SPANISH RETIREMENT PENSIONS SYSTEM.
GENDER IMPACT ON INEQUALITY AND POVERTY

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Abstract
The Spanish pension system shows important gender differences both in the gap in non-coverage rate and in the gap of pension incomes. About 60 percent of women aged 65 years or over do not have a contributory retirement pension. Widowhood pensions play an important role to extend the coverage of contributory pensions and reduces the poverty of women. These gaps are the consequences of gender differences in employment such as salaries, working hours and duration of working life. Also, there is a strong cultural component which implies the traditional role of women as the caretakers of their families. The Social Security system is currently undergoing changes which mainly affect retirement pensions. The main effect of the Spanish reforms on pensioners consists in lowering pensions and adds to the women's pensions some negative impacts such as the penalization of short work careers and careers with low intensity of time worked (part-time and others). Also, the sustainability factor based on the life expectancy will affect in greater proportion in women than in men. It should be considered alternatives measures to reconcile finance sustainability and adequacy of pension systems in the context of ageing populations. Policies for reducing gender gaps in pay, working hours and career length are, likewise, active means of narrowing the gender gap in pensions which will contribute to lowering the risks of poverty in women.

Keywords: gender economics, pensions, public finance, retirement policy, social security.


1. Introduction

“Equality between women and men is a fundamental value of the European Union and one that has been enshrined in the Treaty from the very beginning, as the Treaty of Rome included a provision on equal pay. Over the last 60 years, societal changes and persistent policy efforts have established a trend towards gender equality” (European Commission 2017).

“Although women are successful in gaining qualifications, their subsequent careers are often more interrupted, they have lower pay and their careers are flatter. As a consequence, they earn less than men over their life cycle, and their pensions are lower”.
Spain is the ninth country in the European Union where the gender gap in retirement pensions is more accentuated and the AROPE (“at risk-of poverty or social exclusion”) rate remains higher in women than in men. The present figures of Spanish gender inequalities in pensions reflect the past policies on inequalities on education, in labour market and women’s role in duties of family caring. But, how will pensions in the future compare to those of today? This is one of the questions that this paper tries to put on the table.

1.1. The Spanish pensions system

The vast majority of Spanish pensions come from the public body of Social Security. Private pensions play a residual role in the global pensions System. The Social Security system provides a double level of protection: contributory (non-means tested) and non-contributory (means tested). The contributory modality follows a defined benefit scheme and covers the contingencies of old age, invalidity and survivors. The non-contributory modality covers the contingencies of invalidity and old age of those individuals who are not entitled to contributory pensions and find themselves in situations of need.

Public pensions have a guaranteed minimum amount. If the pension falls below the minimum amount set by the Government, then a supplement is added to it; however, there are certain limitations on receiving such supplement\(^1\). The Government also sets the maximum ceiling for pensions\(^2\), although there are exceptions for certain groups (persons with disabilities, victims of terrorism, among others).

The contributory Social Security pensions get financed through the social contributions paid by the working people and the employers, while the non-contributory pensions, as well as the “minimums supplement” of the contributory pensions, are financed with resources from the State budget.

The Social Security system distinguishes different types of legal relations with the persons registered with social security and classifies them into: General Regime and Special Regimes. The General Regime is the largest and includes employed workers over 16 years of age, regardless of the type of contract. Special Regimes are divided into: Self-employed, Seafarers, State civil servants and students. The contribution bases of different Social Security regimes can be integrated into the regime for which one retires.

1.2. Old age pensions expenditure

Public pensions are the main economic resource of older people. The number of old-age Social Security pensioners is approximately 6.17 million in 2017. To these

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\(^1\) In 2018, the amount of the minimum complement may not exceed the amount set by the government for non-contributory pensions (EUR 5178.6) and shall be incompatible with individual or familiar annual earnings higher to EUR 7133.97.

