

Social Policy and the Global Crisis: Consequences and Responses

Stream 10: PENSION POLICIES

2007 Portuguese Pension Reform: an atypical case of retreat from the multi-pillar approach.

Name: **Daniel Fernando da Soledade Carolo**

Affiliation: Ph.D. student at Social Sciences Institute – University of Lisbon
ICS-UL

Postal address: Instituto de Ciências Sociais – Universidade de Lisboa
Avenida Professor Aníbal de Bettencourt, n.º9,
1600-189 Lisboa - PORTUGAL

Phone number: +351917827237

e-mail: daniel.carolo@ics.ul.pt

[Draft version 30th August 2010 - COMMENTS ARE WELCOME -- Please do not quote without author's permission](#)

Summary: The Portuguese 2007 pension system reform seems to be an exception in the ongoing pension reform process in Europe. This reform was implemented in 2007, which means that some of the sustainability risks were already addressed before the financial crisis. Moreover, although the 2007 reform policy options contrast with some international recommendations, the reform process was politically well successful. The aim of this paper is to provide an explanation for these dissimilarities, based on the analysis of three dimensions: i) *Which Portuguese pension reform policy options and institutional factors made the Portuguese reform distinct from the ongoing pension reforms across Europe?* First, this paper will focus on policy options, namely the trade-off between pension generosity and retirement age, and the retreat of the introduction of the private pillar. ii) *How to explain the implementation of such a deep and unexpected reform especially if we consider the social and political problems in the other EU countries?* In this section, we will shed light on the exceptional constellation of factors that may explain this. Some of the ‘windows of opportunity’ that legitimated the government strategy to avoid expected political costs will also be presented. iii) *What were the crisis effects and its policy implications?*—Despite being implemented in 2007, some of the reform's policy mechanisms are being challenged due to the current economic crisis context. Thus, this paper's aim is also to present some preliminary outcomes of the pension reform, such as the incentives to postpone retirement, the public complementary pension scheme creation, new pensions' indexation rules and the evolution of pensions' amount after the introduction of the sustainability factor in the pension formula. These indicators are crucial in order to assess how the current crisis is affecting inequality and disadvantaged groups, namely the lowest-income elderly. In spite the fact that this analysis is focused on a single country, it can provide important insights about the factors that make reforms possible in the context of Southern European countries. In this case, Portugal contrasts sharply with Greece, for example. Furthermore, while in some countries the increase of retirement age is controversial (Germany, Spain, Greece), the Portuguese Reform implemented a mechanism to delay retirement age without social hostility, probably due to a successful blame-avoidance strategy and the ‘flexible’ policy options. The Portuguese reform was in fact considered a successful case amongst EU and OECD countries.

2007 Portuguese Pension Reform: an atypical case of retreat towards the multi-pillar approach.

Introduction

Contrary to other European countries, namely France, Greece and Spain, the pension reform is not an issue in Portugal. The Portuguese Minister of Labour and Solidarity confirmed this, in an interview on July 6th 2010¹.

Furthermore, the Portuguese reform was even considered a successful case amongst OECD and EU countries by the European Commissioner for Employment, Social Affairs and Inclusion, Lászlo Andor, during the presentation of the conclusions of the Pension *Green Paper* on July 7th 2010, praising the Portuguese reform as an “exemplary case” because “it was done before the pressure brought on by the crisis and it helped to strengthen public finances”².

It is important to state that the reform justification argument seems nowadays to be only centred on financial sustainability. This was also the case in Portugal, even for a reform implemented in 2007, before the crisis. It is also crucial to note that Pension reforms are usually supported on a comparative basis. Again, the Portuguese minister stressed that in comparison with other countries, the Portuguese system was not under pressure³.

Consequently, the Portuguese 2007 pension system reform seems to be an exception in the ongoing pension reform process in Europe. Because the reform was implemented in 2007, major sustainability risks were already addressed before the financial crisis. Moreover, although the 2007 reform policy options contrast with some international recommendations, the reform process was politically successful.

Regarding the effects of the reform, the last data on the main social indicators appear to indicate an improvement of welfare efficiency, based on the poverty reduction from 18,5% in 2008 to 17,9 in 2009 (INE, 2010). However, this is yet a estimation. In fact, the final data only covers 2008.

¹ Published in *Jornal i*, 6 July 2010: <http://www.ionline.pt/conteudo/68021-helena-andre-portugal-nao-tem-em-cima-da-mesa-qualquer-alteracao-ao-sistema-da-seguranca-social>

² This reference was published in Portuguese daily newspapers (eg. *Jornal de Negócios*, 8 July 2010, p. 29). http://www.jornaldenegocios.pt/home.php?template=SHOWNEWS_V2&id=433687

³ Reference in note 1.

This means that we do not have conclusive data to address the possible consequences of the crisis on the welfare of society. Nevertheless, it is possible to explore this topic looking at the institutional reforms, led by the governments in the context of the crisis. One of the main fields of Welfare State intervention is the Pension system.

The paper is structured in three sections:

- I. Policy changes implemented with the 2007 reform
- II. Socio-economic and political factors which may explain the reform
- III. Crisis effects and policy challenges

Concerning the methodology, this analysis is focused on a single country. Besides this limitation it is important to take into account that, as Atkinson argues, "in the European Union, the inequality inside the member states, is the determinant factor that explains the European income inequality (Atkinson, 1996: 57-72). Thus, it is very important to make sure that the differences among countries do not disregard the need to attend to domestic inequality dynamics. This is the reason why it is interesting to analyse the Portuguese reform of social security system in order to assess its ability to face domestic social and political challenges. Moreover, this could provide important insights into the explaining factors that make reforms possible in the context of Southern European countries. In this respect, Portugal contrasts sharply with Greece, for example. Therefore, the aim of this paper is to provide an explanation for these dissimilarities.

I. Policy changes implemented with the 2007 reform (Factors)

This section seeks to answer the following question:

Which Portuguese pension reform policy options and institutional factors made the Portuguese reform distinct from the ongoing pension reforms across Europe?

