT), also represented on the State Council of Elderly Persons. Since its foundation in 1989, SECOT has been discussing delaying the retirement age or making it flexible as well as broadening the body of volunteers among retired persons with the argument that it is necessary to avoid wasting the experience and energy of older workers.<sup>(3)</sup>

(1) Order dated May 24, 1995 (BOE 7-6-1995). Evidently, the list of organizations making up the State Council of Elderly Persons does not cover the entire senior citizen movement and its organizations. Not represented in this body, for example, is the Asociación para la Defensa del Pensionista (ADEPEN) whose activities include publication of a magazine (*«Mayores»*), radio programmes and lobbying action.

(2) See *«El País»*, 26-10-1988. In its information folder the UDP declares its political independence, although its participation in certain PSOE electoral events could indicate a political preference for this party. See, for example, *«El País»*, 7-5-1995: *«ABC»*, 7-5-1995.

(3) These questions, among others, have been put together in the book *«Las actividades económicas de las personas mayores»* (SECOT 1995) which had the support of Banco Central Hispano and Círculo de Empresarios. On SECOT, see *«ABC»*, 27-3-1995 and *«El País»*, 19-3-1995.

#### 4.4. Business organizations and financial intermediaries

- Contrary to the trade unions, business organizations usually emphasize the seriousness and urgency of the pension system crisis. And, as opposed to the former, in their analysis of the problem of the public pension system and its possible solutions they focus attention on spending rather than revenues.
- The Confederación Española de Organizaciones Empresariales (CEO) recommends as a general rule the adoption of measures for reducing public spending and the public deficit. Thus, given their support to various proposals which could have such effects, such as those related to delaying the retirement age or making it more flexible, limitation of coverage or modification of calculation of the pension, greater efficiency in management of the Social Security system and control of fraud in benefits. All these proposals would also be congruent with the general tendency of CEOE to question agreements on updating or automatic indexing of pensions.<sup>(1)</sup>
- So far as concerns revenues of the system, the main recommendation of CEOE in the debate on pension reform is oriented toward reduction of social security contributions. This explains its interest both in the inclusion of non-contributive and social assistance benefits in the government budget (which would imply substitution of contributions by taxes and would therefore permit a significant reduction of the former) and in increasing incentives to private pension funds.<sup>(2)</sup> According to CEOE, reduction of social security contributions would improve foreign competitiveness of Spanish products and favour job creation. This would imply an increase in Social Security revenues while at the same time freeing company resources

(1) A tendency which was made clear in the 1985 debate. *«El País»*, 29-5-1985.

(2) CEOE estimates that full assumption by the government budget of non-contributive social costs would make possible a decrease of 7 percentage points in Social Security contributions. According to the CEOE, the replacement of contributions with taxes in no case should mean a greater tax load for companies.

for the promotion of so-called «occupational» pension plans promoted by companies.<sup>(1)</sup>

- It is against this background that we should understand the defence José María Cuevas, president of CEOE, has made of a «mixed system... which allows maintenance of public coverage while complementing it with a system of private savings». These words point to a willingness to maintain the present protection system while providing more incentives to private pension funds.<sup>(2)</sup>
- In summary, the CEOE prods the debate on pensions toward introduction of «structural reforms in financing the Social Security system» without it being completely clear how far these reforms should go.<sup>(3)</sup> This option perhaps shows a willingness to leave open the range of mental scenarios favourable to the interests of business with the aim of obtaining the best of all possible scenarios in the circumstances.
- Banks and insurance companies have taken part in the public debate on the future of pensions, generally recommending either the strengthening of the private level in the form of individual pensions or company pension plans, or strengthening the capitalization component in the pension system in general (including public pensions).
- The president of Banco Santander (the fourth largest group in capital resources managed in pension funds in Spain), Emilio Botín, made a statement which received considerable attention at the Shareholders' Meeting in February 1995.<sup>(4)</sup> In this statement he insisted on the need to

(1) On the basis that it did not introduce any modification in the area of company contributions, the CEOE, like the trade unions, was opposed to the 1985 government project to reform Social Security. See *«El País»*, 28-4-1985 and 29-5-1985.

(2) Nevertheless, the later demand to «open up a legal framework to foster freedom of option between social protection instruments» does not fail to be somewhat ambiguous. See *«El Mundo»*, 8-3-1994; Cuevas (1994: 10) and interview with Cuevas in *«Temas para el Debate»* 4/1995: 39-40.

(3) Cuevas (1994: 10).

(4) Banco Santander (1995).

«decidedly face up to reform of the present pension system» considering it «essential to foster a complementary system which would introduce criteria of capitalization in the present system of distribution» and referred to «freedom to choose» as one of the «basic principles of this unavoidable reform». This statement has been subject to rather distorted interpretation and «denounced» as a call for an alternative to the public pension system (in spite of its explicit reference to the «complementary» nature of the proposal).<sup>(1)</sup>

- In turn, the research department of Banco Bilbao Vizcaya (the second largest group in pension funds) published a report in 1994 in which it went much farther than a simple declaration of principles. In this report it proposed a pension system supported on three pillars –the first, a public distributive system without indexing limits. The second would be a system for companies or professional groups, of capitalization type with indexing limits. The third would be individual, private and of capitalization type. According to this report, the public pension system should evolve in the sense of going through a cut in its present resources, part of which would be freed for distribution between the other two pillars. This evolution would be accompanied by delaying the retirement age, a cut in indexing and partial capitalization. But even so the generation of intermediate age should for some time bear a large part of the transition cost.<sup>(2)</sup>
- In any case, this would mean a structural reform of a certain calibre. Perhaps calculating the improbability of carrying out such reforms in the near future, other economic agents would be satisfied with the modifica-

(1) Again, we see in Botín's comments an ambiguity similar to that given out by CEOE. Nevertheless, instead of pointing out this feature, the press made an interpretation of the proposal with little qualification. In our opinion, the literal text of Botín's speech does not allow us to affirm that he wholeheartedly supports a model of free choice between public and private social protection. See «ABC», 19-2-1995; «El Mundo», «El País», «Cinco Días» and «Expansión», 21-2-1995.

(2) BBV (1994: 28-39).

tion of certain regulations on pension funds issued in 1987 and 1988. Thus, the Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones (INVERCO) has criticized the rigidity of current legislation for two reasons. Firstly, because it limits tax benefits on annual contributions (15% of revenues with a limit of 750,000 pesetas), which do not exist in other countries and, secondly, because funds lack liquidity, that is to say, they are not disposable until retirement age. An additional brake on the creation of funds, in the opinion of INVERCO, lies in the majority presence of workers on control committees for «occupational» pension plans, a regulation which apparently dissuades many companies from undertaking such initiatives.<sup>(1)</sup> This accounts for the fact that on September 30, 1995 the volume of assets in pension funds in «individual system» plans (906.7 billion pesetas) exceeded the amount of pension funds in «occupational» plans (722.3 billion pesetas).<sup>(2)</sup>

■ The fact is that, although in the past year the number of participants has grown by nearly 14%, subscription to pension funds seems to be wide of forecasts made a few years back. In 1989 the deputy general manager of Banco Bilbao Vizcaya estimated that by around the year 2000 nearly 3.5 million Spaniards would have subscribed to pension funds. The figure, by the end of 1995, does not come to 50% of that forecast.<sup>(3)</sup> Thus Spain stands at the tail end of Europe in subscribing to private pension funds, only ahead of Greece and Italy.

(1) *«El País»*, 23-3-1987; *«Cinco Días»*, 25-2-1994. The Law of Organization and Supervision of Private Insurance approved on October 5, 1995 introduced slight modifications favourable to pension funds. Among these should be mentioned the increase in the financial contribution to pension plans to one million pesetas while maintaining the amount deductible at 750,000 pesetas, along with the possibility for groups of «small and medium-sized companies» to set up pension funds.

(2) Figures supplied by INVERCO. Apart from the «individual system» and the «occupational system» there is a third type aimed at those employed in interest groupings which is known as the «associated system». The volume of assets in this category at the end of September 1995 was 56.2 billion pesetas.

(3) Forecast by the BBV executive in *«Papeles de Economía Española. Suplementos sobre el sistema financiero»* 26/1989: 170.

#### 4.5. Experts and international bodies

- Since the «White Book on Social Security» was published in 1977 there have been reports by experts which have underlined the need for an analysis and reconsideration of the Spanish public pension system. The absence of full disclosure of projections carried out by those bureaucracies managing public pensions, and the lack of explicit statement and efforts to justify the hypotheses on economic and demographic trends on which such projections were based, have largely hampered discussion around an understanding of the problem. Nevertheless, the evidence of the aging of the population and constant growth of spending on retirement benefits has kept alive the tradition of critical attention to the problem of pensions. In recent years, we note some unanimity among independent economists and jurists in stating the need to adopt early decisions in order to ensure pensions in the future. There is less agreement on reform options. Some appear to advocate decided options favouring capitalization and privatization inspired by the Chilean example<sup>(1)</sup> but most authors look for reforms which are more compatible with existing institutions and current mentality and apparently more realistic when it comes to applying them.
  
- Among the latter, José Barea and a number of collaborators published a report in 1994 in which they proposed a delay in retirement age to 70 years and an increase in proportionality between contributions and benefits including the whole contributive period of the worker in the calculation of the regulatory base. They also recommend financing through taxes of all Social Security benefits of a non-contributive nature, an operation which would allow a significant reduction in company contributions. Together with these measures, they supported the introduction of elements of capitalization in the public system, especially in plans for self-

(1) This perspective, for example, has been supported by Pedro Schwartz in *«El País»* 25-4-1992, 30-7-1994, 10-11-1994 as by Lorenzo Bernaldo de Quirós in *Previsión Sanitaria Nacional* 104, March 1995.

employed persons, domestic workers and farm workers as well as in the general system for new contributors.<sup>(1)</sup>

- The urgency of reforms which reduce pension spending without involving structural changes has been put forward in a new study, also directed by Barea and sponsored by the BBV Foundation, which is expected to be published early in 1996. In an advance indication of the results of the study, Barea and some of his collaborators have warned that, if such reforms are not undertaken promptly, within five years the State will be faced with a deficit in Social Security of 2% of the GDP.<sup>(2)</sup>
- Also in the line of moderate reform are recent contributions by Almudena Durán and José Antonio Herce. In the former, the author suggests the following as valid instruments for avoiding financial bankruptcy of the European pension systems: the gradual inclusion of the entire contribution period in calculation of the regulatory base, financing social assistance pensions by taxes along with gradual and flexible updating of pensions. In turn, Herce points up the need to reestablish the balance between contributions and benefits while halting the drop in the effective retirement age and gradually delaying the legal age for leaving the labour market, as well as calculating the regulatory base of pensions in terms of contributions during the entire working life. Also among his proposals is the consolidation of contributions of the employer and the employee in a single quota which would formally be payable by the worker and drawn against his gross wage (raising this to the proper extent so that net wages would not change). A similar measure would make clearer (both for employees and companies and the public in general) the actual charge on the job arising from Social Security contributions, apart from the fact that it would perhaps facilitate

(1) Barea (1995).

(2) See clarifications of two members of the team responsible for preparing the report in «ABC», 16-10-1995.

collective bargaining negotiations, making it possible to disconnect the problem of contributions from competitiveness of companies.<sup>(1)</sup>

- As against this group of experts who have been calling attention to the need to introduce measures for cutting, reorganizing and improving the management of pension spending in order to maintain the financial balance of the Social Security system, there have been other voices who see the problem of the future of pensions from the revenues side. Thus, for example, Juan F. Martín Seco has underlined the low level of social protection in Spain compared with other European countries and the undesirability of reducing existing benefits. As a result, he urges better control of fraud in existing benefits, reduction of «fiscal spending» and even an increase in the tax load. Another expert who also appears against cutting benefits in order to achieve financial balance of the Social Security system is the jurist Federico Durán who is currently president of the Economic and Social Council. In a recent public statement he underlined that «some people justify that the State loses tax money in their case yet on the other hand it cannot lose money on pensions».<sup>(2)</sup>
- While an apparent majority of opinion among Spanish experts puts forward readjustment of the pension system in order to ensure its financial viability in the future, foreign analysts and international bodies, in their capacity as expert opinion, tend toward more substantive changes.
- Economists like Assar Lindbeck, who has sometimes been dubbed the «father of the Swedish Welfare State», and Nobel prizewinner Gary Becker have questioned the future of public pension systems as they are conceived today and have declared themselves in favour of increasing individual res-

(1) Durán (1995) and Herce (1995).

(2) Position of Martín Seco en *«El Mundo»*, 7-10-1995 and Federico Durán in *«El País»*, 27-9-1995.

ponsibility in economic security and strengthening capitalization components in the provision of pensions.<sup>(1)</sup> A similar attitude, showing a lack of confidence in the distributive model, was shown by top officials of the International Monetary Fund at a meeting in Madrid at the beginning of October 1994. Referring specifically to the Spanish pension system, they branded it «unsustainable», although later on they softened this description and changed it to a recommendation to the Spanish government to adopt measures to complement public pensions with private systems.<sup>(2)</sup>

- The central message of the IMF was reinforced almost at the same time by the World Bank. This institution presented the Spanish edition of its book «Averting the Old Age Crisis» in which it set out the long-term financial inviability of public pension systems and proposed a system resting on three pillars –one formed by pensions administered by the government and financed by taxes which would guarantee a minimum pension to all retired persons; the second, involving pensions administered privately, would be compulsory and financed by accumulated savings; and finally a voluntary pillar (work related or personal).<sup>(3)</sup>
- One less profound reform has been proposed by the OECD. In its report «New Orientations for Social Policy» this body underlines the adverse implications of early retirement, both because of the difficulties it creates in financing Social Security and the loss of accumulated skills and experience in workers which would be tossed out of the labour market. In line with this argument it urges the limitation of positive incentives to early retirees.<sup>(4)</sup> More recently, the OECD again underlined the need to lengthen the working life and to reduce the «generosity of pensions», in order to cut public spending and thus improve the employment situation, while also

(1) See Lindbeck (1994). Becker on various occasions has referred specifically to the Spanish public pension system. See, for example, «Cinco Días», 3-10-1994 and «El País», 27-9-1995.