\(^2\) In 2018, the annual maximum contributory retirement pension is EUR 36121.82; the minimum is EUR 8949.98 (single person) and EUR 11043.61 (with an economically dependent spouse).
figures we should add around 255,000 beneficiaries of non-contributory pensions. The current public expenditure on old-age pensions is 8 percent of GDP, of which 7.5 percent are non-means tested and 0.5 percent are means tested. Spanish old age pension expenditure per inhabitant in ppc\(^3\) has always been below that of the other European developed countries if we compare since 2008 onwards as we can see in the graph, but there is a slight reduction through the years. For example, if we compare Spain to Germany, the difference in 2008 was of 35 percent and in 2015 it is of 25 percent. See Figure 1.

![Old age pension expenditure (in ppc)](image)

**Fig. 1.** Old age pension expenditure in purchasing power standard (ppc)
Source: Eurostat. Pensions.

The role of private pensions to supplement public pensions is limited because most of the salaries are low and the implementation of occupational pensions is not compulsory. Supplementary pension schemes are voluntary and structured into occupational funds and individual funds. The number of participants of supplementary pension schemes was 20 million, approximately, which means 7.5 percent of people 65 years or over. Of those, 3.3 percent comes from occupational pensions.\(^4\) With the recent labour market reforms (2012) and the economic crisis, the size of the occupational pensions has been decreasing. At present, only approximately 2% of the workers have an occupational pension plan. The majority of supplementary occupational schemes are linked to large firms (particularly in the financial and utilities sectors, as well as in multinationals), while small and medium companies have not developed these schemes so often. Pension plans are the main product of supplementary pensions (60 percent of the total) and there is a high concentration of small contributions, 74.6 percent of contributions are below 300 euros, while only 5.5 percent exceed the amount

\(^3\) Eurostat. Pensions. Data from 2008 to 2015.

\(^4\) Dirección General de Seguros y Fondos de Pensiones. “Insurance and pensions fund report, 2016”.

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of 3,000 euros per year. Most people subscribe to a private pension plan when they take out a mortgage loan. The average monthly income per beneficiary of retirement benefits, in the form of regular income, was 524 euros (2015).

1.3. Requirements for the retirement contributory pensions in 2018

The pensionable retirement age, is 65 years and six months or from the age of 65 if the person has made contributions for 36 years and six months. Some groups may be able to bring forward their retirement age, such as persons with disabilities as well as those in arduous or hazardous job.

To access the Social Security contributory pension, a minimum of 15 years of contribution is required, of which 2 years of contribution must be included in the 15 years prior to retirement. People with part-time contracts have a specific regulation in order to adjust the hours worked to the number of years contributed. 35 years and six months are required to receive the maximum pension otherwise a variable percentage\(^5\) is applied to the regulatory base according to the number of years (months) of contribution. In the case of workers with part-time contracts, the contribution period is artificially lengthened\(^6\). There are specific conditions for early and partial retirement.

The amount of pension is a percentage of the average contribution bases of the previous twenty-one years before the date of retirement. In the event that there are contribution gaps in the period considered, they are filled by a percentage\(^7\) of the minimum bases of contribution of the corresponding moment. People with part-time contracts have a specific regulation. Also, there are certain peculiarities in the procedure for calculating the social contribution and the amount of the pension for people integrated in some special regimes of the Social Security system. For example, “self-employed workers” contributions are not determined by the income from their activity, but rather each person can choose their contribution base, which ranges between a minimum and a maximum base set by the government.

Pensions are annually reevaluated according to an index annually established by the government (Pensions Revaluation Index – PRI). The value of this index since its introduction in 2013, as part of the “Pension reforms”, has been 0.25 percent. There are incentives\(^8\) to prolong the working life and some cases of compatibility between work and pension: active retirement, flexible retirement and flexible with self-employed retirement.