First, it is necessary to look at the evolution of the Portuguese pension system⁴ before the 2007 reform. In terms of OECD data, Portugal spent 10,5% of gross domestic product (GDP) on old-age and survivor's pensions in 2003, compared with an OECD average of 7,7%. Portugal's spending was exceeded by France (12,3%), Germany (11,7%) and Italy (13,9%). But Portugal's pension spending has grown faster: from 5,4% of GDP in 1990 to 10,5% in 2003 (OECD, 2007). Moreover, the old-age dependency ratio is projected to increase from 25,2% in 2004 to 58,1% in 2050. (European Commission, 2008: 351). Before the reform, an average income earner in Portugal could expect a net replacement rate of 113%, meaning that net income at retirement for a full-career worker would exceed the net earnings when working. This would have made it the highest net replacement rate in the OECD, just above Greece but much higher than Italy and Spain (OECD, 2007). In fact, the Portuguese expenditure amounts have increased since joining the EU and today are closer to the EU average. On the other hand, this great expenditure increase did not solve some long-established social welfare gaps, such as poverty, low wages and social benefits, as well as the increasing of income inequality⁵. Yet, this reveals a strong mechanism of welfare inequality within the social security system. People who have the highest incomes will always receive, even if in relative terms, the highest benefit. This could be named the "Robin-Hood paradox" (Lindert, 2004).

Therefore, the aforementioned elements and data present socioeconomic and social equity reasons that made the pension reform predictable and probably indispensable.

The 2007 Portuguese social security reform (Law n.º 4/2007) was the most significant

⁴ A description of the Portuguese pension system is provided at ISG (2009b: 81-82).

⁵ About the income inequality increase in Portugal, see Rodrigues (2007).

pension reform since the democratic transition (1974) and the first framework Law on Social Security (1984).

This reform followed the pension reform process initiated in 1996, which culminated in three reforms in 6 years: 2000, 2002 and 2007.

Table 1: Pension Reforms description in Portugal

	Policy dimensions	Political support	a) Replacement effect	b) Trade Unions	c) supranational influence	Reform impact
2000 (Law n.º 17/2000)	- Pension calculation should progressively be based on full career wages - possible introduction of “plafonamento”/2 nd pillar: private and voluntary (conditional)	PS (socialist relative majority) + Parliamentary discussion with all parties -	<i>high</i>	Wide Social concertation process with Unions + experts’ commission report	EU – Maastricht convergence	<i>low</i>
2002 (Decree-Law 35/2002)	- Pension benefit based on full career wages - “plafonamento”/2 nd pillar: private and voluntary (unconditional)	PSD & CDS-PP (right coalition with absolute majority) - Parliamentary discussion	<i>low/high</i>	UGT and CGTP voted against	Domestic crisis	<i>low</i>
2007 - (Law 4/2007) ⁶	- new pension formula - sustainability mechanisms - 2 nd pillar retreat	PS (socialist absolute majority) - Parliamentary discussion	<i>low</i>	UGT in favour; CGTP against.	EU and OECD - legitimacy	<i>high</i>

⁶ The original text can be found at: <http://www.dre.pt/pdf1sdip/2007/01/01100/03450356.PDF>

The 2007 reform followed the EU and OECD recommendations in order to ensure the financial sustainability of the system and reduce budget imbalances. In general, it seems to be a parametric reform. Like previous reforms in 2000 and 2002, the 2007 Social Security reform was predominantly a financial reform. This argument can be warranted with some facts: there is no institutional change in terms of the design of the social protection system; there is no evidence of cutting social rights in terms of risk coverage, eligibility and access to social security benefits. The new measures will be introduced in a gradual way, ensuring a transition period.

The main element of this reform is a significant change in the calculation of pension benefits. This reform introduced a new formula for the calculation of pension benefits, which considers the average wage of a person's full career, instead of the best 10 years (until 2000) or the last 15 years (until 2002). The retirement age remains untouched at 65 years for both male and female workers. However, this reform established a new mechanism – the sustainability factor – that automatically adjusts pension benefits to the increase in life expectancy. This means an implicit gradual increase in the retirement age, which implies the choice to postpone retirement or suffer a penalization in the pension benefit. Related to this is the promotion of incentives to prolong working years and, of course, the future examination of special conditions for early retirement. The reform also introduced a new indexation mechanism (*IAS*⁷) for calculating adjustments to pension benefits (replacing the national minimum wage as a reference) (CES, 2006 and European Commission, 2008: 351).

The immediate consequences of these measures were a retreat in the commitment to promote a multi-pillar pension system. In fact, the possibility of the introduction of a contributory and benefit upper ceiling ('plafonamento') was already present in the 2000 reform, depending on the positive impact on sustainability and was, again, pushed to the discussion as a crucial feature of the 2002 reform. However, due to political instability it was never put into practice. Then, the withdraw of this issue after the 2005 elections making it a clearly distinctive institutional feature of the 2007 reform. Sustainability was addressed but the pension system remains fully public and based on one universal pillar, which means a retreat in the goal of previous

⁷ Lei n.º 53-B/2006, de 29 de Dezembro. Available at: <http://www.previsao-sgfp.pt/pdf/Lei%2053B-2006.pdf>

reforms towards a multi-pillar evolution⁸. Besides the maintenance of the benefit formula introduced in the 2000 reform, the transition period was anticipated between the former and the new formula for establishing the assessment of average earnings along the worker's full career. The safeguard possibility of option between the more favourable of the two formulas was also eliminated. From 2007 onwards the benefit is based on the two formulas corresponding to different periods.

These features suggest that the 2007 Portuguese Pension Reform was an atypical case of retreat from the multi-pillar approach, which contradicts the international pension recommendations. However, the reform introduced innovative policy mechanisms regarding the demographic challenges, such as the sustainability factor, and had, above all, an important effect in the strengthening of the system's financial sustainability.

Regarding the effects of the international crisis, pension system sustainability is no longer a political concern. Moreover, any incentive to develop a second pillar is absent, however, the government created a voluntary complementary public pension fund in 2008⁹. By contrast, there are negotiations to incorporate some special occupational schemes, which are residual in the national context, such as bank employees' pension funds, in the Social security system. In addition, the risk associated with financial markets dependence is potentially lower than in other countries.

⁸ It is important to mention the existence of national studies proposing different options towards a multi-pillar pension system: Comissão do Livro Branco (1997); Rodrigues & Duarte (2005); Rodrigues & Pereira (2007).

⁹ Legislation on CFR – Public retirement funded supplement: Decreto-Lei n.º 26/2008, de 22 de Fevereiro.

II. Political factors that may explain the reform

Behind the need and socioeconomic determinants of the 2007 reform, there is another side of the story, which concerns ~~to~~ the political process of reform implementation. The specialized literature on welfare reforms has provided important insights. However, this approach has focused less on conditions to carry out deep reforms and more on difficulties to reform due to political preferences based on perceptions whether change could be seen as undesirable, and therefore prone to face strong opposition from entitled corporate groups in order to maintain their status quo and keep their social position¹⁰.