(2) «El Mundo», 3, 4 and 7-10-1994.

(3) World Bank (1994).

(4) OECD (1994: 27-35).

urging stimulation of part-time employment and gradual retirement. In supporting a delay in retirement age the OECD coincides with the International Labour Organization.<sup>(1)</sup>

- The demands for more or less substantial reform are in contrast to some extent with the indecisive and cautious position of the Council of the European Communities which, perhaps because of the difficulty in arriving at a consensus on social matters, limits itself to broad generalities. The Council thus recognizes that the pension system has «its roots in national cultures» of the member states and among other points advises them to «fight against the social exclusion of persons of advanced age», to «work to remove obstacles to employment of persons who have reached the minimum age giving them the right to a retirement pension» and to «adapt pension systems to demographic trends in due time». <sup>(2)</sup> On the other hand, in its White Book «Growth, Competitiveness, Employment. The Challenges and Ways Forward into the 21st Century», the Commission clearly expressed the need to reduce non-wage costs of labour, suggesting that this reduction of compulsory levies on labour be compensated by taxes on scarce natural resources and energy, with the object of «maintaining a high level of social protection» and facing up to the reduction of budget deficits.<sup>(3)</sup>
- Thus, with the exception of the institutions of the European Community, which have preferred to leave the handling of this problem in the hands of member states and to have an indirect influence on them through the recommendations quoted, international bodies have come out in favour of the introduction of changes in the provision of retirement benefits. In some cases, they have even tried to guide the debate toward structural reforms in the public systems of providing pensions. Nevertheless, their appreciations and criticisms, especially in relation to their application to

(1) «ABC», 24-5-1995 and 26-4-1995.

(2) Recommendation of the Council on July 27, 1992 regarding convergence of objectives and social protection policies (92/442/EEC), *Official Daily Bulletin of the European Communities* L245: 49-52.

(3) European Communities Commission (1993: 150).

the Spanish case, have not tended to be considered with great seriousness by other political and social players, partly because they have usually suffered from a lack of convincing empirical basis to their diagnosis of the problem and the efficacy of their recommendations.

#### 4.6. The generalist press and business press<sup>(1)</sup>

- In general terms, it may be said that the generalist daily newspapers with greatest circulation in Spain have shown themselves in favour of developing the public debate on the theme of pension reform. They appear to have an attitude favourable to the introduction of «reforms» in the system and are rather imprecise when it comes to formulating these reforms. The position of the business newspapers with largest circulation is more daring and defined. The continuing concern of these newspapers about questions of public deficit and European convergence means they view the existing public pension system more critically.
- Editorial reaction of *«El País»*, *«El Mundo»* and *«ABC»* to statements made by the Minister of Economy in February 1994, predicting difficulties for the pension system around the first decade of next century and advising people of his generation to «begin to think about what we should do», showed greater annoyance with the form of these statements than with their content. While the three dailies were aware of the seriousness of the problem, *«ABC»* and *«El Mundo»* put the matter in the context of a critical reading of the government's economic policy and *«El País»* seemed especially irritated by the manner in which the statements had been made. All three

(1) Preparation of this section is based on an analysis of editorials published in the newspapers *«El País»*, *«El Mundo»*, *«ABC»*, *«Expansión»* and *«Cinco Días»* around the statements of the Minister of Economy, Pedro Solbes, on Radio Nacional de España and TV1 in February 1994; the recommendations of the International Monetary Fund and the World Bank on occasion of their joint meeting in October of that year, and the preparation, debate and approval of the Tole-Do Pact. As period for analysis we have selected the ten days following the Minister's statements and the recommendations of the Fund (22-2-1994/3-3-1994; 3-10-1994/12-10-1994) as well as the full months of February and March and the first half of April 1995. The three generalist newspapers chosen represent 31% of total circulation of generalist dailies in Spain. Furthermore, many local newspapers of various kinds look for guidance in their editorials. The two business dailies chosen represent approximately 78% of the daily business press.

dailies appeared to lament the fact that the Minister limited himself to point out the problem without putting forward solutions or urging debate on possible solutions «in keeping with the seriousness of the matter». <sup>(1)</sup>

- The desire of the three dailies to see the future of public pensions turned into a subject of political debate again became clear a few months later as a result of the stand taken by the IMF on Spain's public deficit and the need to cut social spending. With regard to these statements, *«ABC»* called for «urgent restructuring measures» in public pension system while *«El Mundo»* supported the need for a «thorough-going» airing of this problem, without discounting measures such as extending the number of years for calculating the regulatory base of the pension or lengthening working life. *«El País»* in turn branded as «hypocritical» the scandal created by some members of the government and the political elite in the face of the declarations by representatives of the Fund, while asking for efforts to gather data and reflection about the problem in order to deal with it «with the greatest possible thoroughness». <sup>(2)</sup>
- This critical tone was maintained by *«EL País»* with regard to the Toledo Pact. The daily dubbed the agreement reached by the political parties on the future of the public pension system as «disquieting», lacking in «specifics» and eluding the basic question –reduction of the public deficit and the public debt. *«ABC»*, which at first harshly criticized the Pact because it «robbed the citizens of an understanding of the real depth of the problem», later adopted a more comprehensive position considering positive the consensus of the political parties on maintenance of the public Social Security plan. At the same time, *«El Mundo»* was pleased that the parties had reached an agreement on an initiative which was evaluated positively. <sup>(3)</sup>

(1) *«El País»*, 23-2-1994; also taking the same line *«El Mundo»*, 25-2-1994; and *«ABC»*, 22-2-1994.

(2) *«ABC»*, 4-10-1995; *«El Mundo»*, 5-10-1994; *«El País»*, 7-10-1995 and 9-10-1995.

(3) *«El País»*, 13-2-1995; *«ABC»*, 20-3-1995 and 7-4-1995; *«El Mundo»*, 21-2-1995 and 7-4-1995.

- In summary, the three Spanish generalist dailies with largest circulation are sensitive to the difficulties of financing public pensions and the need to introduce reforms in the system. None of them leans toward a specific option so that they do not a priori restrict the range of solutions worth discussing. Nevertheless, it should be mentioned that at the moment they differ on specifics. While «ABC» and «El País» indicate greater concern about balancing the macroeconomic variable of public spending, «El Mundo» puts emphasis on maintaining the public pension system.
- The business dailies have shown greater harmony in their positions. On the occasion of the statements by high officials of the IMF regarding the inviability of the Spanish pension system, «Cinco Días» and «Expansión» considered the warning from that body positive. «Expansión» recognized that «beyond the empty verbiage of the polemic» which had taken place there persisted «a rational message». «Cinco Días» adopted a more incisive tone and, after reminding the reader that the observations of the Fund had been «repeated by numerous (domestic) academic and economic sectors for some time», criticized the «angry reading» given to the statements by the Minister of Labour,<sup>(1)</sup> whom it accused of «fundamentalism». A few days later, it reproached the tendency of politicians to deny the pension problem and urged the «opening of a broad and full debate» on the matter.<sup>(2)</sup>
- With regard to the Toledo Pact, both publications were very critical. It is true that «Expansión» lauded the consensus around «the present great debate» on the Welfare State but immediately afterwards reproached the signatories for the narrowness and vagueness of measures proposed. What is more, they interpreted it as a rejection by politicians as a group to the finding of a solution to «a system which smells of bankruptcy». «Cinco Días» saw the Pact as a new example of the concern of politicians for the short term and their immediate electo-

(1) «Cinco Días», 4-10-1994; «Expansión», 7-10-1994.

(2) «Cinco Días», 5-10-1994 and 7-10-1994.

ral support accusing them of behaving like ostriches and turning public pensions into something untouchable.<sup>(1)</sup>

■ Neither *«Expansión»* nor *«Cinco Días»* have commented editorially on the various measures raised in the Pact to deal with the problem of pensions. Standing back from these specific points they have tended to see the problem not so much in terms of adjustments and modifications but of changes in the concept of the system of retirement benefits, which would lead in the direction of greater promotion of private pension funds within a complementary system «which would not put the retirements of millions of Spaniards in jeopardy». They have gone on to express understanding of Botín's message, a message which, in the opinion of both publications, the political parties dared not enunciate for fear of the electoral consequences or lack of concern for the long term.<sup>(2)</sup>

(1) *«Cinco Días»*, 20-2-1995, 21-2-1995, 1-3-1995 and 5-4-1995; *«Expansión»*, 11-2-1994 and 21-2-1994.

(2) *«Cinco Días»*, 20-2-1995; *«Expansión»*, 21-2-1995.

## V. SPANISH PUBLIC OPINION ON REFORM OF THE PUBLIC PENSION SYSTEM

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- In order to survey the opinion of Spanish citizens on reform of the public pension system we submitted a questionnaire to a representative sample of the Spanish population at the beginning of April 1995.<sup>(1)</sup> This questionnaire included a block of thematic questions and a series of variables on position which allowed us to analyze sub-groups in the sample according to socio-demographic and socio-cultural factors.
- Preparation of the questions was preceded by discussion groups with men and women of various social background and work situation. These meetings were useful in the process of preparing the questionnaire and made it possible to gather some of the arguments and linguistic usages of Spanish citizens when they spoke about the subject. In the summary of the survey data we have transcribed brief excerpts of those conversations simply by way of illustration.
- The block of questions was divided into five segments. The first segment refers to questions on how the interviewees perceive and explain the pension problem. The second segment includes questions on the degree of interest in the subject and the level of information. The third segment refers to the personal situation of the interviewees and their own strategies in terms of retirement. A fourth segment asks their opinion about relatively specific reform proposals often raised in public debate which do not imply changes of a structural nature. Among these proposals, we selected those referring to delaying the retirement age or making it more flexible, increasing the contribution period giving right to benefits and extending the number of years on which the regulatory base of the pension would be calcula-

(1) See technical file on survey in Appendix 2.

ted. Finally, in a fifth segment we examined the willingness of Spanish citizens to accept two reform proposals which would involve more profound changes –in the first place, conversion of the public system into a provider of a basic pension which would be complemented with a voluntary private pension, the subscription of which might be encouraged by various mechanisms, and secondly, the existence of a model of pension provision which would offer the possibility of an alternative choice between the public pension system and a private system.

■ As may be seen, the data is highly suggestive and gives rise to some thought. Nevertheless, it is necessary to emphasize that the figures must be interpreted with care. The replies to survey questions do not reach the level of the clear statement and contextualization proper to in-depth interviews, although they do indeed offer general orientation on attitudes and preferences which may be extrapolated to the entire population. In this case, the survey must be treated as an examination of these attitudes and preferences based on a limited block of questions, using formulations which could be checked and revised later on. The results therefore should be considered a key element in the evidence available, but only *one* element to which others should be added in order to clarify and deepen the scope of our information.

## 5.1. Concern about the problem and explaining it

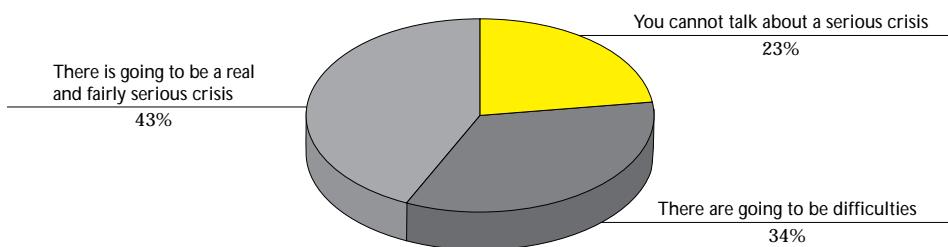
■ Spaniards show a high degree of concern about the future of public pensions. A majority of interviewees express concern and a significant minority state that they have discussed the matter fairly fully in recent times (Table 5.1).<sup>(1)</sup>

(1) The description of the results of this survey is based largely on total frequency of the population. Contingency tables with independent variables have been prepared. Among all those tested we shall refer only to those which have proven of most influence –education and age, and only when the relations between the dependent and independent variable are significant and the coefficient of correlation is acceptable.

- In fact, nearly all interviewees (91%) have an opinion on whether the system is experiencing a crisis or not. Among those who had an opinion on the matter, more than three-quarters (77%) expressed their concern about the situation while only somewhat less than a quarter (23%) denied the existence of the crisis (Figure 5.1).<sup>(1)</sup> This disparity in views is related to the educational level of those interviewed. The higher the educational level the greater the frequency with which they acknowledged the existence of a crisis.

Figure 5.1

AMONG THOSE WHO HAVE AN OPINION ON WHETHER THE PENSION SYSTEM IS EXPERIENCING A CRISIS, RESPONSES WERE:  
(1,103 interviewees)



- More than half (56%) of those in the group which are concerned about the problem (and this «half of those concerned» is equal to approximately two-fifths of the total population) subscribe to the opinion that «there is going to be a real and fairly serious crisis (in the public pension system so that) it seems likely that within twenty years it will not be possible to guarantee pensions at present levels unless some very important changes are made». A minority of «those concerned» do not see the problem as being so serious

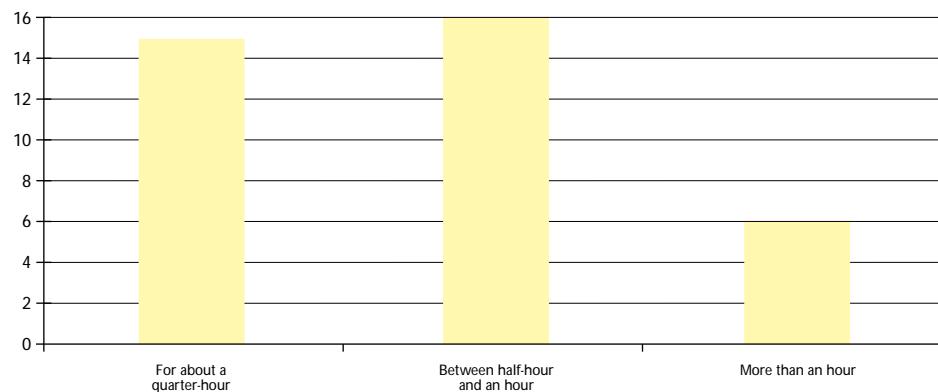
(1) Technical reasons prevent the graphs from including literal responses to the survey. We therefore refer the reader interested to the questionnaire contained in Appendix 2.

and feel that «there are going to be difficulties but, if some changes and adjustments are made from now until then, the problem could be solved».<sup>(1)</sup>

■ We find additional corroborative evidence of this degree of concern in the relatively high proportion of those who have spent time and trouble to talk about the future of pensions –nearly two out of every five of those interviewed (37%) had done so in recent months and one out of every five had spent more than a half-hour on that conversation (Table 5.1 and Figure 5.2). The proportion of those who have spoken about the matter was higher among the more educated (one out of each two of those interviewed had done so) than among those less educated (one out of each three, approximately), and still higher among adults between 30 and 60 years of age (44%) than younger persons (35%) and those in a higher age bracket (31%).