\(^5\) The total percentage is calculated by applying 50 percent for the first 15 years of contributions and additional percentages for the “following months” contributed which vary from 0.21 percent to 0.18 percent for each additional month.
\(^6\) A coefficient of 1.5 percent is applied to the equivalent days of contributions.
\(^7\) 100 percent of the minimum base during the first 48 months and the rest of the gaps with the 50 percent of it.
\(^8\) It consists in adding a percentage between 2 to 4 percent per year worked to the pension, which varies according to the number of years of contributions.
A supplement on pensions for women with two or more children has been recently introduced. As from 1 January 2016, women who are entitled to a contributory pension and who have had at least two children will have an increase on their pension. The percentage varies according the number of children: 5 percent for two, 10 percent for three or 15 percent if they have had more than three.

2. Poverty and inequality on old age pensions

Eurostat Statistics show that, in 2016, old people in Spain are enjoying living standards close to those of the population below retirement age and face lower risks of poverty and social exclusion than those of working age. The AROPE rate of those aged 65 years or over was 14.4% in 2016 (13.8% in men and 14.9% in women) and it is higher of people 75 years or over (15.4 percent) but the relative median income ratio of people aged 65 years or over is slightly higher than the median income of those aged below 64 years (1.01). This situation is similar than others European Union Member States (EU_SILC).

The better situation of the elderly population compared to the younger population is mainly due to a strong wage devaluation during the economic crisis (2008-2014), while pensions maintained their purchasing power because were increased annually according to the consumer price index. But, this situation is changing from onward 2013 due the “Reform of Spanish pension system”. The automatic revaluation through prices variation has been eliminated and replaced by a new “Pension Revaluation Index (PRI)” established by the government, which links the annual growth of pensions to the budgetary constraints of the system. PRI do not have any relationship to the consumer prices index (CPI). So, it turns out than if there is inflation, pensions lose purchasing power. This happens in 2016 when the PRI was 0.25 percent and the CPI was 1.6 percent.

Despite the better relative position of pensioners with respect to people of working age, the purchasing power of pensions is not high and emerges an important gender gap. In 2016, the relationship between the average (gross) pension and the MIS (Minimum Interprofessional Wage) shows that two thirds of women (67%) have pensions below 1 MIS and only one-fifth (22%) of men are below this threshold.

2.1. Poverty in old age women pensions

Women are more exposed to poverty in old age than men as they tend to have lower access to pensions and much lower pensions of their own. The “gender gap in coverage rate” and “gender gap in pension income” indicators shows the high economic dependence of women aged 65 years or over on their spouse or other family members.

The present figures of Spanish gender inequalities in old age pensions reflects the policy in the past on inequalities on education, in labour market and women’s role

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9 It excludes non-contributory pensions and voluntary early retirement pensions.
10 In 2016, the annual MIS was EUR 9,172.8.
in duties responsibilities of family caring. Women’s gender gap in old age pensions is emerging as a major policy concern since nearly one third of women (34%) have not reached the level of the minimum old age pension set by the government. The average monthly amount of the supplement is 203.09 euros, in 2016.

2.1.1. Gender gap on coverage old age pensions

About 60 percent of women aged 65 years or over do not have a contributory retirement pension while only 14 percent of men do not have one. Widowhood pensions play an important role to extend the coverage of contributory women pensions. In fact, nearly 25 percent of women aged 65 years or over receive a widowhood pension without any other pension. It allows to increase the coverage of pensions in women aged 65 years or over until reaching two third (66 percent) of those aged 65 years or over. On the contrary, there are only few males receiving a widowhood pensions as the only source of income. The gender gap of retirement pensions non-coverage is 46.1 percent and it reduces to 21.2 percent if we take into consideration both the widowhood pension and retirement pensions. See Figure 2.

![Coverage in retirement and widowhood Social Security pensions.](image_url)

**Fig. 2.** Gender coverage rate: retirement and widowhood pensions  
Source: Social Security Statistics and INE population (2016).