What were the main driving factors that were used to justify the reform?

and

How to explain the implementation of such a deep and unexpected reform especially if we consider the social and political problems in the other EU countries?

To answer these questions this paper tries to throw light into the exceptional constellation of factors (Starke, 2008) that may explain Portuguese reform features. Some of the ‘windows of opportunity’ that legitimated the government strategy to avoid expected political costs will be also discussed.

Taekyoon Kim (2010) argues that welfare state evolution should be considered as an institutional process of adaptation to the welfare demands: “national emergencies; economic challenges and political transitions” (Kim, 2010: 492).

Within the Portuguese reform it is possible to find all these demands. The national/domestic emergency was the need to consider the new estimations after a huge change in the macro-economic expected evolution, combined with the budget crisis since 2002. The economic challenge, common to all countries, was to face reform of PAYGO systems due to the demographic evolution. Finally, as a result of a political crisis, there were anticipated elections in 2005. The Socialist Party won the election with absolute majority. The result was an unexpected power to reform allied

¹⁰ See Pierson (1994) and Starke (2008) as two representative studies on each opposite perspective.

to the implicit political compromise of withdrawing the 2002 social security reform, led by the conservative coalition party, CDS-PP, in the former government. The reform proposal was presented at the beginning of 2006, i.e., less than a year after the government took office.

Regarding the political replacement risk (Carrera, Angelaki, Carolo, 2010: 8), if “pensions are political dynamite” (Blackburn, 2002), the Portuguese case seems to provide evidence about the way to make a deep reform, avoid social tension and, simultaneously, being recognized internationally as an exemplary case of a ‘well done’ reform.

In this part, five political aspects will be presented that may explain the reform success.

a) Government transition:

The Socialist party won the 2005 elections and achieved its first absolute majority in Parliament. As it was already analysed, the Portuguese system has moderate veto points and veto players (Andersen et al., 2007: 32-33). Thus, for the government this fact provided an exceptional ‘window of opportunity’ because became possible to pass any reform. Moreover, it is interesting to note that a government that reformed social security was re-elected for the first time in Portugal. This is the case of PS (Socialist) in the last elections on September 27, 2009. Still, the PS lost the absolute majority, but this was probably caused by other policy options over career schemes in the public sector¹¹.

b) Social Concertation:

Concerning the bargaining process, besides the majority in the Parliament, any Government needs to achieve an agreement in the Social Concertation Council when legislation refers to labour market and social protection issues. In this institution are represented the Government, the employer’s associations and two major trade unions, the CGTP linked to the Communist Party and UGT linked to the ruling of Socialist Party. As expected, it was easy to have the agreement of UGT. Moreover, regarding the issues of political concessions (Natali and Rhodes, 2008: 43), the policy option of

¹¹ In Greece may happen something similar, according to the last pool published on the daily newspaper AXIA, 16 July 2010.

discarding the multi-pillar model helped to smooth the trade union opposition, given that the 2007 proposal was seen as a left oriented reform, contrary to 2002. Probably also important, both Unions maintained its institutional position within the social concertation¹² because the system remained a single public pillar provider.

c) Party competition

After the agreement in place of Social Concertation, the reform proposal was presented in the Parliament. Besides the expected opposition of the “radical-maximalist and divided Left”¹³, the main opposition party PSD (social democrat) presented a radical reform proposal based in a transition for a funded pension system. In the opinion of the Secretary of State for Social Security¹⁴, this extreme cleavage between the two proposals helped the government strategy, in the sense that it strengthened the credibility of the government proposal and its policy options as the only realistic solution available. This fact allied to the existence of an absolute majority in Parliament created a rare political juncture marked by weak veto points and no feasible policy alternatives to contribute to political debate and public discussion. (Only the Presidential Veto remained, and it could only constitute a provisional delay until the third Parliament approval).

d) Multidimensional crisis

One of the main expectations and discussions during the 2005 elections was the need to implement hard and deep reforms. This means that, in the middle of an economic crisis, political instability caused by three governments between 2002-2005 and a perception of the risk of social security collapse, the electorate was more prepared than ever to accept reforms. Moreover, as a result of economic crisis and recurrent budget deficits (since the transition to democracy in 1974, Portugal never reached a positive budget balance), people believed that the social security system was at risk of insolvency. It is important to state that this was availed by the government, which dramatized the situation arguing in 2005 that in 2010 the system would not be able to

¹² For a description of Trade Unions role in the reform process see Carrera, Angelaki, Carolo, (2010: pp. 14-16).

¹³ About this topic see Ferrera, (1996: 30).

¹⁴ Interview n.º xxx in (Carolo, 2010?) PhD thesis dissertation to present until December 2010.

pay pensions. Regardless of the government's exaggeration and political opportunism, the fact is that many people believed in this possibility and began to fear for the future of the system¹⁵.

e) A successful strategy of communication in the mass media

The government prepared, probably for the first time, a cautious and planned strategy of communication, arranging private meetings to explain the reform before the public announcement in the press and TV. The government also benefited from the opportunity to participate in TV debates about the future of social security pensions. All of these aspects helped to create the idea of the absolute need for reform and, simultaneously, the idea of the proposal's excellence in finally addressing the sustainability challenge as well as ensuring the defence of the welfare state¹⁶.

In addition to the political aspects, it is important to bring up the nature of policy measures already described in part I. While in some countries the increase of retirement age has been a controversial issue (Germany, Spain, Greece), the Portuguese Reform implemented an intelligent mechanism to delay retirement age without social hostility, probably due to a successful blame-avoidance strategy and the 'flexible' policy options. These measures led to a minor effect for current workers near retirement and a huge cut transferred to the youngest working cohorts. This may explain, at least in part, why the Portuguese reform was considered a successful case amongst OECD and EU countries.

However, it is crucial to analyse the effects of the 2007 reform in terms of distributional outcomes, since one should expect class coalitions to be determinant for the legitimation of the reform and its political support (Esping-Andersen, 1990).

The preliminary hypothesis can be stated as follows: if the reform does not change the overall relative positions the less opposition will be expected: as Pierson pointed out, people are more susceptible to value losses than gains in the political

¹⁵ It is impossible to determine the early retirement causes related to the system distrust or benefits advantages, **however**, in fact, after the 2007 reform the applications for early retirement increased strongly even with **the increase of** penalizations.