Figure 5.2

THOSE WHO HAVE TALKED ABOUT THE FUTURE OF PENSIONS  
IN RECENT MONTHS:  
(Percentage of 1,213 interviewees)

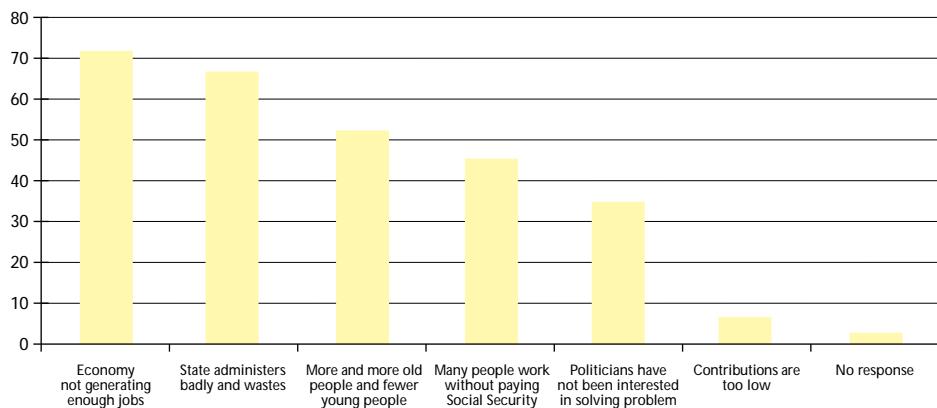


(1) This uncertainty of the public about the future of pensions is not restricted to Spain and is noted in other industrialized countries in recent years. The degree of concern is high in Germany, for example, where in 1989 only 53% of the population (and 23% of those under 30 years of age) felt sufficiently protected economically for their old age (Noelle-Neumann and Köcher 1993: 248). This concern has been growing over the past decade and is in contrast to the relative tranquility of public opinion in this respect at the beginning of the Eighties. See Perry 1986: 231-234; Ferrera 1986: 465-466 and Alber 1986: 123-128.

■ On confronting the group of interviewees who were «concerned about the problem» with a block of six possible explanations and asking them to identify the three most important ones, by a large margin they pointed out two –the trend in the economy and inefficiency and waste by the government. Next in line they mentioned demographic trends and fraud of Social Security. In third place, they alluded to the lack of interest by politicians, and finally they appeared to give little importance to the insufficiency of contributions to Social Security. Furthermore, it may be seen that practically all those interviewed indicated at least one reason (with the exception of 3%), which suggests that only very few Spaniards have no plausible way of explaining this matter (Table 5.2 and Figure 5.3).

**Figure 5.3**

**EXPLANATION OF PENSION PROBLEM  
(Percentage of 847 interviewees)**

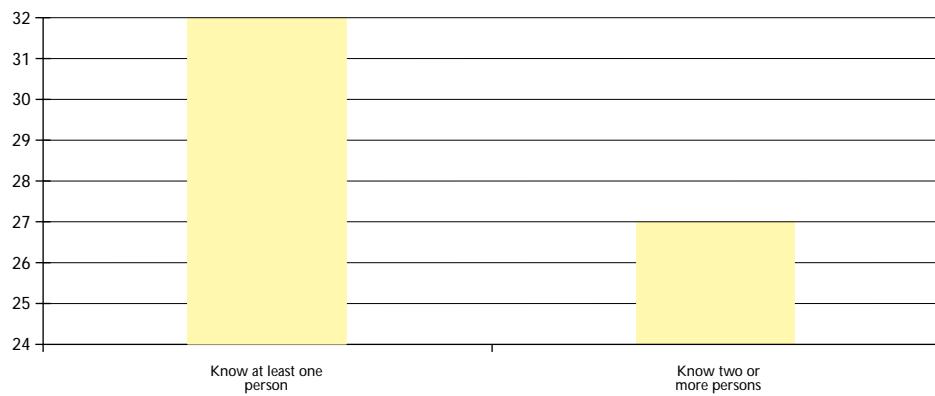


■ Thus, more than two-thirds connected the pension problem with the fact that «Spain's economy does not generate enough jobs» (71%) and «the State administers badly and wastes public funds» (67%). Around half of those interviewed considered that the problem lay in that «there are more and

more old people and fewer young people» (52%) and that «there are many people working without paying Social Security contributions or paying less than they have to» (46%). Somewhat less than one out of three attributes special importance to the fact that «politicians have had not been interested in solving the problems over the years» (35%). Finally, only one out of each 18 Spaniards (6%) lays blame for the problem on the possibility that «contributions or taxes intended for Social Security are too low». The four factors which Spaniards consider most important are thus, on the one hand, two relatively complex structural factors such as the economy and demography and, on the other hand, two patterns of sociopolitical behaviour –government waste and fraud by a large part of the population.

Figure 5.4

**KNOWLEDGE OF PERSONS WORKING WHO DO NOT CONTRIBUTE TO SOCIAL SECURITY (OR CONTRIBUTE LESS THAN THEY LEGALLY SHOULD)**  
(Percentage of 1,213 interviewees)



- It is worthwhile examining the last two factors because they indicate a phenomenon to which not much attention is usually given –at least a large part of the Spanish population links the problem of pensions directly with the behaviour of the State as provider of pensions and that of those who

receive them. So far as specifically concerns the social perception of the importance of fraud, it should furthermore be kept in mind that not less than one out of four persons interviewed (27%) acknowledged knowing two or more persons who had not signed up with Social Security or who contributed less than they legally should (Table 5.2 and Figure 5.4).

Table 5.1

**CONCERN ABOUT PENSION PROBLEM**

	Percentage	Base
a) Those who have an opinion about whether the system is experiencing a crisis or not.	91	1,213
Of these, those who say:		
1. «There is going to be a real and fairly serious crisis. It seems likely that, within 20 years, it will not be possible to guarantee pensions at present levels unless some very important changes are made.»	43	1,103
2. «There are going to be difficulties but, if some changes and adjustments are made from now until then, the problem can be solved.»	34	1,103
3. «You cannot talk about a serious crisis. In fact, what they say about the matter is fairly exaggerated and the system may continue basically as it is.»	23	1,103
All of those concerned about the pension problem (1 + 2)	70	1,213
Of these, those who feel that «there is going to be a real and fairly serious crisis...»	56	847
b) Those who have «talked to friends, family members or fellow workers about the matter of the future of public pensions.»	37	1,213
Those who say the conversation lasted:		
«about a quarter-hour»	15	1,213
«between a half-hour and an hour»	16	1,213
«more than an hour»	6	1,213

Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

■ It is worth noting that those who most frequently know of «black economy» workers are less than 40 years of age. This may indicate (assuming the hypothesis of the relative importance of age affinity in primary social contacts) that it is in this age group where we find the largest part of those who work without contributing (or contributing less than they legally should), but they are also the more educated, perhaps because they have wider contact networks. In any case, these two items of information –the perception of the importance of Social Security fraud and knowledge of working people who do not contribute –give an idea of the familiarity of Spaniards with the phenomenon of the «black economy».

Table 5.2

**EXPLANATION OF THE PENSION PROBLEM**

	Percentage	Base
a) On explaining the pension problem, those who say they are concerned indicate that:		
«Spain's economy does not generate enough jobs.»	71	847
«The State administers badly and wastes public funds.»	67	847
«There are more and more old people and fewer young people.»	52	847
«There are many people working without paying Social Security contributions or paying less than they should.»	46	847
«Politicians have not been interested in solving the problems over the years.»	35	847
«Contributions or taxes intended for Social Security are too low.»	6	847
No response	3	847
b) Know at least one person working without being signed up with Social Security or contributing less than they legally should	32	1,213
Know two or more persons in that situation	27	1,213
No response	3	1,213

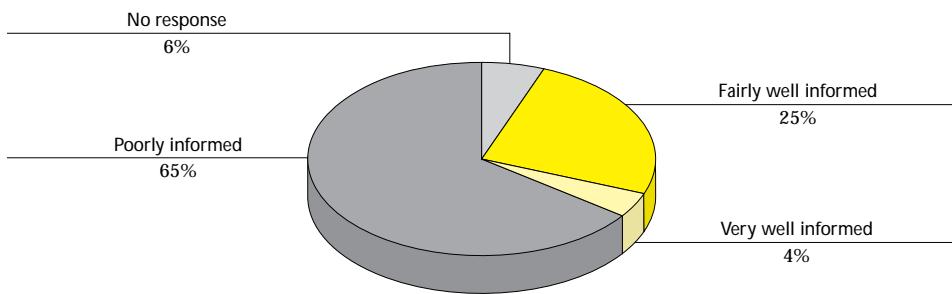
Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

## 5.2. Level of information and demand for public debate

■ The relatively high degree of concern among Spaniards about the pension problem, their willingness to discuss it and their ability to identify the most important causes of the problem have as counterpoint their feeling of not being sufficiently informed about it. So it happens that two out of three (65%) consider themselves little or not at all informed on the question, while around one out of every four Spaniards (29%) feels quite well or very well informed (Table 5.3 and Figure 5.5). As seems logical, to the extent that the level of education increases, the perception of Spaniards that they are fairly well or very well informed grows.

Figure 5.5

KNOWLEDGEABILITY ON THE SUBJECT OF PENSIONS: RESPONDENTS  
CONSIDER THEMSELVES:  
(1,213 interviewees)

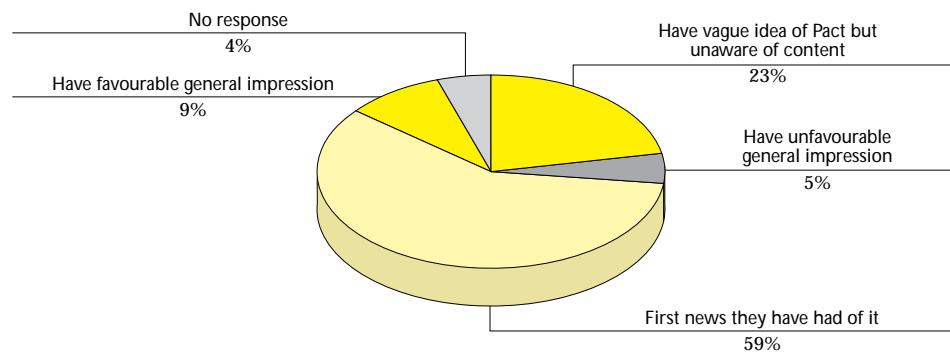


■ This recognition of a low level of information appears congruent with the general ignorance about the talks between the parties which led to the so-called Toledo Pact. Specifically, the agreements making up this Pact were the subject of wide comment in the press in March and the early days of April, the latter dates being when the survey interviews were carried out, coinciding with approval of the Pact in the Chamber of Deputies. In spite

of this, four out of five persons interviewed declared themselves ignorant of the existence or the content of the Pact –specifically, 82%, which includes 59% who said they were not even aware of the existence of the Pact and 23% who acknowledged having heard of its existence but were unaware of its content (Table 5.3 and Figure 5.6). Only one out of eight Spaniards at that time had an impression about the Pact –14%, made up of 9% who had a favourable impression and 5% who had an unfavourable impression. Thus at that time scarcely one out of ten Spaniards felt ready to support the content of the Toledo Pact and had background knowledge.

**Figure 5.6**

**IMPRESSION WITH REGARD TO THE TOLEDO PACT:  
(1,213 interviewees)**

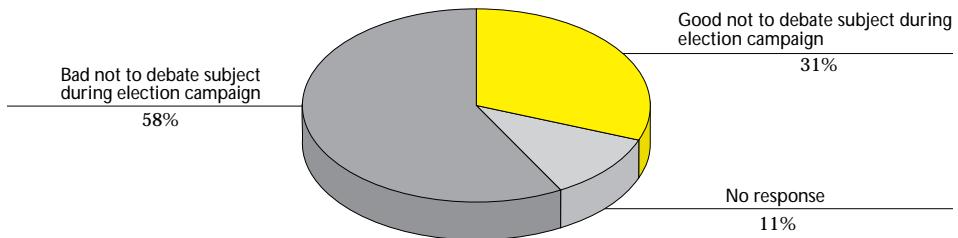


- In spite of the low level of information, the survey data suggests the existence of a relatively strong latent social demand both for information and political debate. Pointing in this direction are the replies to one of the questions in which those interviewed were asked for their opinion on the exclusion of the subject of public pensions from the electoral campaign, specifically one of the agreements attributed by the communications media to the negotiations around the Toledo Pact. In formulating the various res-

pose alternatives to this question we tried to balance the combined factor of the complexity and political delicateness of the problem (especially during an election period) with that of social interest in its being discussed. The result is fairly conclusive because it shows that, in a proportion of nearly two to one, Spaniards would prefer public debate on the pension problem. Some 58% of those interviewed felt «that it is a bad idea not to debate the matter in election campaigns because... it affects everyone and we should all take part in the debate», while 31% feel that it is better «not to debate it... because it is a delicate and complex matter and should be left to the experts» (Table 5.4 and Figure 5.7). It should be underlined that the better educated the person interviewed the more that person preferred the first response, that is to say, the less disposed to attribute advantages (supposedly «political») to not publicly debating the problem.