2.1.2. Gender gap in pensions income

Spain is the ninth country in the European Union where the gender gap in retirement pensions is more accentuated. The gender gap in pensions of people aged 65-74 is high (37%) and it is even higher for those aged 75 years or over (about 40 percent). Widowhood pensions slightly alleviate poverty for women aged 65 years or over who have not access to retirement pension. See Table 1.
Table 1. Retirement pension income (euros/month)

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>Males</th>
<th>Females</th>
<th>GAP (F/M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 65-74</td>
<td>1 157.82</td>
<td>1 325.78</td>
<td>870.15</td>
<td>-34.4%</td>
</tr>
<tr>
<td>From 75-84</td>
<td>916.56</td>
<td>1 082.08</td>
<td>633.99</td>
<td>-41.4%</td>
</tr>
<tr>
<td>85 onwards</td>
<td>778.16</td>
<td>946.97</td>
<td>569.31</td>
<td>-39.9%</td>
</tr>
<tr>
<td>Total</td>
<td>1 052.01</td>
<td>1 220.65</td>
<td>768.54</td>
<td>-37.04%</td>
</tr>
</tbody>
</table>


*Non-contributory pensions* (NCPs) alleviate the poverty of old people slightly\(^{11}\). Around 255,000 people are beneficiaries (2.6% of the population aged 65+). The average pension is approximately 356 euros per month, earnings that are far from equalling the minimum contributory retirement pensions (636 euros per month). The gender gap is evident again as three quarters of beneficiaries are women.

3. How will the pensions be in the future?

The pensions in the future will be the result of what is happening, at present, in the pension system and in other transversal policies such as labour market, education, family care responsibilities and others. Women have to fight in two fronts: first, into the pension system to assure a retirement pension enough to live a decent live and, second, into the labour market policies and other transversal policies to assure a length of working life and enough social contributions to get the maximum of pension.

3.1. Spanish pension reform system

Spain is one of the countries whose reforms in the pension system have been aimed at guaranteeing the sustainability of the System. One of the main reasons for the reform in 2011 was the demographic projection between 2010 and 2060, with the foreseeable increase in the dependence rate and the estimate of the increase in people aged 65 and over, whose figures are estimated to double (from 7.7 to 14 million). The Government's objective was to introduce measures to reduce the expenditure in pensions. Thus, instead of going from 10.1% to 16.8% of GDP (expected for 2060), spend at 13% of GDP. So, the expenditure on pensions would increase 3.6 points of GDP against the 6.6 expected points in a scenario without reforms.

The implementation of the reforms is progressive and will be developed over a period of fifteen years (2013-2027) during which time the changes to the parameters will be gradually implemented. Present changes have already been reflected in the previous paragraph.

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\(^{11}\) The beneficiary of a non-contributory retirement pension is required to be a resident in Spain for at least 10 years, two of which must be immediately prior to the date of application for the pension.
The main changes introduced in the pensions reform (from 2013 to 2027) are the following ones:
- Increasing the age of retirement: From 65 to 67 years. But, it is possible to retire at 65 years if one has contributed 38 years and six months.
- Increasing the number of years of contribution to receive the 100 percent of the pension: From 35 to 37.
- Increasing the number of years considered to calculate the amount of pension: From 15 to 25.
- Strengthening the relationship between pensions and pensioner’s life expectancy through the “sustainability factor”. This measure will start in 2019.
- Tightening the requirements for early retirement and partial retirement.
- Limiting the increase in pensions through a new revaluation index set by the Government (PRI) which is capped between a minimum (0.25 percent) and a maximum of the CPI (Consumer Price Index) increased in 0.5 percent.

Most of the measures are aimed at paying pensions for a shorter time and at reducing its amount. Especially important is the impact of the new pension revaluation and the sustainability factor.

In the long term, de-indexation of pensions to the CPI, tightening the conditions for determining the retirement pension and the “new” sustainability factor that will come into force in 2019 will cause a progressive decrease in pensions. According to the Ageing Working Group (AWG) estimates, Spain is one of the countries where retirement pensions will be affected by the most severe cutbacks as a result of the latest reforms (2011 and 2013), which will entail decreases of between 30 and 40 percent in the period 2013-2060 (Hernández de Cos and Jimeno 2017).