¹⁶ For example see a interview with the Secretary of State for Social Security Pedro Marques, held in June 2007 and published in the daily newspaper *Jornal de Negócios*.

arena. Thus, reforms may have electoral costs for governments (Pierson, 2004; Vis, 2009), and it is possible to predict that selective cuts will face more opposition than generalised ones. Therefore, governments will be compelled to adopt blame avoidance strategies while implementing reforms. The analysis of the results in the next section of the paper will bring empirical evidence about this prediction. The appropriate indicator might be the redistribution gains, in order to identify who will benefit from the reform changes.

III. Crisis effects and policy challenges

In this section, one should shed light on into the consequences of the current financial crisis. Given the Portuguese singularities, it is possible to sustain that the main expected effects in the pension system are not taking place. Therefore, there is no change in the regulation of private schemes or state intervention, since the former are almost inexistent. But there is on the table the possibility of a cut in the fiscal benefits for private pension savings funds¹⁷ to control State budget debt. The political discourse has focused on defending the public system since 2007. Nevertheless, some of the 2007 reform policy mechanisms are being challenged due to the current economic crisis context.

What were the crisis effects and its policy implications?

The main implication of the crisis on pensions was to the civil servants convergence process, which affected only this sector. The Government decided to accelerate (it was not a new measure) the convergence with the social security system, that had already been decided for a later date: 2014/2015. There were three changes: 1) an immediate increase of retirement age to 62,5 (in social security it is 65) and the promise to increase to 65 by 2012 instead of 2015; 2) the adoption of the same scheme of penalization for early retirement (0,5% per month instead of 4,5% per year) as already in practice in Social Security; 3) last but not the least (this is probably new), there was a “minor” correction on the transition rules from the former civil servants status regime to the application of the new formula, which in fact put an end to the principle of the last wage as a basis for pension calculation.

Yet, in 2009 an interesting fact happened. Because of the crisis, the inflation was negative in 2008. According to the 2007 indexation rules, a negative inflation should have determined the reduction of pensions in nominal terms. Thus, the opposition in the Parliament claimed for a reform in the indexation rules introduced in 2007. However, the government refused that request and opted for an exceptional actualization in order to keep the values of pension. This reflects the social effects of the introduction of ‘automatic’ mechanisms in social programs (Carolo, 2008: 13).

¹⁷ In Portugal this is called PPR – personal retirement saving (Decreto-Lei n° 158/2002, de 2 de Julho de 2002). PPRs’ are financial products with a taxation benefit associated as an incentive for individual savings for future retirement. However, this is entirely voluntary and does not constitute a private pillar.

However, the aim of this paper is also to analyse some preliminary outcomes of the 2007 pension reform. If it is true that the reform preceded the effects of the crisis, it is also true that its consequences are taking place in the middle of crisis. Therefore, the three main dimensions of the pension system will be considered – sustainability, adequacy and equity. This type of analysis is crucial in order to assess how the pension system is affecting inequality and disadvantaged groups, namely the lowest-income elderly in the current crisis context.

i) Sustainability: the reform has been in fact considered exemplary in addressing the sustainability challenge. According to the Ageing Working Group in 2006, Portugal was the country facing the higher risk related to expenditure increase in the pension system, since the estimation of age-related spending increase was the highest in the EU, with pensions as the main component (AWG, 2006: 12). However, after the 2007 reform, the 2009 AWG's report puts Portugal in a safe situation below the EU average. In the 2006 report, the expenditure projections presented an increase from 11,1% of GDP in 2004 to 20,8% in 2050 (AWG, 2006: 71, 83). In 2009 the same publication presents an increase in pension expenditure of only 2,1 pp. until 2060, when previously, in 2006, the projected increase was 9,7 until 2050 (AWG, 2009: 29). These data provide evidence of the great success of the Portuguese reform in dealing with the sustainability issue. On the other hand, the merit of the Portuguese reform in the anticipation of the financial crisis had also a perverse effect on the increase of early retirement, even after the strengthening of penalizations. Probably, this effect was a consequence of the people's distrust in the guarantee of stability and entitlements of the pension system. As Nicholas Barr already stated, due to the uncertainty about future, pension benefits are a question of 'promise' (Barr, 1993: 212- 213). Thus the issues related to the individual fearing social risks and people's trust in the pension systems are quite important, both in terms of the effects of reforms and of further political capacity to achieve them.

ii) Adequacy: The sustainability improvement achieved with the 2007 reform was made through the cut on pension benefits due to the new formula, the consideration of wages of entire working career, and the introduction of the sustainability coefficient to neutralize the longevity increase. Obviously, these measures will reduce pensions (ISSA, 2010). The future pension benefits, measured by replacement net rates that will change from 90,7% to 70,6% (ISG, 2009b: 83) in an optimistic scenario for an

average worker did not take into account the crisis effects. Moreover, the results for the lowest wages could be lower than the former rates. This brings the need to address the consequences on the adequacy and equity dimension.

iii) Equity: In sum, it is possible to sustain a positive reform effect on financial sustainability and domestic institutional convergence between pension systems for private and public employees. In an international comparison, the policy mechanisms to address life expectancy increase and incentives to postpone retirement placed Portugal in the group of the most advanced countries. However, this positive policy convergence does not have a parallel in the system outputs: some regressive pension features remained and the lower adequacy determines an increase in the risk of poverty. Last but not least, following a redistributive approach, besides the implementation of the new formula, which is lightly redistributive, and the introduction of means-tested solidarity supplement (CSI) to improve monetary conditions of the poorest pensioners, the question of a system guarantee of a social minimum fulfilling both criteria of adequacy to avoid poverty and equity to redistribute in order to provide a highest relative benefit, according to the *rawlsian* principles of distributive justice, are not achieved yet. This means that the basic principles of ensuring the highest relative benefits for low wage earners, measured by replacement rates and a minimum level of adequacy to avoid poverty are not guaranteed in the Portuguese social security system. This issue is more relevant in a country where the low pensions for most of beneficiaries is one of the major factors of accounting for high poverty and income inequality.

From an institutionalist perspective, the lack of equity represents an indicator of system inefficiency. Thus, the surprising aspect was that this problem was not addressed by the 2007 social security reform, which gives evidence of the lack of redistributive motivation at the political level.

