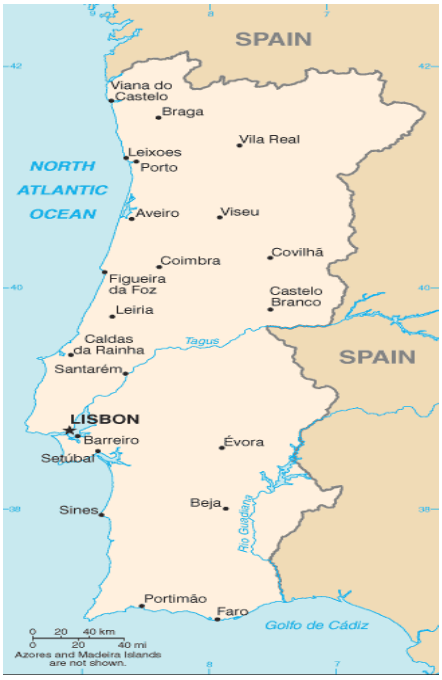
IOPS COUNTRY PROFILE: PORTUGAL



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	**32,554**
Population (000s)	**10,300**
Labour force (000s)	**5,219.4**
Employment rate[1]	**67.8**
Population over 65 (%)	
Dependency ratio[2]	**29.85**

Data from 2013 or latest available year.
1. Share of persons in working age in employment, OECD data 2017
2. Demographic dependency ratio (65+/(15-64)), OECD data 2013

PORTUGAL: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Earnings related public scheme with a means-tested safely net

Private pensions: occupational (voluntary)

- *Fundos de pensões fechados* (closed pension funds)
- *Adesões coletivas a fundos de pensões abertos* (collective membership of open pension funds)
- *Contratos de seguro de grupo* (group insurance contracts)

Private pensions: personal (voluntary)

- *Adesões individuais a fundos de pensões abertos* (individual membership of open pension funds)
- *Planos poupança-reforma (PPR)* (*retirement saving schemes – insurance contracts, pension funds or investment funds*)

Source: OECD Global Pension Statistic

PORTUGAL: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION[1]

Portugal has an earnings-related public pension scheme covering employed persons and those self-employed persons who earn more than 6 times the minimum wage. There are separate systems for civil servants, miners, longshoremen, railway workers, fishermen and merchant seamen, but these will generally be unified with the general system. The pension system provides a minimum pension and a means-tested safety net. The normal retirement age is 65 but early retirement is possible from 55. A minimum of 15 years of contributions is required for retirement at 65. In order to be qualified as a contribution year, the insured person must have been in paid employment for at least 120 days.

Contributions amount to 11% of gross earnings for employees and 23.75% of the payroll for employers. Of the total 34.75% contributions, 16.01% finance old-age benefits. The self-employed pay 25.4% of the reference income chosen by themselves within a minimum and maximum range.

The pension accrues at 2% of the earnings base for each year of contributions for 20 or fewer years of contributions. Those who have more than 21 years of contributions, have an accrual rate ranging between 2% and 2.3%, depending on earnings. The schedule for the accrual rate depends on individual earnings relative to the value of the national minimum wage (€365.60). Pension benefits accrue for a maximum of 40 years.

The earnings measure is currently the best 10 of the final 15 years of coverage, but this was changed to lifetime earnings from 2017. People retiring between 2006 and 2017 will receive pensions pro rata on the best 10 of 15 years and lifetime-average earnings. People who joined the system after 2002 are covered by the new rules. For people with more than 40 years of contributions, only the best 40 years count in the benefit formula.

Earnings are valorised to a mix of earnings and prices (75% price inflation, 25% earnings growth), subject to a maximum real increase of 0.5%. A "sustainability factor" has been introduced, which adjusts future pensions to take account of the increased life expectancy of the population.

Early retirement is possible with 30 years of contributions, with a decrement of 0.5% for each month of early retirement.

It is possible to defer pension after age 65. The pension is incremented by 1% per month for people with a full 40-year career. For people with incomplete contribution histories, the increment varies between 0.33% (less than 25 years) and 0.65% (35-39 years). Those who qualify for retirement before age 65 will, as a result of recent reforms, receive an increment of 0.65% per month of deferral. All of these increases are granted subject to a maximum replacement rate of 92%. Retirement from employment is necessary at 70.
Minimum pension benefits are 30% of the reference earnings used for calculating the pension or a monthly amount fixed according to the length of the insured's career, whichever is greater. Maximum pension benefits are 92% of reference earnings.

[1] This section has not been updated. For recent information please see ISSA Social Security Country Profiles, Portugal: https://www.issa.int/en/country-profiles.

A flat-rate social pension is paid to those who are not covered under any contributory social security scheme. In order to qualify, the monthly income must not exceed 30% of the national minimum wage for a single person or 50% for a couple. The national minimum wage is €385.90. There are 14 monthly payments. A solidarity payment for the elderly (over 80) as well as other top-up supplements are also available.

Pensions in payment are indexed in accordance with CPI and a formula based on GDP growth. Benefits are taxed when they exceed a certain level.

