AIReF's evaluation of the pension reform: first match ball saved, but with big challenges on the horizon

At the end of March, the Independent Authority for Fiscal Responsibility (AIReF) published its estimate, as was its mandate, of the average impact during the period 2022-2050 of the new revenue measures introduced as part of the pension reforms and other economic measures implemented since 2020 in order to fund the pension system.[1] This estimate was the last missing piece needed to determine whether the expenditure rule previously agreed between the government and the European Commission within the framework of the Recovery Plan, and which serves to determine whether additional measures need to be taken in the short term, is being complied with. The result of the evaluation is that Spain is complying with this expenditure rule, so no additional adjustment measures are required in 2025 besides, by default, increases in social security contributions (these revisions are every three years, the next one being due in 2028). In addition to evaluating the expenditure rule, AIReF has conducted a separate exercise to assess the sustainability of the public accounts, drawing somewhat less optimistic conclusions.[2] This exercise is necessary given that, as AIReF explains, complying with the expenditure rule does not mean that the pension system is not subject to pressures that need to be managed.

Expenditure rule: how it works and why it is not enough to guarantee sustainability

The government committed to the European Commission, within the framework of the Recovery Plan, that the average gross expenditure on pensions during the period 2022-2050 (both contributory and non-contributory pensions) would not exceed 13.3% of GDP plus the average contribution of the measures that it introduced to boost revenues in the reforms of 2020-2023. The pension expenditure rule included a requirement for AIReF to provide a final estimate in March 2025 of the expected contribution of the revenue measures. AIReF has quantified the impact of these new revenues measures during the period 2022-2050 at 1.4% of GDP. The new revenue measures considered include the increase in social security contributions through the Intergenerational Equity Mechanism (MEI), a schedule of updates to the maximum contribution base amounts, the additional solidarity contribution, the reform of the Special Scheme for Self-Employed Workers (RETA),

1. See the «Report on the Pension Expenditure Rule», published by AIReF on 31 March 2025.
2. See the second «Opinion on the long-term sustainability of public administrations: the impact of demographics», published by AIReF on 31 March 2025.

Spain: average annual impact of the measures adopted since 2020 to boost the revenues of the public pension system in the period 2022-2050
(as a % of GDP)

	Impact to date	Average impact 2022-2050
Change in revenues	0.8	1.4
Intergenerational equity mechanism	0.2	0.4
Updates to the maximum contribution base amount	0.2	0.3
Additional solidarity contribution	–	0.1
Reform of self-employed worker contributions	–	0.2
Transfers	0.2	0.3
Increase in the inter-occupational minimum wage	0.1	0.1
Labour reform	–	–

Source: *AIReF.*

Spain: macroeconomic assumptions underlying the pension expenditure projections

	AIReF 2025	AR24
Real GDP growth 2025-2050	1.3%	1.2%
Growth of productivity per hour worked 2025-2050	1.1%	1.3%
Employment growth (hours) 2023-2050	0.2%	–0.1%
Net migration flows 2025-2050	264,000	227,000
Participation rate 2025-2050*	66%	69%
Unemployment rate 2025-2050**	9.3%	9.1%

Notes: **The participation rate used by AIReF is not comparable with that of AR24 since it is for an age range between 16 and 74 years, while that of AR24 is between 20 and 74.*
*** The unemployment rate used by AIReF is for the population between 16 and 74 years of age, while that of AR24 is between 20 and 74.*
Source: *CaixaBank Research, based on data and projections from the* Ageing Report *2024 (European Commission) and AIReF technical documents.*

the part corresponding to government transfers to the Social Security (S.S.) system which entails a permanent increase in revenues (essentially those intended to cover the reduction of revenues from contributions arising from measures such as subsidies or discounts for certain groups) and the permanent or structural impact on the system's revenues of the increases to the inter-occupational minimum wage and of the labour measures.

The expenditure rule thus implies that the 1.4 points of new revenues would allow for pension expenditure of 14.7% of GDP in 2022-2050 (13.3%+1.4%). This figure should be compared with the benchmark estimate of

14.6% of GDP for average gross pension expenditure during the period 2022-2050 mentioned in the European Commission's *Ageing Report 2024* (or AR24). Thus, there is no need to take additional measures in the short term. The rule seems complex, but in reality it is very intuitive: 13.3% is very close to pension expenditure as a percentage of GDP in 2022, the year when the mechanism was agreed (with updates to the year's GDP it finally turned out to be 12.7%). From there, the rule states: if you want to increase expenditure relative to current levels as a percentage of GDP, then you have to offset it with revenue measures of a similar amount so that the deficit of the pension system does not increase.

This rule was the result of a complex political negotiation and is the method that was agreed for deciding whether immediate adjustment measures are required. However, this is not a rule that can be used to determine the long-term sustainability of the system as a whole. What it does do is to guarantee a ceiling on expenditure which can help to ensure the system's sustainability. However, the rule does not allow us to conclude that the system will have sufficient revenues to fund an average pension expenditure of 14.6% in 2022-2050 or, in other words, an expenditure that will grow according to this estimate to 16.1% of GDP by 2050 (in 2022, 12.7% of GDP). That is why AIReF is conducting a second exercise, analysed in the second part of this article, on the sustainability of the system as a whole. Specifically, the purpose of this exercise is to determine whether the system's revenues will evolve in such a way that they will be able to fund the projected pension expenditure.