The 2007 Portuguese pension reform effects in a comparative perspective

According to the 2010 joint report on social protection and social inclusion, considering all pension benefits, Portugal has a very low guarantee on adequacy (46%) even in the context of Southern European countries. In 2060 the scenario will be worse (33%). Considering public and private pensions in the 27 EU member-states plus Norway, only countries such as Ireland (32%), Lithuania (32%), Poland (31%), Latvia (25%) and Estonia (22%) present a lower level of protection. This could be seen as an indicator of relative divergence on adequacy protection, at least in comparison with other countries. Until 2007 there were 12 countries with lower benefit ratios than Portugal. In 2060 only five countries, four from latest EU members of Eastern Europe plus Ireland, are expected to present a slightly lower benefit ratio (32%). However, the Ireland case represents a positive evolution, since in 2007 the benefit was only 27% (European Commission, 2010a: 27, Figure 4).

The low adequacy level is related to the values of minimum and disability pensions, which in Portugal still play an important role. Therefore, if we consider replacement rates for typical workers, the projected decline on overall net replacement rates is common to other 12 member-states (ISG, 2009: 17-18). However, comparative data also estimate a decrease of 20% in the replacement rate of pension for a worker with a profile of a 40-year career, 65 years of age and average salary (European Commission, 2010: 28). This is the second largest cut in comparative terms, surpassed only by the Czech Republic (*idem*). However, the same report estimates that, despite the cut, in 2060 the Czech Republic will have a higher replacement rate than Portugal: 38% versus 33% (European Commission, 2010a: 28, Figure 5).

At this point, it is already clear that the 2007 Portuguese pension reform reveals a new paradox: an innovative policy convergence and institutional system uniformity¹⁸ with the core welfare state systems, yet at the expense of a path-divergence of the Portuguese pension system towards the welfare convergence on adequacy, determined by the decrease of replacement rates. One clarification is necessary. These results are not guaranteed because are based on projections and

¹⁸ Meaning, the elimination of regressive pension system features, such as special regimes and incentives to manipulate contributions and uniformity of pension entitlements between social security and civil servants scheme.

dependent on a favourable scenario regarding the increase of life expectancy,

Table 3 in progress (excel file) Annex 1

This is evident even in the cluster of Southern European Countries, where Portugal moved from a position of relative high generosity (after Greece) to a position of lowest adequacy. Nonetheless, this conclusion requires caution since this position results from a systemic reform, which has not taken place in Greece and Spain yet. Therefore, further research will be needed to assess the ongoing reform plans.

Finally, it is also important to evaluate the *equity* in the redistribution of pension benefits. In theory, the new formula is slightly progressive because it benefits lower wages. However, the challenge to ensure pension adequacy for low wages remains and could increase due to the effect of the sustainability factor. This is also supported in the international reports because net replacement rates for low earnings remain regressive in Portugal (ISG, 2009: 28). This was related to the taxation because in 2002 was implemented, for the first time, a progressive pension benefit formula. After the 2007 reform this formula was generalized¹⁹. Hence, the regressiveness is a result of taxation²⁰ since the gross replacement rates are slightly higher for low incomes. The low wages problem is also a methodological challenge and the information available is insufficient, namely for minimum wages: this recognized in the ISG (2009) report²¹.

Another important feature of the system, and perhaps overlooked, is the pension's contribution 'guarantee' during unemployment. In this case, Portugal and Malta are the only countries where there is not a penalization in pension benefits for career breaks due to unemployment (European Commission, 2010a: 34, Figure 9),

¹⁹ In order to ensure the pension entitlements for oldest workers the application is limited to the period after 2005. Therefore, for these workers, the pension benefit will be calculated based in two different periods and formulas.

²⁰ For a comparative study on taxing the low ages, see Kemmerling (2009).

²¹ "One of the weaknesses with the variant case calculations is that there is currently limited data for the complementary background information with regard to the variant cases used. Such information would allow for a better interpretation of the results and improve their usability in policy making. For example, in the variant case of a low income earner, it would be interesting to know what the coverage for such individuals is in occupational schemes, or in minimum pension schemes and means-tested benefits" (ISG, 2009: 32).

which constitutes an important guarantee to keep, especially in a crisis context where rising unemployment is one of the most urgent challenges to tackle.

What interpretations can be offered based on the previous reform outcomes?

a) Driving factors and explanations:

After all, crisis creates an opportunity to face and correct system inequalities, which is positive. However, to cut inequalities means affecting some specific groups. Thus, to achieve this goal avoiding political costs, the cuts should be generalised and not specific. Consequently, the equity gains will be small, but this is still an important achievement towards social justice.

b) Underlying reforms in the welfare state system:

Pension actuarial strengthening could be done without privatization, if the public pension system adopts an actuarial logic, such as benefits based on full career length and the sustainability factor introduction to avoid the life-expectancy increase effect in public expenditure. Also important is a return to selective policies instead of universal social basis guarantees, especially in Social and Minimum Pensions. Furthermore, the pension upper ceiling ('plafonamento') was politically discarded but included as a further possibility in the 2007 law²². Finally, the decrease in the replacement rates gives room for the need, more than the ideological policy option, to develop supplementary private pension schemes in a near future. This possibility is also confirmed in the ISSA (2010) report and could be an insight to understand the complexity of welfare reform. It is also possible to hypothesise that this could be part of a strategy to implement the reform in two steps, again covering political aims to undermine possible contestation focus and their consequences.

²² Artigo 58º, Lei n.º 4/2007, 16 de Janeiro. Available at: <http://dre.pt/pdf1sdip/2007/01/01100/03450356.pdf>

c) Social welfare contradictions:

The decrease in pension adequacy will increase the risk of poverty and diminish the role of the State in the crisis period, when it is more important than ever. The lack of redistributive investment remains. And social protection is more dependent on the economic performance and wages... (Pensions indexation, low replacement rates, higher unemployment). In Portugal, as in other countries, the system did not ensure redistribution for the lowest earners.

Conclusion

At this preliminary stage of research, it is impossible to draw exact conclusions from the results achieved by the Portuguese social security reform of 2007. Moreover, findings from one particular country or case cannot be generalized.

However, regarding the Portuguese reform process it is of interest to state that the pension reform was achieved because the government, negotiating from a strong position given its parliamentary majority, decided to adopt a mostly unilateral approach. Nonetheless, it was careful not to push for the introduction of a second pillar, obtaining Union support for a significant cut in future pensions (Carrera, Angelaki, Carolo, 2010: 15).