The sustainability factor will reduce women’s pensions in greater proportion than those of men due to the fact that the reducing coefficient is calculated on the increase of life expectancy of the new retirees, at the time of their retirement, in relation to the previous ones. At present, women’s life expectancy at 65 years is 23 while that of men is 19.

By comparison with the rest of the EU countries, Spain would experience one of the biggest decreases in the average replacement rate during the period 2013-2060. In 2016, the Theoretical Replacement Rate (net earnings) at the average career length case (AWG) is 85.3 percent for men and 91.3 percent for women. It is above the average rate in the EU-28 (71 percent) (OECD 2017). But, in a long term, it is foreseen that this rate will decrease significantly for those with shorter labour careers (51.9 percent) and early exit from labour market, especially when nearing the retirement age (73 percent).

### 3.2. The impact of labour market in the future of women’s pensions

As said in the Joint Report on Employment of the Commission and the Council of the European Union (COM 2016), women are still under-represented in the labour market and they are affected by a significant wage differential. The employment gap between men and women is still very large, especially in the case of mothers.
and women who have responsibilities as carers. The wage gap, combined with a shorter working life, often results in lower pensions for women.

In Spain, in 2016, the wage earnings gap is 20%. Among the causes of this gap there is the fact that women work, more than men, in part-time jobs and in temporary contracts as we can see in the difference on average hours per week. See Table 2.

**Table 2. Retirement pension income (euros/month)**

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th>Females</th>
<th>Gap F/M</th>
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<tbody>
<tr>
<td>Average monthly salary</td>
<td>2075.7</td>
<td>1661.0</td>
<td>-20%</td>
</tr>
<tr>
<td>Average hours per week</td>
<td>38.9</td>
<td>33.8</td>
<td>-13%</td>
</tr>
</tbody>
</table>


The recent report on equality between women and men (EU 2017c) that non-standard forms of employment are associated with lower hourly wages. This increases the gender pay gap, as women are more frequently employed in non-standard forms of work.

Stereotypes persist about the role of men and women in society and, by extension, whether they should be in the labour market or at home. This is one of the main causes of the wage gap between men and women. Men, on average, spend much less time caring for children or dependents, while women cannot devote that time to paid work, or to obtain an experience that will help them throughout their working life (COM 2017a). In Spain, the percentage of part time due to care responsibilities is 1.9% in males while in females it is 13.1%.

**4. Policy debates**

The 2011 and 2013 pension reforms have not yet been completed. The “Parliamentary Committee for the Monitoring and Evaluation of the Toledo Pact” (Toledo Pact) resumed its work on 28 September 2016 with the appearance of social and economic actors, experts and political leaders who debated, along with representatives of all political parties, the challenges of reforming the public pension system and the policies into which the reforms could be translated.

In a context of budget deficits of the public pensions system since 2012, debates on the sustainability of future pensions have tended towards an increasing polarisation. On the one hand, the experts and financial groups base the future sustainability of the pensions system hanging from a “defined benefits system” to a “defined contribution system”, especially on introducing the development of the notional accounts. In turn, other experts and social actors advocate the improvement of the current pay-as-you-go system by supplementing contribution revenues with general taxes or specific taxes to guarantee adequate pensions such as in France with a specific tax (Generalized Social Contribution).

In Spain almost, the entire pension depends on social contributions but in the average of the OECD countries, this correlation is two thirds (OECD 2017b).
Spanish retirement pensions system. Gender impact on inequality and poverty

However, the demographic or ageing factor is not the factor par excellence that will affect the sustainability of the pensions system. It is also necessary to consider the problems of Spain’s economic and labour structure, characterised by some new labour relations (self-employment and non-standard work), relatively low productivity and low-skilled labour markets.

The challenges for the future adequacy of pensions will be to maintain a high rate of labour career length, to decrease the rate of non-standard work and to reduce the gender gap in wages, while promoting a high rate of employment and an increase in labour productivity, as well as promotion of social policies that favour work-life balance to enable the insertion and continuity of women in the labour market.

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