Figure 5.7

DEBATE ON SUBJECT OF PENSIONS: RESPONDENTS FEEL IT IS:  
(1,213 interviewees)



- We had found evidence of this desire for public debate of the pension problem in our group discussions. When the matter came up whether debate on the future of public pensions was felt necessary, in the context

of a general comment on what had taken place around the Toledo Pact, one of the participants (a man, 37 years of age, who worked in the sales area of a private company) underlined the «dark» side of any commitment to delay or elude public discussion of the question: *«It seems fine to me not to attack each other politically because here it seems that all of them get in on the act to win votes... but it does not seem right that they leave the matter dormant saying it will all solve itself, as happens with a lot of things, and we are going to let time solve the problem... Saying we are not going to use it in the elections is to leave it dormant, from now on no one is going to talk about this matter...»* Another participant (a man of 32 years, a secondary school teacher) expressed a clear demand for public debate: *«...of course, but what country are we living in? This is something that should be discussed in depth in Parliament, in the street, with business people... if this is not to generate fear, spectres, social instability, of course we must discuss it in depth and right now, and we have to know what each party thinks about pensions, and they should not shut up at all but they should talk about it... we have to know about it now, right now»*. This antagonism between full information and fear of the future existing in the society was also underlined by a 61-year-old participant employed in a private company: *«...I feel that certainly public debate is needed, but debate that is well carried out, with reliable information and looking to the future with some figures which in this world don't lie; ...this is certainly necessary because there is a «churning up» which goes on eating away the insides of people as they think about their future, and that's not good to create uncertainty about the future»*.

- To sum up, Spaniards are troubled about the pension problem, have some fairly clear ideas about its nature, nevertheless feel themselves poorly informed and are opposed to the politicians putting the matter outside public debate (leaving it «dormant»), while expressing a desire shared by the majority (probably as being directly affected by the matter and as citizens) not to be left out of that debate.

Table 5.3

INFORMATION ON THE SUBJECT OF PENSIONS

	Percentage	Base
a) Those declaring they are very well informed on matter of pensions	4	1,213
Those declaring they are fairly well informed	25	1,213
Those declaring they are poorly informed	65	1,213
b) On the Toledo Pact, declare:		
«This is the first news they have of it.»	59	1,213
«Have a vague idea but do not know what agreement was reached by politicians.»	23	1,213
«Have a favourable general impression.»	9	1,213
«Have an unfavourable general impression.»	5	1,213
No response	4	1,213

Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

Table 5.4

DEMAND FOR PUBLIC DEBATE ON THE PENSION PROBLEM

	Percentage	Base
Those who consider that it is «a bad idea not to debate the matter in election campaigns because it is something which affects everyone and we should all take part in the debate.»	58	1,213
Those who consider it is «a good idea not to debate the matter in election campaigns because it is a delicate and complex subject and should be left to the experts.»	31	1,213
No response	11	1,213

Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

### 5.3. Personal perception of the problem

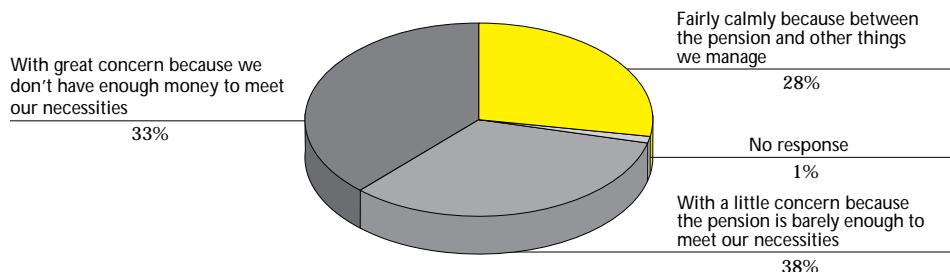
- The concern of those interviewed about their own retirement is similar in degree of depth to their concern about the general problem of the

public pension system noted above. We should, however, distinguish between the replies of those retired and those not retired.

■ In the case of retired persons, one out of three (33%) show deep personal concern. They see the economic situation of their household «with great concern because we don't have enough money to meet our necessities». The rest have less concern (nearly two out of five, 38%, show «a little concern because the pension is barely enough to meet our necessities») or have no concern (somewhat more than a quarter, 28%, look toward retirement «fairly calmly because between the pension and other things we manage») (Table 5.5 and Figure 5.8).

Figure 5.8

HOW RETIRED PERSONS OR THEIR SPOUSES SEE THEIR HOUSEHOLD ECONOMY:  
(348 interviewees)

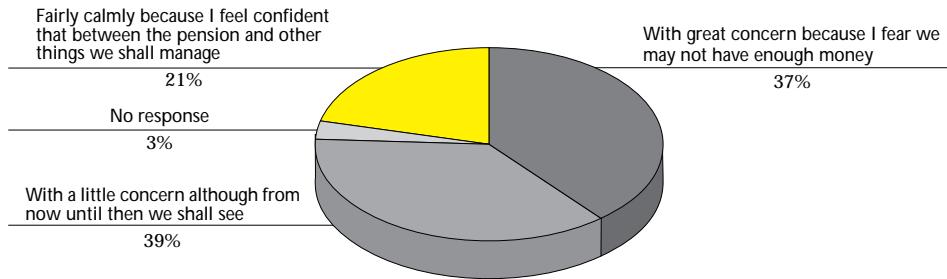


■ In the case of those not retired, the percentages reflect a somewhat higher degree of concern. Those «very concerned» come to 37%, those «not too concerned» amount to 39%, while those «unconcerned» drop to only one-fifth of those interviewed (21%) (Table 5.5 and Figure 5.9). The degree

of concern in this case seems inversely proportional to educational level. To the extent that education level rises, concern decreases (more than 40% of those who have not done school-leaving certificate but only 30% of those who have reached that educational level see their future retirement with great concern).

**Figure 5.9**

**HOW THOSE PERSONS NOT RETIRED OR THEIR SPOUSES SEE THEIR FUTURE RETIREMENT:  
(863 interviewees)**



- This greater or lesser concern of Spaniards (retired or not) about the problem of their personal retirement may be related (among other factors) to three types of experience or perception of the problem. In the first place, the greater concern seems to have some relation to the feeling that the retirement pension is undervalued or under-proportioned in terms of contributions made during working life. Whatever the facts may be, this is the opinion given by more than half (56%) of retired persons and more than two-thirds of those working (67%) who expect to receive a pension below the contributions they have made (Table 5.5 and Figures 5.10 and 5.11).

Figure 5.10

HOW PENSION RECEIVED BY THOSE RETIRED OR THEIR SPOUSES SEEMS IN RELATION TO WHAT THEY CONTRIBUTED IN THEIR TIME:  
(348 interviewees)

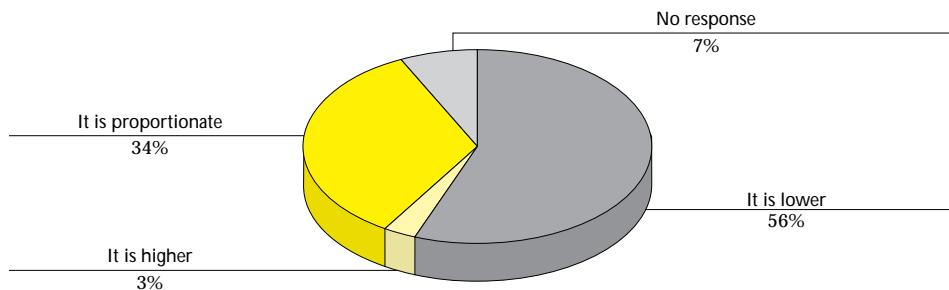
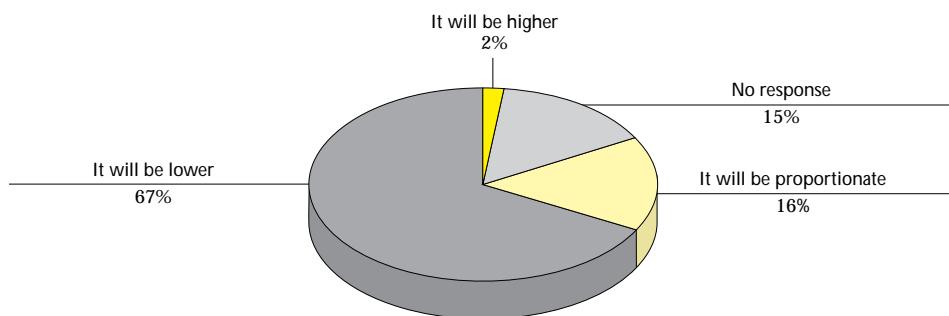


Figure 5.11

HOW PENSION SEEMS TO THOSE NOT RETIRED OR THEIR SPOUSES IN RELATION TO WHAT THEY HAVE BEEN CONTRIBUTING:  
(863 interviewees)



■ In second place, the greater concern may be related to real experience (or future expectations) of (scarcely) being able to count on family economic help. In fact, only one in six retired persons (18%) receive help from their children and only one out of 25 (4%) say that they receive help from their children which can be considered «substantial». In turn, only one out of every 10 persons working (11%) claims to give economic help to their retired parents or parents-in-law while one out of 50 (2%) declares that help given to retired parents or parents-in-law may be considered «substantial». Thus perhaps they themselves carry around little hope of receiving substantial help from their own children at the time of retirement (Table 5.5 and Figures 5.12 and 5.13).

Figure 5.12

RETIR ED PERSONS OR THEIR SPOUSES WHO SAY THEY RECEIVE ECONOMIC HELP FROM THEIR CHILDREN:  
(Percentage of 348 interviewees)

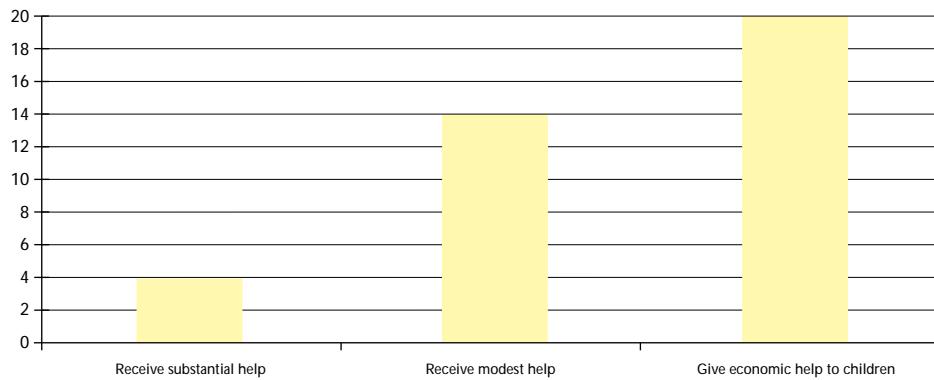
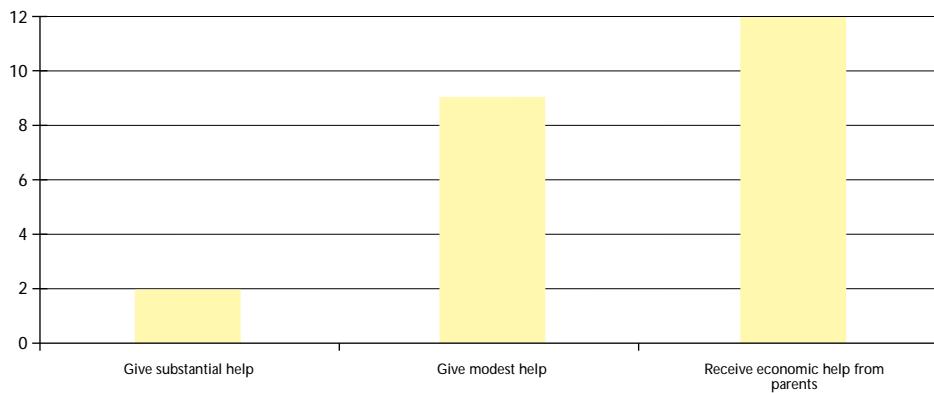


Figure 5.13

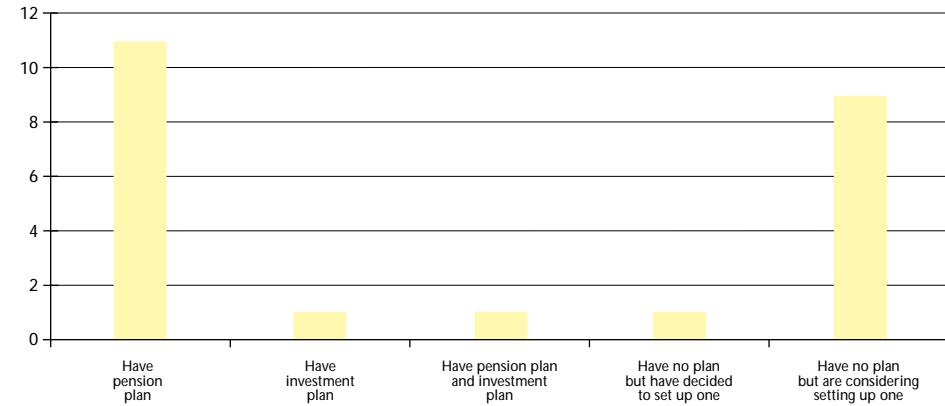
PERSONS NOT RETIRED OR THEIR SPOUSES WHO SAY THEY GIVE ECONOMIC HELP TO THEIR PARENTS:  
(Percentage of 863 interviewees)



Finally, in third place, another factor susceptible of accentuating the degree of concern among Spaniards about retirement is the modest efforts they have made (up to now) to set up private savings funds of various types as provision for the future. In fact, retired people have scarcely any pension funds or investment funds. Among those not retired only about one in seven (15%) say they have established one (or both), although in almost the same proportion (13%) others say they «are considering or have decided on» establishing a pension fund and/or an investment fund (Table 5.5). Adding these together, this would mean somewhat more than a quarter of non-retired people being involved in the near future in the setting up of some kind of savings plan for retirement (under the assumption that their «considerations» and «decisions» are in fact put into effect) (Figure 5.14).