Concerning the crisis effects, first, one should to ask how to define the success in anticipating the arising negative consequences of the crisis on the pension schemes. Is it to improve social protection mechanisms or to strengthen the systems' financial sustainability?

The empirical results show a huge cut in the future pension generosity, contradicting the idea of impossibility of retrenchment, especially because the Portuguese system is clearly *bismarckian* and corporatist. Furthermore, in the theoretical field, it goes a little bit further as the Portuguese reform could be seen as an example of successful political strategy to avoid political costs associated with welfare state retrenchment. Nonetheless, the achieved results suggest that it is more difficult to recalibrate a system in a selective way pursuing equity goals, than to implement universal cost-containment measures affecting the adequacy of the system in a more comprehensive way. Therefore, it was clearly demonstrated that the maintenance of the public and single pillar feature of the Portuguese pension and its financial sustainability strengthening was achieved at the expense of adequacy, which can increase the risk of poverty for pensioners. Thus, the acknowledged success of the Portuguese reform suggests a conception of crisis that prioritizes public finance sustainability rather than social protection improvement. In sum, following a common sense prediction, in the political decision process the economic prevails over the social.

The subsequent government policy measures, agreed at the EU level, implemented following the debt crisis in 2010, due to the high 2009 budget deficit followed by the speculative attacks in the international credit market, sustain this

prediction. For example, in contrast to Spain, the Portuguese government's strategy in 2010 is not to pursue a reform in the labour market nor to create economic incentives on employment or reinforce the unemployment social protection, despite being timidly tried in 2009. From March until August, all social policy measures taken were focused on cost-containment goals in the specific domain of social assistance programs, affecting current beneficiaries and restricting the eligibility conditions to access those social programs. This plan is, probably, the most drastic retrenchment example in the Portuguese welfare state system. Besides the severe generalized taxation increase, the austerity measures will lead to cuts in the amounts of unemployment subsidies and minimum income program benefits, as well as the introduction of new rules in the means tested conditions and its generalization to all non-contributory benefits. Moreover, because the government is committed to achieve a reduction in budget deficit until 2013, upper limits for the social expenditure were defined²³.

This provides two additional insights for the analysis of the pensions issue. First, as in the 2007 pension reform, in 2010, again, the equity implications were not attended to in social assistance reforms²⁴. Second, the anticipation of the pension reform in 2007 could be seen as hypothetical explanation for such a radical cutback in social assistance during the current financial crisis. A possible explanation may rely on the presence of a huge budget deficit, given that the government had already used the reform on pensions to achieve an expenditure reduction in 2007. Thus, the easiest alternative is to implement a significant reduction on social assistance expenditure, affecting the neediest groups and imposing taxation increase on workers.

Finally, even if the social security systems become more sustainable financially as a result of such cost-containment automatic adjustment mechanisms, it remains an open question whether automatic adjustment rules will themselves be *politically* stable (Lindbeck, 2008: 14) and will affect the welfare state political legitimacy.

²³ These cost-containment measures are resumed in an official document from the Ministry of Finance (2010). For a description of social assistance measures see the Appendix A.

²⁴ Nevertheless, the crisis provoked a positive effect through the anticipation of the social security and Civil servants pension scheme (CGA) convergence. This might provide both positive effects on the sustainability of public finances and on the perceived equity of the pension system and welfare state.

References

- Anderson K., Immergut, E., Schulze, I. (2007), *The Handbook of West European Pension Politics*, Oxford, Oxford University Press.
- Anderson, Karen & Kurzer, Paulette. (2009), *Europeanization and Social Solidarity: Restructuring of Pensions and Health*, Paper prepared for the European Union Studies Association conference, April 23-25, 2009, Los Angeles. http://www.unc.edu/euce/eusa2009/papers/anderson_11F.pdf
- Atkinson, A. B. (1996), “Distribution des revenus en Europe”, *Revue française des affaires sociales*, nº1, Jan-Mar., pp. 57-72.
- AWG. (2006), *The impact of ageing on public expenditure: projections for the EU25 Member States on Pensions, health care, long term care, education and unemployment transfers (2004-2050)*, Special report n.º1/2006. Directorate-General For Economic And Financial Affairs. http://ec.europa.eu/economy_finance/publications/publication_summary6656_en.htm [último acesso em 1 de Junho de 2010].
- AWG. (2009), *2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)*, Joint Report prepared by the European Commission (DG ECFIN) and the Economic Policy Committee (AWG), European Economy No 2/2009. http://ec.europa.eu/economy_finance/publications/publication14992_en.pdf [último acesso em 1 de Junho de 2010].
- Barr, Nicholas. (1993), *The Economic of the Welfare State*, London: Weidenfeld and Nicolson, Second Edition.
- Blackburn, R. (2002), *Banking On Death: Or Investing in Life: The History and Future of Pensions*, London and New York: Verso. <http://www.amazon.com/exec/obidos/ASIN/185984409X/counterpunchmaga>
- Campos, Correia (2000), *Solidariedade Sustentada: Reformar a Segurança Social*, Lisboa: Gradiva.
- Carolo, D. (2008), “Europeanization and Welfare State Change in Portugal”, paper presented at VI annual ESPANET conference – The Network for European Social Policy Analysis, Helsinki – Finland, 18-20 September 2008. <http://www.etk.fi/Binary.aspx?Section=61331&Item=63237>
- Carrera, L., Angelaki, M., CAROLO, D. (2010), “Political competition and societal veto players: the politics of pension reform in Southern Europe”, *Rivista Italiana di Politiche Pubbliche*, , n.º 1, April 2010, pp. 5-31.
- CES – Conselho Económico e Social (2006), *Acordo Sobre a Reforma da Segurança Social, Comissão Permanente de Concertação Social*, Lisboa, 10 de Outubro de 2006.