A pension reserve fund has been established to deal with the impact of ageing on public pension expenditure.

OCCUPATIONAL VOLUNTARY

Typical Plan Design

Pension plans can be defined benefit, defined contribution or hybrid in nature. Most occupational plans are defined benefit plans but there is a trend towards defined contribution plans.

In relation to defined benefit plans, the formula for calculating benefits depends on the specific provisions of the pension plan or collective labour agreement under which the plan is established.

With regard to the social security pension (SSP), defined benefit plans can be classified as:
- integrated complementary, if the pension attributed by the plan is complementary to the social security pension and calculated as follows: PP = TP - SSP, where TP = total pension to be received by the beneficiary, PP = pension attributed by the plan and SSP = social security pension;
- non-integrated complementary, if there is an upper limit of the type TP = PP + SSP < % of the final salary / of the average of the last salaries;
- independent, if the pension attributed by the plan is completely independent from the social security pension.

At the end of 2017, more than two-thirds of defined benefit plans were classified as independent.

In relation to defined contribution plans, employers and employee contributions represented, respectively, 2% and 0.6% of the total amount of salaries in 2017.
Benefits are usually paid out as regular pensions, but in some circumstances up to one-third of employer contributions can be paid out as a lump sum. The accumulated amount of the employee contributions can be paid as an annuity, a lump sum or a combination of both.

The normal retirement age in 2018 is 66 years and four months in the private and public sectors. Most plans equalise their retirement ages to the normal retirement age.

Coverage

To benefit from tax relief companies are required to provide pension plans that cover all employees hired with a permanent contract after serving a probationary period of six months. A minimum age requirement, most often 21, is sometimes applied. At the end of 2017, around 4% of the working population was covered.

Taxation[2]

Employees may deduct from their taxable income 25% of their contributions to an occupational pension scheme up to an annual ceiling. For plans that comply with requirements regarding coverage, benefit calculation, the retirement age of 65, investment policy, and information provisions, employer contributions are tax-deductible up to a limit of 15% of an employee's salary (or 25% if the employee is not covered by the social security plan). Investment income is tax-exempt, while benefits are taxed at the ordinary income tax rate above a certain threshold.

PERSONAL VOLUNTARY

Personal pension saving arrangements take one of the following forms:

- Personal retirement saving schemes, also known by their acronym, PPR, financed by insurance contracts, pension funds or investment funds.
- Individual membership of open pension funds: individual contracts that specify contributions to a pension fund in exchange for which the benefits will be paid when members reach a specific retirement age.

MARKET INFORMATION

Occupational voluntary

At the end of 2017, there were 190 pension funds financing occupational pension plans, with a total of EUR 18.4 billion (USD 22.1 billion) of assets under management and 166 522 members. Mathematical provisions of group insurance contracts financing occupational pension plans corresponded to EUR 285.2 million (USD 342.1 million) and covered 20 897 members. Total assets in the occupational system amounted to EUR 18.7 billion (USD 22.4 billion).

Personal voluntary

At the end of 2017, total assets in the personal system amounted to EUR 18.1 billion (USD 21.7 billion), with the following distribution: 80.1% for PPR financed by insurance contracts, 12.6% for PPR financed by investment funds, 3% for PPR financed by pension funds and 4.3% for individual membership of open pension funds. The total number of members was equal to 2 195 720, with the following distribution: 80% for PPR financed by insurance contracts, 12.4% for PPR financed by investment funds, 3.2% for PPR financed by pension funds and 4.4% for individual membership of open pension funds. Please note that the total number of members is overestimated due to double counting effects.

POTENTIAL REFORM

The ageing population puts great pressure on the generous public pension system. The public pension system has undergone reform, with more reforms possible in coming years. The occupational and personal pension saving tiers are expected to grow and people will be encouraged to continue saving through funded arrangements.

[2] This section has not been updated.

REFERENCE INFORMATION

KEY LEGISLATION

2018: the Portuguese regulatory framework applicable to private pensions is currently under revision in the context of the transposition of the IORP II Directive.

2015: the supervisory authority changed its designation from Instituto de Seguros de Portugal (ISP) to Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF).

Law no. 147/2015, of 9 September, as amended, approves the legal framework on the taking-up and pursuit of the business of insurance and reinsurance.

Decree Law 12/2006, of 20 January, as amended, establishes the legal regime applicable to pension funds and their management entities, transposing EU Directive 2003/41/EC, of the European Parliament and of the Council, of June 3, on the activities and supervision of institutions for occupational retirement provision into the Portuguese legal framework (passed in 2006).

The Individual Income Tax Code and Corporate Tax Code regulates the tax treatment of contributions, investment income, and benefits.

The Tax Benefits Act regulates issues related to tax deductions and exemptions.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The *Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)*, or Portuguese Insurance and Pension Funds Supervisory Authority: regulates the occupational pension system:

www.asf.com.pt

KEY OFFICIAL STATISTICAL REFERENCE

Autoridade de Supervisão de Seguros e Fundos de Pensões, or Portuguese Insurance and Pension

Funds Supervisory Authority; www.asf.com.pt

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.