Figure 5.14

THOSE WITH PRIVATE PENSION OR INVESTMENT PLANS  
(Percentage of 1,213 interviewees)



- In short, those who still have not retired feel somewhat more troubled about the future but, judging by the number of those who say they are «not too concerned» and «not concerned», there are many who do not adopt over-anxious positions. Perhaps they are anticipating the effect of their decisions, already taken or about to be taken, regarding the establishment of pension funds or perhaps they have been working on the idea that they would have to «tighten the belt», restricting their expenses and activities in their old age.<sup>(1)</sup>
- So far as concerns this latter possibility, we should mention how some of the expressions used by those taking part in discussion groups point in this direction. «*People now have had some warning,*» said one of these participants (a woman of 37 years, an executive secretary). Perhaps for this reason they prefer to brand «pessimism» about the future of pensions as simply

(1) Back as far as 1987 a survey showed that 50% of all Germans held this conviction. (Noelle-Neumann and Köcher 1993: 248).

«realism». As another participant replied to someone who wanted to distinguish between the pessimistic majority and the optimistic minority: «...don't label it as pessimism, it's a reality» (woman of 37 years, beauty consultant).

Table 5.5

**PERSONAL PERCEPTION OF PENSION PROBLEM**

	Percentage	Base
<i>Retired persons or spouses of retired persons</i>	29	1,213
See their household economic situation:		
«With great concern because we do not have enough money to meet our necessities.»	33	348
«With a little concern because the pension is barely enough to meet our necessities.»	38	348
«Fairly calmly because between the pension and other things we manage.»	28	348
Pension is not proportionate with contributions made but is less	56	348
Receive economic help from their children	18	348
Give economic help to their children	20	348
Have a pension fund (or investment fund) established by themselves or their employer	3	348
Have decided to establish fund or are thinking of doing so	2	348
<i>Persons not retired and spouses of those not retired</i>	71	1,213
See their future retirement or that of their spouse:		
«With great concern because I fear that we may not have enough money to meet our necessities.»	37	863
«With a little concern because I feel that the pension will not solve our problems, although from now until then we shall see.»	39	863
«Fairly calmly because I feel that between the pension and other things we shall manage.»	21	863
Pension will not be proportionate to contributions paid but will be less	67	863
Help retired parents or parents-in-law economically	11	863
Receive economic help from retired parents or parents-in-law	12	863
Have a pension fund (or investment fund) established by themselves or employer	15	863
Have decided to establish a fund or are thinking of doing so	13	863

Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

## 5.4 Reform proposals of non-structural nature

■ Among the various proposals for reform of the public pension system we have selected some which appear especially relevant to the public debate at this time, some of a relatively specific nature and others of a more structural nature. So far as concerns the former which we will discuss in this section, we examined the attitude of the public toward possible modifications in retirement age, delaying it or making it more flexible, as well as toward possible modifications in periods of contribution which confer the right to a pension and serve as base for calculating such pension. Regarding reform proposals of a structural nature which we shall examine in the next section, we sounded out public sentiment on possible changes in the present structure of the pension system which might reduce its public component and strengthen the private system with introduction of a greater element of individual choice.

### Retirement age: delaying it or making it more flexible

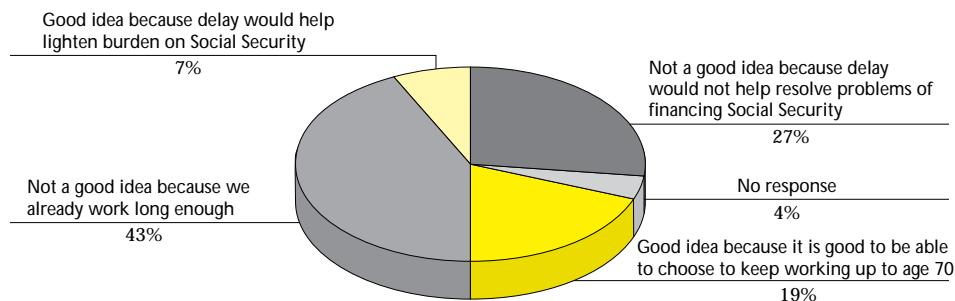
■ It is evident that the sentiments of Spaniards on retirement age show a certain complexity. In this case, there is a mixture of considerations favourable to the establishment of a limit to retirement age, with opposing considerations tending to favour flexibilization of retirement age and possibly allowing it to be delayed.

■ In fact, the survey indicates that Spaniards, while in the majority (70%) opposed to a delay in the legal retirement age beyond 65 years of age, in a similar proportion (72%) support greater flexibility in applying the retirement age rule so that it might be possible to combine partial retirement with part-time paid employment. This would allow delay of the effective retirement age beyond 65 years, in many cases reaching up to 75 years (Table 5.6 and Figures 5.15, 5.16 and 5.17).

■ This leaning of the public toward flexibility linked de facto to delaying the retirement age may have something to do with pragmatic reasons but also, at least in a significant minority, with reasons of principle, that is to say, with a positive evaluation of freedom of choice. It may be noted that, while the majority are opposed to making the delay in retirement age compulsory, there is a proportion of nearly one out of five (19%) which supports this delay just «because it is good to have a choice». It is precisely the youngest (under 30 years of age) and the most educated who prefer this option with greatest frequency.<sup>(1)</sup>

Figure 5.15

ATTITUDES TOWARD DELAY IN LEGAL RETIREMENT AGE TO 70 YEARS  
(1,213 interviewees)



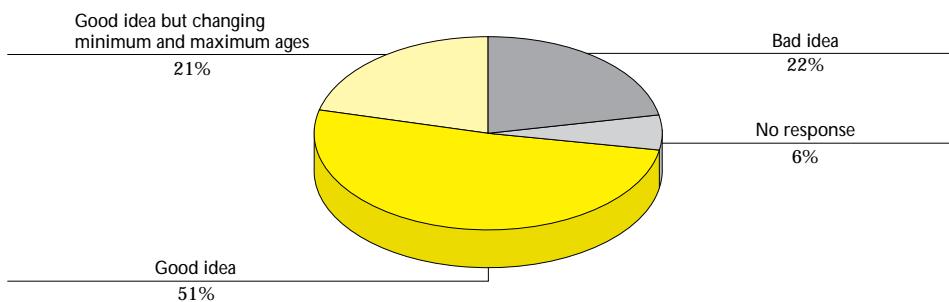
■ The leanings of a minority toward free choice of retirement age turns into a clearly majority inclination when those interviewed are confronted with a more precise question about flexibility in the transition toward retirement. Then we not only find that 72% declare themselves in favour of fle-

(1) The little support for delaying the legal retirement age was also shown in a survey by the Centro de Investigaciones Sociológicas according to which some 15% of the population would be in favour of delaying the legal retirement age to 70 (*«El País»*, 18-10-1993). In the light of our results, to present this figure in isolation could give a somewhat distorted impression of the attitude of Spaniards about the possibility of working beyond 65 years.

xibility in general terms but that half of those interviewed (51%) show their agreement with a scenario under which they could «choose the moment of retirement from 55 years of age on up to 75 years, allowing those who wish to work part-time during this period to collect a half-pension». Again, the youngest and best educated favour most flexibility in retirement age. Four out of five young people (under 30 years of age) (83%) and four out of five of the best educated (also 83%) lean to this option.

Figure 5.16

ATTITUDES TO POSSIBILITY OF CHOOSING RETIREMENT AGE  
BETWEEN 55 AND 75 YEARS  
(1,213 interviewees)



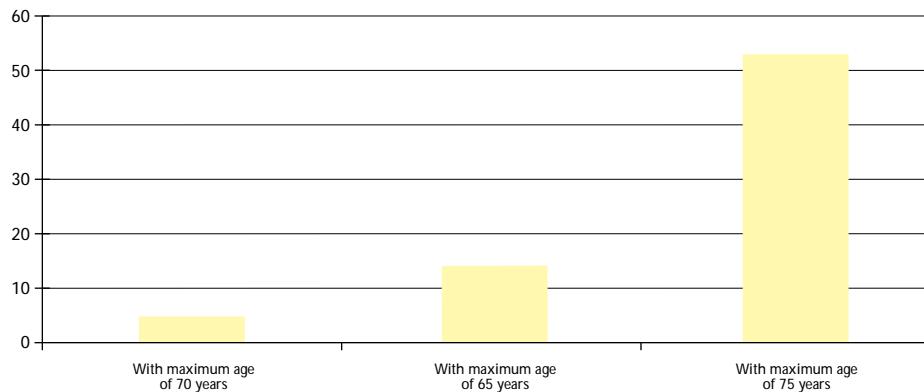
- In view of all this, it may be pertinent to hazard an interpretation of the majority rejection of delaying the legal retirement age when the problem is put forward in general terms. It seems probable that this rejection comes within the «obligation» to work beyond 65 years of age, without this affecting the «possibility» of continuing to work beyond that age (even up to 75 years) in a flexible scheme (combining pension and payment for work) if the person concerned wishes to do so.

Figure 5.17

ATTITUDES FAVOURABLE TO POSSIBILITY OF FLEXIBLY CHOOSING

RETIREMENT AGE

(Percentage of 1,213 interviewees)



- This majority resistance to delaying retirement, combined with the widespread acceptance of flexible retirement formulas according to circumstances, also turned up in the discussion groups. A 26-year-old craftsman working in the «black economy» sees retirement as a period of leisure which should not be delayed: *«Apart from the fact that you're going to increase the risk of accident, personally you're going to have fewer years to enjoy the recompense of a lifetime, which is to be completely at peace, to go to your hometown to live peacefully or live in your own home or to enjoy trips, etc.»*. Arguments on flexible retirement decided on individually were more favourable: *«... I understand that there are people who still have all their faculties, who keep working at a job they enjoy and who want to continue working. So why compel them to retire? Now, this is something so personal that the State should not tell you now you quit or now you stay on the job. No, it's for the person (involved to decide)»* (woman of 61 years, employee in private company). But economic interest may also have an influence in this decision: *«The problem of retiring later or not is not really the problem, it*

*depends on what you get in return, that is to say, perhaps we'll retire later but if we were to have more tax exemptions, to give an example, then it could interest us»* (man of 30 years, technician in publicly-owned company).

Table 5.6

RETIREMENT AGE: DELAY IT OR MAKE IT MORE FLEXIBLE

	Percentage	Base
a) Against «delay in compulsory retirement age in general up to 70 years, with exceptions for some types of work, allowing people who retire earlier (as they can now) to get a smaller pension.»	70	1,213
Those in favour of delay because «it is good to be able to choose to keep working up to age 70.»	19	1,213
b) Those to whom it seems good «to be able to choose the moment of retirement from 55 years of age on up to 75 years, allowing those who wish to work part-time during this period to collect a half-pension.»	51	1,213
Those to whom it seems good to choose the moment of retirement but would prefer that choice be in other age periods.	21	1,213

Source: «Survey of pensions», Analistas Socio-Políticos, 1995.

### Coverage of system and proportionality in calculation of pensions

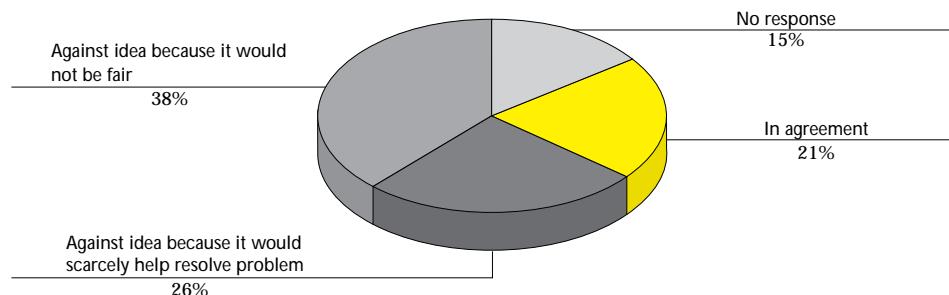
- Just as the presumed rejection by Spaniards of delaying retirement requires to be qualified, it is also necessary to qualify the attitude of the public to two reform proposals which (perhaps because they together constituted the key elements to the 1985 pension reform) have occasionally been linked in the public debate. These two reform proposals involve an increase in the number of years of contribution necessary in order to acquire the right to draw a contributive pension (which is commonly called the «reserve» of the system or the waiting period) and the increase in the number of years of contribution included in the calculation of the pension (a question alluded to when speaking of the proportionality between contributions and benefits). Spaniards

want to ensure wide access to the contributive pension system and therefore want a system with a high degree of generality and are opposed to increasing the number of years of contribution required to obtain the right to a pension.

■ Asked if they would agree to broadening the minimum number of years of contribution required to obtain the right to a contributive pension to 20 years (from the present 15), nearly two-thirds of those interviewed responded negatively (64%) although it should be kept in mind that this group is subdivided into two groups when we look at the reasons for their opposition. One in four of those interviewed (26%) were opposed because in their opinion reducing the coverage would scarcely help resolve the financial problem, while two out of every five (38%) feel that it «would not be fair» (Table 5.7 and Figure 5.18). It is very likely that this perception of unfairness arises (at least partly) from the present difficulties in finding a stable job as suggested by one of the participants in the discussion groups: *«In my opinion, the problem is how to reach 15 or 20 (years) when you have a contract for three or four months and then you have to wait three months to get another one»* (man 30 years of age, technician in a publicly-owned company).

Figure 5.18

ATTITUDE TO PROPOSAL TO INCREASE MINIMUM CONTRIBUTION PERIOD  
TO 20 YEARS IN ORDER TO GET CONTRIBUTIVE PENSION  
(1,213 interviewees)



- On the other hand, Spaniards seem to be moderately disposed to the idea of taking into account the whole working life and not only the last eight years considered at present when calculating the amount of the pension. Approximately two out of five Spaniards (42%) are in agreement with this reform while somewhat more than one out of three (36%) reject it either because they do not feel it is fair or because they think that it would contribute little to resolving the problem. It is necessary to underline the high percentage of no response to this question (22%), something which may point to the complexity of the subject or lack of specific knowledge of the effects of the measure (5.7 and Figure 5.19).