- Chuliá, Elisa e Asensio, María (2007), «Portugal: in search of a stable framework», in: K. M. Anderson, E. M. Immergut e I. Schulze (Eds.), *The Handbook of West European Pension Politics*, Oxford, Oxford University Press, pp. 499-554.
- Comissão do Livro Branco da Segurança Social (1997), *Livro Verde da Segurança Social* (versão preliminar do livro Branco), Junho de 1997.
- Esping-Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*, Princeton University Press.
- European Commission (2008), *Joint Report on Social Protection and Social Inclusion [2007]*, http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2007/joint_report_en.pdf [Portugal pp. 347- 355].
- European Commission. (2010a), *Joint Report on Social Protection and Social Inclusion*, February 2010. <http://ec.europa.eu/social/main.jsp?langId=en&catId=750>
- European Commission, (2010b), *Green Paper: Towards adequate, sustainable and safe European pension systems*, SEC(2010)830, Brussels, 7.7.2010. <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes>
- Fernandez. Juan (2008), “Countervailing Social Forces in Welfare States: Public Pension Generosity in OECD Countries, 1981-2002”, paper apresentado no Workshop da Espanet, Forli-Itália, 5-7 de Junho.
- Ferrera, M. (1996), “The southern model of welfare in social Europe”, *Journal of European Social Policy*, 6(1), pp.17-37.
- INE. (2010), *Rendimento e Condições de Vida 2009* (dados provisórios). Destaque: Informação à Comunicação Social. Instituto Nacional de Estatística, 15 de Julho de 2010.
- ISG. (2006), *Current and Prospective Theoretical Pension Replacement Rates*, Report by the Indicators Sub-Group (ISG) of the Social Protection Committee (SPC), May 19th 2006. http://ec.europa.eu/employment_social/social_protection/docs/isg_repl_rates_en.pdf [último acesso em 1 de Junho de 2010].
- ISG. (2009a), *Update of Current and Prospective Theoretical Pension Replacement Rates 2006-2046*, Report by the Indicators Sub-Group (ISG) of the Social Protection Committee (SPC), July 1st 2009. <http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=551&furtherNews=yes> [último acesso em 1 de Junho de 2010].
- ISG. (2009b), *Update of Current and Prospective Theoretical Pension Replacement Rates 2006-2046 - Country Fiches (Annex)*, Report by the Indicators Sub-Group (ISG) of the Social Protection Committee (SPC), July 1st 2009. <http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=551&furtherNews=yes> [último acesso em 1 de Junho de 2010].

- ISSA – International social Security Association. (2010), *Portugal to Speed up its First Pillar Pension Reform*, Associação Internacional de Segurança Social <http://www.issa.int/aiss/Observatory/Country-Profiles/Regions/Europe/Portugal/Reforms/Portugal-to-speed-up-its-first-pillar-pension-reform> [último acesso em 1 de Junho de 2010].
- Karl Hinrichs (2000), “Elephants on the move. Patterns of public pension reform in OECD countries”. *European Review*, **8**, pp 353-378
- Kemmerling, Achim (2009), *Taxing the working poor: the political origins and economic consequences of taxing low wages*, Cheltenham: Edward Elgar.
- Kim, T. (2010), “The Welfare State As An Institutional Process”, *The Social Science Journal*, Volume 47, Issue 3, September 2010, pp. 492-507.
- Lindbeck, Assar (2008), “Prospects for the Welfare State”, Seminar Paper No. 755, Institute for International Economic Studies, Stockholm University [Download from <http://www.iies.su.se/> (last access 16/7/2008)].
- Lindert, P. H. (2004), *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century, Volume I: The Story*, New York: Cambridge University Press.
- Marques, Fernando (1997), *Evolução e Problemas da Segurança social em Portugal no após 25 de Abril*, Lisboa: Edições Cosmos.
- Ministério das Finanças. (2010), *Relatório de Orientação e Política Orçamental*, Julho de 2010. http://www.portugal.gov.pt/pt/GC18/Documentos/MFAP/ROPO_2010.pdf (último acesso em 16 de Agosto de 2010).
- Natali, D., Rhodes, M. (2008), “The new politics of pension reforms in Continental Europe” in: Camila Arza and Martin Kohli (Eds.), *Pension Reform in Europe: Politics, Policies and Outcomes*, London: Routledge. (pp. 25-46).
- OECD (2007), *Highlights – PORTUGAL - Pensions at a Glance - Public Policies across OECD Countries*, 2007 Edition [www.oecd.org/els/social/ageing/PAG (last access 16/7/2008)].
- OECD (2009), *Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries* (www.oecd.org/els/social/pensions/PAG)
- Pierson, P. (1994), *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge: Cambridge University Press.
- Pierson, P. (2004), *Politics in Time. History, Institutions, and Social Analysis*, Princeton and Oxford: Princeton University Press.
- Rodrigues, C. F. (2007), *Distribuição do Rendimento, Desigualdade e Pobreza: Portugal nos anos 90*, Lisboa, Almedina.
- Rodrigues, Carlos F. (2009), “Efficacy of Anti-Poverty and welfare programs in

Portugal: the joint impact of the CSI and RSI”, paper presented at Espanet conferece 2009, Urbino – Italy.

Rodrigues, Pedro e Duarte, Pedro. (2005), “Quatro medidas para a segurança social”, *Direcção-Geral de Estudos e Previsão – Ministério das Finanças*. V4. 10 de Janeiro de 2005, 88 pp.

Rodrigues, Pedro e Pereira, Alfredo M.. (2007), *A Reforma das Pensões em Portugal: uma análise de equilibrio geral dinâmico*, Lisboa: Fundação Luso-Americana.

Starke, P. (2008), *Radical Welfare State Retrenchment. A comparative Analysis*. Hampshire: Palgrave Macmillan.

Vis, Barbara, (2009), “The importance of socio-economic and political losses and gains in welfare state reform”, *Journal of European Social Policy*, Vol. 19(5). pp. 395–407.

Appendix 1

Notes about Social Assistance policy measures taken in Portugal during the crisis (2008-2010)

September 2008 - December 2009

- In an initial stage (by the end of 2008) the socialist government put into practice an ambitious program of social protection reinforcement: reduction of the minimum contributory period to grant access to unemployment subsidy from 15 months to 12 months of registered contributions; the duration of social unemployment subsidy was extended, new social benefit for each new borne child (200 Euros in a bank account) as an incentive for a personal/family saving behaviour.
- Also important, was the implied generalization in the attribution of the supplementary pension benefit for old age receiving pensions benefits less than 350 Euros per month (CSI – *complemento social para idosos*) due to the low take-up. The program started in 2006. The reason for the low take up until 2009 is related to the bureaucracy associated to means tested nature of the benefit and, probably, the obligation to consider the income of the pensioners' sons or the authorization for a judicial dispute to request financial support.
- Regarding the bank sector, besides the low exposure of Portuguese banks – there were two cases of bankruptcy: one bank was nationalized after a scandal due to illegal schemes of international transfers, corruption involving former government members, etc., and another one, in a bankruptcy situation, was bailed out by the State with a special loan granted by the central bank, private banks and public 'guarantees'). However, these banks are not material in the context of the Portuguese financial sector.