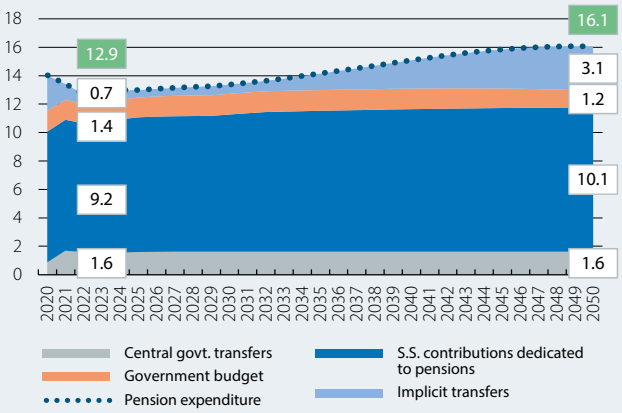
The underlying macro scenario for the expenditure rule is that set out in AR24 a year ago, with the updated GDP data for 2022-2023. However, it does not incorporate the favourable demographic data from the last two years resulting from the higher than expected net immigration figures in 2022 and 2023, nor does it include the methodological changes used in the underlying statistics that measure demographic phenomena. Specifically, the basic assumptions of AR24 are: population growth of 1.8 million between 2025 and 2050, average productivity growth of 1.3% in 2025-2050 and real GDP growth of 1.2% in 2025-2050.

Sustainability analysis of the public finances

The key is that, as AIReF points out, complying with the expenditure rule does not mean that the pension system will not be subject to additional pressures that need to be managed. In order to analyse the sustainability of the pension system and of the general government as a whole, AIReF has conducted a sustainability exercise itself, based on its own macroeconomic and demographic projections rather than those set out in AR24.

Spain: expected evolution of pension expenditure and revenues to fund it

(% of GDP)



Source: *AIReF.*

Specifically, it incorporates the latest demographic data, but its macro scenario is broadly similar to that of AR24. AIReF estimates a population growth of 3.0 million between 2025 and 2050, an average annual productivity growth of 1.1% in 2025-2050 (lower than in AR24 due to higher growth in the number of hours worked) and average annual growth in real GDP of 1.3% in 2025-2050. Like the one in AR24, this is a reasonable macroeconomic scenario and it is consistent with estimates for Spain's medium-term GDP growth according to most economic analysis agencies, which generally place it slightly above 1%.

The main conclusion drawn in relation to the pension system is that pension expenditure is expected to rise by 3.4 points between 2022 and 2050 (reaching 16.1% of GDP in 2050), but revenues from social security contributions will only increase by 1 point. Therefore, it will be necessary to increase the system's revenues by 2.4 points of GDP via government transfers to the S.S. system in order to fund the higher pension expenditure. For a throughout understanding of the calculation and the complete picture (see chart), it should be recalled that in 2022 public pension expenditure stood at 12.7% of GDP. This was funded with 9.1% of GDP in social security contributions dedicated to contributory pensions and 3.6% of GDP in transfers to the S.S. system (1.6% of GDP of government transfers to fund contributory and non-contributory pensions, 1.4% via the General Government Budget for pensions for public sector workers and 0.7% via so-called «implicit transfers», with income from the central government or other S.S. funds).[3] By 2050, public pension expenditure will increase by 3.4 points to 16.1% of GDP. It is estimated that

3. Social Security funds in terms of national accounting are composed of the Social Security system, the Public State Employment Service (SEPE) and the Wage Guarantee Fund (FOGASA).

contributions would rise by 1 point to 10.1% of GDP, such that the remaining 6% would have to come, in 2050, from transfers to the S.S. system.[4] Consequently, in order to fund the anticipated increase in pension expenditure, these transfers would need to increase by 2.4 points.

To complete the analysis, AIReF presents an illustrative projection of how the public deficit and public debt would evolve if there were no changes in economic policies. It should be recalled that the increase in pension expenditure is compounded by other pressures on public spending. In the coming years, this will be defence-related. In the longer term, it will be driven by health and dependency, on which expenditure will increase by 2 points of GDP between 2023 and 2050 according to the AIReF, reaching 9.5% of GDP. Thus, if no measures are taken, public spending would increase by 5.3 points of GDP by 2050 (going from 44.7% of GDP to 51.0%), of which 3.2 points would be attributable to pensions and 2 points to health and dependency. In this illustrative scenario (no policy change), given the assumption that no measures will be taken to rebalance the public accounts, AIReF estimates that public debt would increase to 129% of GDP[5] by 2050 (current debt: 101.8% of GDP) and the deficit, to 7.0% of GDP by the same year (current deficit: 3.2% of GDP).

In short, based on its estimates for new revenues, AIReF has determined that the pension expenditure rule agreed with the European Commission has not been breached, although it notes that complying with this rule does not guarantee the sustainability of the pension system or of the general government as a whole. In particular, it warns that it will be necessary to boost government transfers to the S.S. system by 2.4 pps of GDP in order to sustain it between now and 2050.

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4. To be more precise, they estimate that government transfers to fund contributory and non-contributory pensions would remain at 1.6% of GDP and the allocation for pensions of public sector workers would be reduced slightly as a percentage of GDP. As a result, in order to fund the anticipated increase in pension expenditure, implicit transfers from the central government or from other Social Security funds would need to increase by around 2.4 points.
5. 129% is the baseline forecast, but it could range from 116% of GDP, if GDP grows by 0.1 pp more on average between 2024 and 2050, to 143%, if GDP grows by 0.1 pp less on average over that period.