Table 5.7

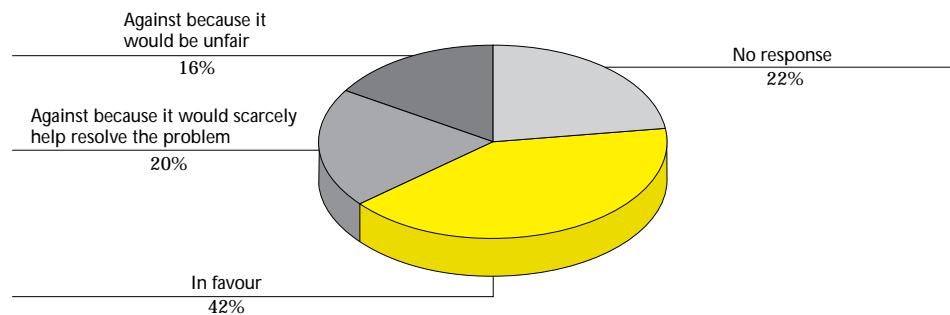
COVERAGE OF SYSTEM AND PROPORTIONALITY IN CALCULATION  
OF PENSIONS

	Percentage	Base
a) In favour of «increasing to 20 the minimum number of years of contributions required to get a retirement pension... always keeping in mind that those who do not fulfil the 20-year period would collect a subsistence pension.»	21	1,213
Against this increase:	64	1,213
«Because it would scarcely help resolve the problem.»	26	1,213
«Because, whether or not it lightened the burden of public pensions, it would be unfair.»	38	1,213
No response	15	1,213
b) In favour of «calculating the amount of the pension according to the update value of contributions paid during one's whole working life...»	41	1,213
Against:	36	1,213
«Because it would scarcely help resolve the problem.»	20	1,213
«Because, whether or not it lightened the burden of public pensions, it would be unfair.»	16	1,213
No response	23	1,213

Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

Figure 5.19

ATTITUDE TOWARD PROPOSAL TO CALCULATE AMOUNT OF PENSION ACCORDING TO CONTRIBUTIONS DURING WHOLE WORKING LIFE:  
(1,213 interviewees)



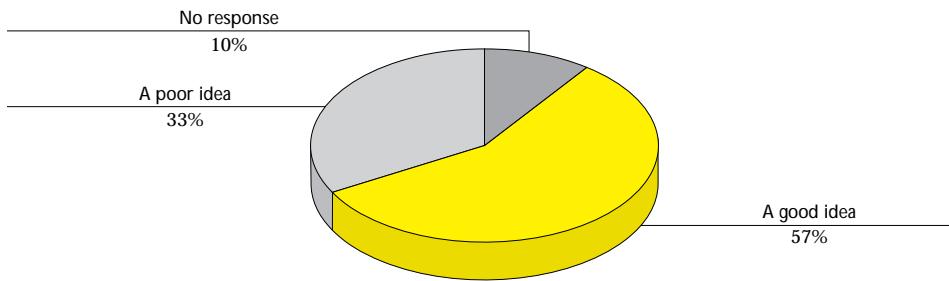
## 5.5. Structural measures: public and private pensions

■ While the reform proposals discussed up to now would not mean any change in the present size of the public and private pension system, this effect would come from two measures about which we also asked in the final part of the block of questions. To start off, we wanted to check if interviewees would agree with a pension system which would furnish a public pension «ensuring a minimum standard of living for everyone» and a private pension «for those who want greater comfort» (note that the counterposing of «a minimum standard of living» and «greater comfort» suggests that «minimum» should be understood as «sufficient» and «greater comfort» as «more than sufficient»). While the formulation of the question could be made more precise, the replies provide an indication of what are the general feelings of the population with regard to a simplified model of pension system on two levels –a basic level of a public nature and a complementary level of a private nature. Somewhat more than two-thirds of the population with an opinion on the matter would be in agreement with a similar

system –63% (which means 57% of the total population if we include those not responding to the question). This favourable leaning is increased among the better educated, reaching among those with school-leaving certificate or university studies a proportion of nearly three-quarters of those interviewed (Table 5.8 and Figure 5.20).

Figure 5.20

ATTITUDE TO PENSION SYSTEM IN WHICH PUBLIC PENSION ENSURES  
MINIMUM PENSION FOR ALL TO BE COMPLEMENTED BY PRIVATE  
PENSION FUND:  
(1,213 interviewees)



- Trying to obtain additional information on this question, we asked the group of those interviewed who were favourable to this two-level system about the institutional mechanisms they would consider most appropriate to promote private pension funds. They were offered the possibility of choosing between reduction of Social Security contributions or tax deductions and between relatively «modest» incentives (such as a reduction of Social Security contributions of around 10% which would be applied to finance private pensions) or «substantial» incentives. The replies show that the preferences were split in half between reductions in contributions and tax deductions. It is worth underlying the fact that by one mechanism or the other the preferences of those interviewed in favour of the two-level sys-

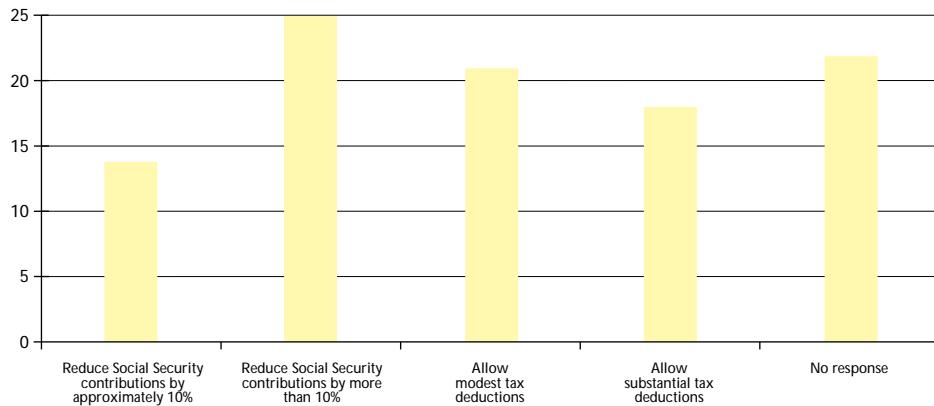
tem leaned toward «substantial» incentives to a larger extent than toward «modest» incentives (Table 5.8 and Figure 5.21).

Figure 5.21

INCENTIVES CONSIDERED MOST SUITABLE FOR CONTRIBUTING

TO PRIVATE PENSION PLANS

(Percentage of 690 interviewees)

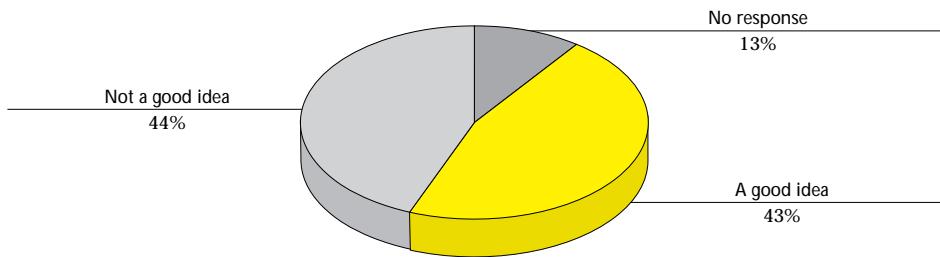


- The combination of this data, that is to say, the attitude in favour of a mixed system (where the public component represents one component of what we could call «a sufficient minimum pension»), the willingness to consider various incentives and to support «substantial» incentives –all this suggests an attitude favourable to the widespread application of private pension plans among a majority of the population.
- While this interest in providing incentives for private pension funds may be compatible with that of maintaining a public component in the system, this should not simply be taken for granted. In fact, the interest in a private component in the pension system can be so strong that can lead to the

expression of a favourable attitude in view of «the possibility of choosing between contributing to Social Security in order to obtain a retirement pension or get out of the Social Security pension system and each month put that money in a private pension fund». At first glance, the replies are extremely noteworthy. According to these replies, Spaniards are divided nearly half and half between those who are in agreement with the proposal (49%) and those who are in disagreement (51%) (excluding those who did not respond to the question representing 13%) (Table 5.8 and Figure 5.22). It should be noted that what is being discussed here is simply the possibility of being able to choose to get right out of the system. Those who opt for this «possibility of choice» are not telling us in advance of a decision by which, if they had that possibility of choice, they would use it to «get out» of the public system.

Figure 5.22

ATTITUDE TOWARD POSSIBILITY OF CHOOSING BETWEEN  
CONTRIBUTING TO SOCIAL SECURITY AND GETTING OUT OF THE PUBLIC  
SYSTEM AND SUBSCRIBING TO PRIVATE PENSION FUND:  
(1,213 interviewees)



- It is curious to note the significant influence of the «age» variable in the expression of this attitude «in favour of a choice». This may have something

to do with a more «liberal» disposition among young people or a very different structural relation on their part with the present public system. It is a fact that the position of young people under 30 years of age is very favourable to the proposal. Nearly two-thirds (63%) are in agreement. The situation is quite different in the case of older people. The fact that the increase in age brings a decrease in acceptance of this proposal is probably related to the perception of greater personal loss. It is precisely older people who would feel themselves more threatened by the eventuality that, should the possibility of choice become a reality, many would opt to get out of the public system, and thus the decrease in the number of contributors would erode the financial base supporting their pensions. This, together with the feeling that older people have that they can *«last longer than a hammer buried under straw»*, as one of the participants in the discussion groups jocularly pointed out (man of 64 years of age, a pensioner), undoubtedly explains why here the percentages are turned around. Somewhat less than two-thirds of those over the age of 60 interviewed (64%) rejected the proposal. On the other hand, in the middle-aged group between 30 and 60 years, the percentages are considerably closer – 52% against and 48% in favour.

- The attitude of nearly half the public (and somewhat less than two-thirds of young people) favourable in principle to a model of pension provision with two alternative pillars, public and private, may be surprising given that it does not tally either with the position of political leaders or leaders of major social segments nor with the editorial lines followed by the generalist newspapers. But once we get over our first surprise what this should do is make us think. With this end in view we put forward the following comments.
- First, it is worth keeping in mind that this «semi-acceptance» of an alternative system seems reasonably consistent with other data gathered during

the survey –with the general inclination of a large part of the public (especially young people) toward maximizing the opportunities of choice, with the reticent attitude of many about the capacity of the State to manage public resources («waste») and with the perception that many have of the existence of a lack of proportion between contributions during their working life and the pensions they receive (or will receive) at the end of it. The tenor of these feelings (whether based on objective facts or not) is very well reflected in the letter a reader recently sent to a newspaper editor: *«Clearly, my present pension has nothing to do with the value of what I contributed and undoubtedly if I personally had managed it I would collect much more than I do now. This is a consequence of these grey eminences on which the State feeds and who over time have shown their greatest skill – putting out their hand to collect...»*<sup>(1)</sup>

- Second, it is obvious that this data on social acceptance of structural reforms to the pension system requires careful interpretation. In fact, it should be kept in mind that from the point of view of the interviewees the questions appear to be out of context. The format of the questionnaire does not make it possible that those replying would consider most of the implications or consequences arising from their responses, in one or the other direction, should those ideas be carried out. This comment does not diminish the value or interest of the replies (this comment should properly be applied to all the information coming from a survey made using a questionnaire) but indeed it does suggest prudence in its interpretation.
- The following conversation which took place in one of the discussion groups illustrates some of the problems which lie behind the possibility of choice, assuming that in practice it were used by a growing number of persons to get out of the public system. The arguments go in favour and against and apparently are focussed not on the principle of free choice but

(1) *El País*, «Cartas al Director», 16-4-1995.

on considerations of financial yield, the future security of coverage and fairness to those segments of the population which are most vulnerable.

- On the one hand, a 61-year-old woman, an employee in a private company, sees an opportunity for greater yield in the management of private pension funds by banks: *«If the bank gets rich... it is logical, it's a business. We all want our savings by one means or another to show a profit and that it doesn't just stay there. Look, if the bank to the extent that it gets rich... my savings are also going to get rich... so that's great and why not? Won't my money be better managed there where at least they have a profit motive than in some other place which has no profit motive if it goes to the State?»* A 56-year-old engineer, currently out of work, refuted this: *«I've seen a lot of banks go broke. I've seen insurance companies go bankrupt. Social Security can't go broke as easily as a bank, that's quite clear because it's the State. It can go broke, of course, but if the State goes broke we're all broke. That's as clear as crystal.»* On the other hand a public servant, a government trade expert, 39 years of age, sees a greater risk for the society in creation of an alternative pension system: *«It seems reasonable as the idea is put forward, that is to say, you choose what you want and then ...but it's not viable, that is if it's set in motion and everyone or the majority of people opt for the private system, next month the grandparents are not going to collect anything.»*
  
- The debate has started. In any case, without failing to underline the need to interpret data on acceptance of structural reforms with caution, there is one thing which allows for little doubt: Spanish society shows a degree of considerable openness toward reasoned public discussion of proposals which would mean a substantive change in the existing public pension system. The fears of some strategic players in the face of the inclusion of these matters in the public agenda on the future of pensions do not appear to be justified.

Table 5.8

**BREAK IN PRESENT BALANCE BETWEEN PUBLIC AND PRIVATE PENSIONS**

	Percentage	Base
a) Those who think it is a good idea «to move toward a system in which the public pension ensured a minimum standard of living for everyone and where those who wanted greater comfort would take out a private pension plan.»	57	1,213
Those who think it is a poor idea	33	1,213
No response	10	1,213
b) Among those who think it's a good idea to move toward a system in which the public pension ensures a minimum standard of living, those who prefer:		
– To reduce Social Security contributions by a modest amount, for example, by 10%.	14	690
– To reduce Social Security contributions by substantially more than 10%.	25	690
– Not to reduce contributions but to deduct a modest part from personal income tax.	21	690
– Not to reduce contributions but to deduct a substantial part from personal income tax.	18	690
c) Those who think it is a good idea «to choose between contributing to Social Security in order to obtain a retirement pension or to get out of the Social Security pension system and each month put that money in a private pension fund.»	43	1,213
Those who think it is a poor idea	44	1,213
No response	13	1,213

Source: «Survey on pensions», Analistas Socio-Políticos, 1995.