January – April 2010 (new fact: high budget deficit of 9.3%)

The new state budget was expected as an austerity budget with hard cuts. During the 2010 State budget discussion, the government was also preparing the new PEC (stability and growth program for the period ranging from 2010 to 2015). The 2010 State budget law only entered in force in 29th April.

- First, the wages on the public sector were frozen (increase zero)
- The government also promised a full revision on the fiscal benefits (personal income tax deductions on families' education and health expenditures)
- Finally a pension issue, but affecting only civil servants. The Government decided to accelerate the convergence to the social security system, that was already decided but only for 2014/2015. There were three changes: 1) an immediately increase of the retirement age to 62.5 (in social security is 65) and the promise to increase to 65 by 2012 instead of 2015; 2) adoption of the same scheme for early retirement penalization (0.5% per month instead of 4.5% per year); 3) last but not the least, there was 'a minor' amendment on the transition rules from the former civil servants status regime concerning the application of the new formula, which in fact put a definitively end to the

principle where the last wage was the reference for pension benefit calculation.

- These measures were presented as a necessary sacrifice, without increasing taxes, and a way of ensuring some equity in comparison to other alternatives such as increasing taxes – e.g. VAT.
- There was also an important but enclosed attempt to reduce social assistance expenditure like RSI (minimum income program). This would imply that social rights will have lower available resources, or worse than that, in advance the government would establish a reduction on the number of beneficiaries driven only by financial reasons.
- The government decided to put an end to the extraordinary measures taken in the 2009 crisis.

May 2010 (additional pressure from rating agencies as a result of the economic and finance crisis: Euro under attack)

In this stage, it seems that Government action lost any type of rationality. One day after the special meeting in Brussels to discuss how to deal with the international credit access crisis for countries like Portugal and Spain (after the Greek situation), the government adopted new and significant hard measures, such as:

- VAT increase in 1% for all goods.
- Personal income taxation increase for all level of wages in 1% or 1.5%.
- Cuts on the Unemployment subsidy value and new rules to force beneficiaries to accept lower paid jobs.
- New law related to the social assistance access, which means in fact that, besides some coherent corrections and improvements on the means tested rules (until now patrimony like houses or financial investments were not considered), these changes will led to a tightening of entitlement conditions to the non-contributory system: minimum income, disability supplements, elderly supplement for lowest pensioners, social pensions, social unemployment subsidy, etc.

Annex 1 – Comparative Data

Figure 4: Benefit ratios in EU Member States in 2007 and 2060

	Benefit Ratio (%)					
	Public pensions			Public and private pensions		
	2007	2060	% change	2007	2060	% change
BE	45	43	-4			
BG	44	36	-20	44	41	-8
CZ	45	38	-17			
DK	39	38	-4	64	75	17
DE	51	42	-17			
EE	26	16	-40	26	22	-18
IE	27	32	16			
EL	73	80	10			
ES	58	52	-10	62	57	-8
FR	63	48	-25			
IT	68	47	-31			
CY	54	57	5			
LV	24	13	-47	24	25	4
LT	33	28	-16	33	32	-2
LU	46	44	-4	46	44	-4
HU	39	36	-8	39	38	-3
MT	42	40	-6			
NL	44	41	-7	74	81	10
AT	55	39	-30			
PL	56	26	-54	56	31	-44
PT	46	33	-29	47	33	-31
RO	29	37	26	29	41	41
SI	41	39	-6	41	40	-2
SK	45	33	-27	45	40	-11
FI	49	47	-5			
SE	49	30	-39	64	46	-27
UK	35	37	7			
NO	51	47	-8			

Data from Ageing Report (AWG, 2009) available at: http://ec.europa.eu/economy_finance/publications/publication13782_en.pdf and presented also in the Pensions Green Paper (European Commission, 2010b).

Benefit ratios in Southern European Countries - Public Pensions²⁵

	2007	2060	Change in %
PT - Portugal	46	33	-29
ES - Spain²⁶	58	52	-10
EL - Greece	73	80	+10
IT - Italy	68	47	-31

Our compilation. Data from Ageing Report (AWG, 2009) available at:

http://ec.europa.eu/economy_finance/publications/publication13782_en.pdf
and presented also in the Pensions Green Paper (European Commission, 2010b).

²⁵ It covers all range of pensions: old-age, disability, surveillance. This is why the values are so lower if compared to theoretical replacement rates, which refers to old age pension and generally to an average earner.

²⁶ For Spain, if private pensions are included the benefit ratio is higher and the variation is lower: 62% in 2007 and 57% in 2060, which represents a variation of -8%.

Pension System dimensions in Southern European Countries

(work in progress)

Country	Reforms	Institutional features			Sustainability		ADEQUACY			EQUITY			
		DB/DC	Public/Private	Age of retirement	Public Expenditure deficit 2050	First system 'breakdown'	Replacement Rate (gross)	Replacement Rate (net) [1]	Favourable taxation	Effect on at risk of Poverty rate	old age at risk of Poverty	Differences between Civil servants	Effect on income distribution
GREECE	before	DB	Public	65(M)/60(F) before 1993	3% GDP (*)		105%	115%	No	20.5 (2006)		YES (but after 2010 reform all c/s covered by IKA)	
	After 2010 reform	DB		min. 60 with 40 years of contri		2030	92,90%	108,10%					
PORTUGAL	Until 2006	DB	100% Public	65	3,5 % GDP	2010	74,8% (without upper limit)	90,70%	Yes	18,5 % in 2006	22,70%	Yes	Regressive (increased wage inequality)
	After 2007 (2046)	Mix DC/DB [2]	100% Public	65 + Sustainability factor [3]	0,70%	2035	54,7% (without upper limit)	70,60%	Yes (but less generous)	17,9% in 2009	18,6% (but Very low replacement rates will increase poverty in	NO (progressive harmonization) [4]	Progressive (upper benefits for low wages)
SPAIN	2006						90,5	97,2					
	2008 (2046)			65			82	85,5					
ITALY	2006						80,2	89					
	2046						77	91,7					

Data: EU-SILC Data, published by Portuguese National Statistics Institute (INE) in 2010. Available at:
http://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaquas&DESTAQUESdest_boui=83376167&DESTAQUESmodo=2

Data on replacement rates was collected from ISG (2009b).