## VI. PENSION REFORM: A MATTER OF STATE AND A MATTER OF THE SOCIETY

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- The future of public pensions is a major problem in the political and social life of Western countries, including Spain, given the demographic prospects and the growth rates of employment and productivity which may be expected. In this study we have analyzed the case of Spain restricting the problem to the future economic sustainability of the contributive pension system. We began by setting out the size of that financial imbalance over a time frame of 30 years. This exercise allowed us to show that, even with moderately optimistic growth indices for employment and productivity, and assuming the maintenance of existing legislation, the pension system would go through chronic and growing financial insufficiency. Of course, some may have confidence in the «employment solution» of the pension problem (i.e., that it will disappear as a result of employment growth) but this does not appear sensible for various reasons. Firstly, because, in view of recent past experience, to maintain a hypothesis of annual growth in employment of more than 1% (as forecast in our projection) would be unrealistic. Secondly, because even in the event that the trend in employment was very favourable, limits would quickly arise on the side of the population of working age. Without need to fall into crying alarm or catastrophe the results of our core projection and these reflections lead us to characterize the situation as very troubling over the medium term and to warn of the risk that the problem could grow worse as of 2025.
  
- From this initial conclusion comes our conviction of the need to introduce reforms which would change the trend indicated. Starting out from the core financial projection set out in Chapter 2 we have drawn up a model which permits the simulation and evaluation of a wide range of pension reform measures, considering the sensitiveness of the system to changes in macroeconomic hypotheses. We have analyzed five measures, four

applying to new pensions (delaying the legal and effective retirement age, readjusting pension points for years of contribution, increasing the number of years of contribution for calculating the regulatory base and raising the penalty for early retirement) and one applicable to all pensions (updating of pensions below the CPI). The separate implementation of one or other of the measures affecting new pensions would not substantially improve the expected deficit. Nevertheless, either the combination of a number of these measures or application of the universal measure which consists of slowing the indexing of pensions (presumably graduated according to amount of pension) indeed would allow us to imagine scenarios for solution of the problem over the long term. Naturally, this would imply costs and sacrifices on the part of pensioners.

- It is crucial to understand that the discussion of all these reform proposals should begin right from this very moment because to put them into effect will call for two ingredients. The first is time, essential so that people can adjust their strategies for adapting to the new scenarios. The second is a reasonable degree of consensus which can only come from clear discussion of the matter without any stridency and with the participation of all the groups concerned which one way or another means all Spaniards.
- If we focus our attention on the present state of this debate from which must come the consensus mentioned earlier, on the one hand we see the cautious attitude of the politicians. Although they verbally recognize the importance of the subject, when it comes time to formulate proposals they feel inhibited. This inhibition has a realistic and responsible side to the extent that it is a matter of warding off the danger of a demagogic use of the problem. But it also has a dark side which consists of the effect of shying off public debate without which it is difficult to find the way to take important decisions which have the support of the country. By eluding public debate the political elite seems to depart from the premise that the public is sensitive to the matter of pensions (in this they are right) and

more inclined to be carried along by their emotions than to use their judgment (in which, as we see it, they are in error).

- While the politicians approach the pension problem «on tiptoe», the trade unions and business organizations view the urgency and gravity of this question in different ways. The former tend to feel that the matter is overly dramatized. They look distrustfully at the insistence of some political, economic and cultural sectors on pension funds and put emphasis on the maintenance and even the partial improvement of pensions, objectives which they feel can be achieved by increasing the revenues of the system through various mechanisms. In turn, business organizations and financial intermediaries usually stress the seriousness of the situation and appear to support the «employment solution», which in their opinion would be encouraged by a reduction in social benefit contributions. Nevertheless, to this demand they add a proposal for measures aimed at cutting spending and increasing the capitalization component of the system. Also along these lines are many of the recommendations which we could call expert opinion, that is to say, the international economic bodies and the economists who act as advisers or purveyors of the broad lines of economic action. The national press adopts more varied positions but in general favours introduction of reforms to the present pension system.
- The public which watches these strategic discourses of the political, economic, social and cultural elites perceives the problem of pensions very strongly, both because of the general situation of the system and their own personal situation as retired persons now or in the future. Apart from concern for the threat hanging over their future pensions, the citizenry are interested in discussing it and put in question the «pessimistic» reading reflected by the attitude of the politicians.
- Although Spaniards feel themselves badly informed on the matter of pensions they talk about it and find explanations for it based largely on the

poor state of the economy and bad administration by the State. Also taking on importance in their reasoning is the question of fraud of Social Security by citizens, perhaps because a considerable number have direct knowledge of this phenomenon. Nevertheless, it is especially when passing judgment on public policies that the relative congruency and internal consistency of the public's reasoning comes most to the fore. The evidence suggests that Spaniards resist a delay in legal retirement age but are very favourable to making it more flexible beyond 65 years, combining a job and partial retirement. They want to maintain a pension system to which the largest possible number of their fellow citizens will have access but they are willing to increase the degree of proportionality between contributions and benefits. In all these matters, in general the youngest and the best educated are those who are most favourable to reform.

■ However, perhaps the most interesting point is knowing what the public understands as reasonable balance between the three basic pillars of the pension system –the public assistance aspect, the work-contributions aspect and the private-complementary aspect. Spaniards do not appear to want to see an increase in the size of the public assistance system at the cost of the work-contributions aspect as may be deduced by the majority disinclination to broaden the minimum contribution period in order to qualify for a contributive pension. From the results of the survey we may also deduce a favourable disposition of a large proportion of people to promote the private component of the pension system. Pointing to this conclusion is the high proportion of those who look favourably on the existence of a public pension system which would provide «a sufficient minimum» which could be complemented by private pension funds to provide «greater comfort». This emphasis on the private component is strengthened even more (and becomes slightly more complicated) if we consider the response to what we may call a «definitive question» in which the person interviewed is put in a situation where he/she is faced with a system for providing pensions with «free choice» between the public scheme and the private

scheme. The response of nearly 50% of those expressing an opinion on the subject favourable to this «radical» proposal should not, in our opinion, be interpreted as an anticipated determination of what would be the content of that choice. What this response suggests is that at least half of all Spaniards seem favourable to «being able to choose». In any case, the option of «free choice» must be seen in the context of a debate on principles and practical consequences which so far has not been started. To try to squelch this debate almost before it has begun or just as it gets going by throwing out labels or slurs would be rather deplorable.

■ Having arrived at this point, we must again return to the crucial situation in which the strategic players in Spain's public life find themselves. Economic figures related to the problem clearly indicate that we are embarked on a path leading us to a very serious scenario in a time frame of around 30 years and to some extent sufficiently serious within a period of some fifteen years. The sociological data show a public willing to consider the problem of the pension system with an open mind and to understand it in a reasoned way, a public interested in and concerned about the question and desirous of debating it and evaluating quite varied reform measures weighing their advantages and disadvantages. Faced with an objective problem more and more difficult to put off and an open-minded public, we find various elite groups which have not yet been able to establish their position. It is true that the politicians have adopted some agreements which under the general objective of Social Security reform basically affect retirement pensions. But only if the agreement known as the Toledo Pact serves to clarify positions, to channel a reasoned debate and involve society as a whole, can it represent a solid starting point for a reform process. As we now reach the end of 1995 the public relevance of the Pact since its signing in the Spring of this year up to now compels us to temper our hopes regarding its solidness as a driving force for this process, but perhaps it is still not too late for it to turn into an instrument to promote that necessary debate between the strategic players and the society.

- In that debate proposals such as those discussed in this report and others must be put on the table clearly and carefully with patience but also with the idea that this is the moment to discuss them and decide on them without reserve –measures which change the formula for calculating pensions (either related to the calculation of the regulatory base or to readjustment of the weighting of years of contributions), measures for delaying retirement age or making it more flexible, for indexing benefits, for providing incentives for private pension funds, for increasing or decreasing contributions. Linked to these specific questions are others of a more general nature such as job creation policy, the extent, direction and instruments for real solidarity among Spaniards and the criteria for a policy of equity.
- We believe that this debate must be carried on by all because it is a subject with many dimensions in which there are many questions to be dealt with, in which it is desirable to carry out well-designed and really effective reforms so that they may be understood and accepted by public opinion over a period of time. In this respect, we set out below a simple programme of possible reforms, merely as suggestions, as an instrument for helping promote public debate.
- We present a programme of five reform proposals (Table 6.1). The effect of the first four measures was set out in Chapter 3. To these we have added tax incentives for pension funds, a measure in which, according to data from our survey, Spanish citizens show clear interest. On presenting these suggestions in this particular form, we not only adopt a position on the measures to be carried out but also particularly on the way to discuss them. In fact, we believe that any proposal should be accompanied by specifications and careful explanations about their size and range, the time frame for their adoption and the proper adjustment period, complementary measures (which in some cases strengthen the proposal and in others qualify it) and naturally about their effect on the balance sheet of the system either

because it brings it into equilibrium or because it compensates the social and economic effects of such a balancing operation.

■ We hope in this way to contribute to turning a complex debate, always about to become unmanageable and quite confused, into one which, while not losing any of its complexity, becomes intelligible and relatively simple to follow. This is essential so that discussion not be confined to the strategic players but broaden out to the whole public. But knowing both the willingness of public opinion about those projects and the degree of consensus between the strategic players is just what will allow us to understand the opportunities and the social and political limits of possible and necessary reforms to the contributive pension system in Spain.

Table 6.1

## SUGGESTIONS FOR REFORM OF THE CONTRIBUTIVE PENSION SYSTEM IN SPAIN

Measure	Degree and scope of measure	Time frame for adoption and adjustment period	Accompanying measures	Effects on balance and average pension	Willingness of public opinion	Level of consensus among strategic players
Delay in legal and effective retirement age	Medium degree (legal age around 67) only for new pensioners	Adoption between 2000 and 2025 (so that legal and effective age increase gradually)	Part-time retirement for wide range of ages around new legal age	Remarkable (only because of smaller number of pensioners) / average pension scarcely changes	Rejection which could turn into acceptance if linked to partial (flexible) retirement	Contradictory positions but relative consensus in favour of flexibility
Readjustment of pension points and contribution period	High degree (pension at 50% of base after 15 years of contributions and maximum of 90% after 40 years) / only for new pensioners	Gradual adoption over 5-10 years beginning in year 2000	This measure is complementary to delay in legal retirement age and part-time retirement	Remarkable / sharp decrease in pension for new pensioners in first stage	Favourable acceptance doubtful but consistent with desire for greater proportionality between pensions and contributions	Possible agreements (perhaps lower) between various positions
Increase in number of years of contributions in calculating regulatory base	High degree (going from present 8 years to 25 years) / only for new pensioners	Gradual adoption starting in 2000 with move to 25 years around 2010	Measures to make it compatible with minimum 15 years of contributions	Remarkable / gradual drop in pension for new pensioners	Similar to previous	Contradictory positions but consensus favourable to greater proportionality
Updating of all pensions below CPI	Medium degree / for all pensions	Immediate adoption	Measures for graduating degree according to amount of pension	Very large / general drop in pension if the measure applied without graduating level	Presumable rejection with regard to low and medium-low pensions not necessarily with regard to medium-high and high pensions	Political parties favourable to indexing of pensions at level of (or above) CPI and fear electoral consequences of a different position
Tax incentives to private complementary pension funds	Medium degree / for all pensioners and general public	Immediate adoption	Measures which allow for creating mobility of cumulative rights (portability) within industry	No effect on overall balance / compensates the drop in pensions as result of other measures	Clear public interest in exploring this possibility	Contradictory positions: favourable in case of centre-right, cautions in case of centre-left and rejection by left

## Appendix 1: DESCRIPTION OF THE ECONOMIC MODEL USED

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- The projection of spending and revenues in a contributive pension system similar to Spain's over a given time horizon is a relatively simple exercise which may be carried out with an aggregate model based on macroeconomic and/or demographic multipliers. Models habitually used in the national and international literature are of this nature and their use has given rise to a broad consensus on the future financial difficulties of pension systems analyzed with their help and on the nature of measures necessary to avoid such difficulties. What these models do not permit is an evaluation of the effects of such measures both on the big numbers of the system and on some of the more relevant details.
- Beyond the abovementioned modelling technique, we have opted for developing a detailed model, MODPENS-FEDEA, which considers the participants in the pension system according to sex, specific age from 0 to 85 or more years and state. A participant may fit into one of up to 22 mutually exclusive possible states. These states are basically working ones in which people contribute to the system through a contribution or retirement states in which they obtain a pension from the system. Among the activity states we find those actually working, on temporary work incapacity or receiving unemployment benefits and among retirement states we find all those pension contingencies in the Spanish system, that is to say, invalidity, retirement, widowhood, orphanhood and family support as well as work-derived illness and work accidents and benefits for temporary work incapacity. In all cases we distinguish between belonging to the general regime or a combination of special regimes. In some cases (for example, temporary work incapacity) the individual simultaneously makes a contribution and receives a benefit from the pension system.

- Treatment of beneficiaries of the system by sex, age and off-work contingencies allows a detailed analysis of measures consisting of changes in benefits already being obtained, for example, the criteria for indexing them with inflation. In addition, the detail on contributors, concerning especially the particular states in which they may find themselves at any moment, allows the simulation of measures relative to the way new pensions are computed, as workers shift to non-working states. For this purpose, the model creates the history of the «representative individual», that is to say, his/her contribution period to which are applied the hypotheses established on maturation of that period, the formula for calculating the pension for each contingency, penalties for early retirement, etc. Furthermore, this procedure takes into account the incidence of unemployment situations, with or without benefits, throughout the working life of the individual.
  
- The data used comes from various published sources –population projections by the Demographic Institute, the Labour Force Survey (EPA), Statistical Reports by the National Institute for Social Security (INSS), Survey of class structure, conscience and biography, Monthly Bulletin and Yearbook of Labour Statistics, Statistical Bulletin of the Central Personnel Registry, etc. On this basis we have obtained all information relative to contributors, pensions, average contributions and benefits by sex and five-year age groups for 1992, the starting year for the model apart from some corrections for 1993. Information for specific ages was obtained by splitting the figure for the five-year age group through interpolations which ensured the coherence of the aggregate figures and their evolution over time. As of 1992 the calculation algorithm projects human numbers and economic figures of the contributive pension system, the latter in pesetas for each year up to 1995 and in pesetas of that year as of that moment.
  
- The calculation of spending and revenues is thus carried out with a breakdown according to the sequence described below.

- With regard to revenues from contributions, each contributor by specific age, sex, pension regime and activity state makes a contribution to the system resulting from multiplying his/her corresponding contribution base by the contribution rate. The contribution base is similar to the estimated wage in each case while the contribution rate is the legal total for the general regime and an average effective rate for special regimes which at the same time is a weighted average of the various legal rates corrected to take into account that the base on which these contributors are required to contribute is their average wage. The model also computes other revenues of the system which come from contributions made by the National Employment Institute (INEM) on behalf of those unemployed or those non-active who receive unemployment benefits, contributions to the regime for work accidents or work-derived illness included under the special regimes. In addition, the model obtains the revenues from unemployment contributions which, together with spending on benefits to the unemployed, allows us to establish the balance for the INEM.
- Spending on benefits is also obtained in breakdown according to age, sex, pension regime and pension contingency. We distinguish between pensions for new pensioners and pensions already being paid. The number of new pensions is obtained by maintaining the proportion between these and the population by sex and age observed in 1992 while the number of pensions already being paid in each year is made up of the survivors from the previous year obtained through application of the corresponding survival probabilities and distribution of the pensioner population for each contingency by sex and age. We then obtain the average pension of surviving pensioners by updating the pension they had the year before by the CPI plus a quarter of productivity growth in order to represent the operation of low pension supplements and the pension for new contributors. The latter is calculated according to the present formula for old age pensioners while for other contingencies we apply the difference observed between new pensions and the corresponding average pension in the system in 1992.

- Calculation of the old age pension requires the existence of a contribution period for individuals representative of each sex, age and pension regime. MODPENS-FEDEA creates such a contribution history which allows the simulation of changes in retirement age and the formula for calculating the pension.
- Finally, although these calculations are not given in the main text, spending related to non-contributive benefits is obtained with the object of making the model comprehensive.
- It must be said that, in spite of the aggregated nature of the data we have had at our disposal, the quality of the model's data base, in our view, is quite acceptable and guarantees the credibility of the orders of magnitude which give the results obtained. Nevertheless, the lack of availability of data in the fullest detail, such as those which the Spanish pension system itself generates, shifts its biggest limitation to our model, that is to say, the impossibility of dealing with a sufficiently wide range of typical individual contribution periods on which to base simulations of the highest accuracy and detail. Given the nature of the likely reform in our pension system, its administrative complexity, the multitude of cases which must be dealt with, etc., our exercise must be seen as a first approach to the matter with the highest possible accuracy given the paucity of available data.
- Among possible future developments of MODPENS-FEDEA are extension of the evaluation of reform measures within a time frame up to 2050 when demographic projections suggest an increase in aging of the population and simulation of the processes of gradual or partial transition from the present distributive system to a capitalization system.

## Appendix 2: TECHNICAL FILE ON SURVEY AND QUESTIONNAIRE

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- Design and pretest of questionnaire: Analistas Socio-Políticos (ASP).
- Scope: Individuals of both sexes, over 18 years of age, residents of peninsular Spain, Balearic Islands and Canary Islands (excepting Ceuta and Melilla).
- Sample size: 1,213 individuals.
- Design of sample: Stratified by autonomous communities and size of town or city; random selection of municipalities of less than 500,000 and obligatory selection in case of others (136 points of sample); selection of house by system of «*random route*» (159 routes); selection of persons interviewed by age and sex quotas.
- Representativeness: The sample is representative of the Spanish population of 18 years and over. Sample error is  $\pm 2.89\%$  for  $p=0.5$  with reliability margin of 95.5%.
- Field work: Carried out by ASEP/Intercampo during period April 3-8, 1995 by means of personal interview in home of interviewee, with supervision of 20% of interviews.
- Processing and tabulation of data: Analistas Socio-Políticos (ASP).

### Questionnaire:

- 1. The press and politicians sometimes talk about a possible crisis in public pensions which would consist of not being able to count on public pensions at present levels within twenty years. What impression do you have? Please tell me what are the options on this card with which you are most in agreement.

### Card 1

- a) There is going to be a real and fairly serious crisis. It seems likely that within twenty years they will not be able to guarantee pensions at present levels, unless some very important changes are made. (Go to Question 1a).
  - b) There are going to be difficulties but, if some changes and adjustments are made from now until then, the problem could be solved. (Go to Question 1a).
  - c) You can't talk about a serious crisis. In fact, what they say about the matter is fairly exaggerated and the system may continue basically as it is now. (Go to Question 2).
  - d) Don't know/ no reply. (Go to Question 2).
- 1a) (Only if answered a) or b) in Question 1).

Now I'm going to give you another card with some of the reasons often mentioned to explain the pension problem. Of these reasons please indicate the three which seem most important to you.

### Card 2

- a) Spain's economy does not generate enough jobs.
- b) The State administers badly and wastes public funds.
- c) There are many people working without paying Social Security contributions or paying less than they should.
- d) There are more and more old people and fewer young people.
- e) Politicians have not been interested in solving the problems over the years.
- f) Contributions or taxes intended for Social Security are too low.
- g) Don't know/no reply.

■ 2. Some people work without being signed up with Social Security or contribute less to Social Security than they legally should. Among friends

and family, do you know a person, various persons or no one in either of these two categories?

- a) Know a person.
- b) Know various persons.
- c) Know no one.
- d) Don't know/no reply.

■ 3. Thinking about recent months, have you talked to friends, family members or fellow workers about the matter of the future of public pensions?

- a) Yes. (Go to Question 3a).
- b) No.
- c) Don't know/no reply.

■ 3a. (Only if replied to a) in Question 3) Can you tell me if the conversation lasted...

- a) About a quarter-hour.
- b) Between a half-hour and an hour.
- c) More than an hour.
- d) Don't know/no reply.

■ 4. On the matter of pensions, do you have the feeling that you are...

- a) Little or poorly informed.
- b) Fairly well informed.
- c) Very well informed.
- d) Don't know/no reply.

■ 5. Perhaps you know that in February representatives of various political parties met in Toledo to discuss the matter of public pensions. At this meeting the politicians reached certain agreements on pensions. What impression do you have of those agreements? Please give me one response from this card.

### Card 3

- a) This is the first news I have of the Toledo agreements.
- b) I have a vague idea that they met but I don't know what agreement they reached.
- c) I have a general impression about those agreements and my impression is fairly favourable.
- d) I have a general impression about those agreements and my impression is rather unfavourable.
- e) Don't know/no reply.

■ 6. If you were told that the political parties had reached an agreement among themselves not to discuss the matter of pensions at length in an electoral campaign, what would be your opinion? Which of the options on this card would you be most in agreement with?

### Card 4

- a) That it is a good idea not to debate the matter in election campaigns because it is a delicate and complex subject and should be left to the experts.
- b) That it is a bad idea not to debate the matter in election campaigns because it is something which affects everyone and we should all take part in the debate.
- c) Don't know/no reply.

■ 7. Are you retired or a pensioner, or the spouse of a retired person or pensioner?

- a) Yes.
- b) No (Go to Question 9)
- c) Don't know/no reply.

■ 8. How do you see the economic situation of your household at this moment? Please tell me with the help of this card.

### Card 5

- a) With great concern because we don't have enough money to meet our necessities.
- b) With a little concern because the pension is barely enough to meet our necessities.
- c) Fairly calmly because between the pension and other things we manage.
- d) Don't know/no reply.

■ 8a. Speaking now of a more personal matter, could you tell me if your children help you economically? Please, choose your reply from this card.

### Card 6

- a) I don't have children.
- b) I'm the one who occasionally helps my children.
- c) I have children but they don't help me economically.
- d) Yes, they help me but only modestly.
- e) Yes, they help me substantially.
- f) Don't know/no reply.

■ 8b. When you think of the pension you, or your spouse, receive do you feel that it is in proportion to what you have contributed, that it is lower or higher?

- a) It is proportionate.
- b) It is less.
- c) It is greater.
- d) Don't know/no reply.

■ 9. In your specific case, if you think about it, how do you see your future retirement or that of your spouse? Please tell me how you look toward retirement, with the help of this card.

### Card 7

- a) With great concern because I fear we may not have enough money to cover our necessities.
- b) With a little concern because I feel that the pension will not solve our problems, although from now until then we shall see.
- c) Fairly calmly because I feel that between the pension and other things we shall manage.
- d) Don't know/no reply.

■ 9a. Speaking now of a more personal matter, if you have retired parents or parents-in-law, do you help them economically? Please choose your reply from this card.

### Card 8

- a) I don't have parents or parents-in-law in those circumstances.
- b) No, they're the ones who occasionally help me.
- c) I don't help them economically.
- d) Yes, I help them modestly.
- e) Yes, I help them substantially.
- f) Don't know/no reply.

■ 9b. When you think of the pension you're going to receive in the future, do you feel that it will be proportionate to what you have contributed, or that it will be lower or greater?

- a) It will be proportionate.
- b) It will be lower.
- c) It will be greater.
- d) Don't know/no reply.

■ 10. Would you tell me if you have a pension fund set up by you or your employer or something similar such as an investment fund? Please read this card and indicate the reply that fits your situation.

### Card 9

- a) I have a pension fund set up by myself.
- b) I have a pension fund set up by my employer.
- c) I have an investment fund.
- d) I have a pension fund set up by me and an investment fund.
- e) I have a pension fund set up by my employer and an investment fund.
- f) I have neither but I have decided to set one up (or both) in the near future.
- g) I have neither but I am seriously considering of setting up one (or both).
- h) I have neither nor am I thinking of setting one up.
- i) Don't know/no reply.

■ 11. Could you tell me if you have private medical insurance taken out by you or your employer?

- a) Yes, I have private medical insurance taken out by myself.
- b) Yes, I have private medical insurance taken out by my employer.
- c) No.
- d) Don't know/no reply.

■ 12. If you were to think of making some changes in the present system of public pensions to lighten the load on Social Security, I should like to pose you some questions a bit more specific. What would you think of delaying the compulsory retirement age in general up to 70 years, with exceptions for some types of work and, as happens now, allowing people who retire earlier to get a smaller pension? Please read this card and tell me which of the following statements you most agree with.

### Card 10

- a) It would seem a good idea to me because it is good to be able to choose to keep working up to age 70.
- b) It would seem a good idea to me because that delay in retirement up to 70 would help lighten the burden on Social Security.

- c) It would seem a poor idea to me because we already work long enough without delaying retirement age to 70.
- d) It would seem a poor idea to me because delaying retirement to 70 would not help solve the problems of financing Social Security.
- e) Don't know/no reply.

■ 13. Besides delaying compulsory retirement age, from time to time people talk of making the step from work to retirement more flexible. How would it seem to you to be able to choose the moment of retirement from 55 years of age or up to 75 years, allowing those who wished to work part-time during this period to collect a half-pension? Would this proposal seem a good idea to you, would it seem good in principle but changing the minimum and maximum ages or would it seem a poor idea and would you prefer to leave retirement age as it is now?

- a) Good as stated.
- b) Good, but changing minimum and maximum ages (Go to Question 13a).
- c) Bad.
- d) Don't know/no reply.

■ 13a. (Only if answered b) in Question 13). Please tell me, reading from this card, what minimum and maximum age would seem best to you to choose the moment of retirement?

#### Card 11

- c) Between 55 and 70 years.
- d) Between 55 and 65 years.
- e) Between 60 and 75 years.
- f) Between 60 and 70 years.
- g) Between 60 and 65 years.
- h) Between 65 and 75 years.
- i) Between 65 and 70 years.
- e) Don't know/no reply.

- 14. Other reform proposals consist of changing the method of calculating the pension due to a person. I am now going to read you two different reform proposals. After I read these proposals I should be pleased if you would say which of the statements on the card best reflects your opinion.
- Increase to 20 the minimum number of years of contribution required to get a retirement pension (it is now 15 years), always keeping in mind that those who do not fulfil the 20-year period would collect a subsistence pension.
  - Calculate the amount of the pension according to the updated value of contributions paid during one's whole working life instead of on the last eight years as at present.

### Card 12

- a) I would be in agreement with this proposal because that way it would be possible to substantially lighten the burden of public pensions.
- b) I would not be in agreement with this proposal because that would scarcely help resolve the problem.
- c) I would not be in agreement with this proposal because, whether or not it lightened the burden of public pensions, it would be unfair.
- d) Don't know/no reply.

- 15. Some people think that it would be a good idea to move toward a system in which the public pension ensured a minimum standard of living for everyone, while those who wanted greater comfort would take out a private pension plan. Do you think this a good idea or a poor one?
- a) A good idea. (Go to Question 15a)
  - b) A poor idea.
  - c) Don't know/no reply.

- 15a. (Only if answering a) in Question 15). And in order to promote or provide incentive to people to take out that private pension plan, what would you think would be best? Please choose the option on this card you most agree with.

### Card 13

- a) That you be allowed to reduce your Social Security contributions by a modest amount –by 10%, for example.
  - b) That you be allowed to reduce your Social Security contributions by substantially more than 10%.
  - c) That you not be allowed to reduce your contributions but rather that you be allowed to deduct a modest part from your personal income tax.
  - d) That you not be allowed to reduce your contributions but rather that you be allowed to deduct a substantial part from your personal income tax.
  - c) Don't know/no reply.
- 16. The possibility has also been proposed that you be able to choose between contributing to Social Security in order to obtain a retirement pension or to get out of the Social Security pension system and each month put that money in a private pension fund. To you, does this seem a good idea or a poor one?
- a) A good idea.
  - b) A poor idea.
  - c) Don't know/no reply.

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