IOPS COUNTRY PROFILE: SPAIN

Demographics and Macroeconomics

GDP (EUR bn)	**1 206.8**
GDP per capita (USD) [1]	**40 780**
Population (000s)[2]	**46 775.6**
Labour force (000s) [3]	**22 741.7**
Employment rate	**62.4**
Population over 65 (%)	
Dependency ratio[4]	**27.5**

Data from 2018 or latest available year.
1.Current prices, provisional value, OECD 2018
2. Provisional value, OECD 2018
3. OECD 2017
4. Demographic dependency ration (65+/(15-64)), OECD 2014

SPAIN: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Single earnings-related benefit
- Means-tested minimum pension, which replaces the previous social-assistance scheme

Private pensions: occupational (voluntary)

- Occupational pension plans (*planes de empleo*)
- Mutual pension provident entities (*entidades de prevision social or mutualidades de prevision social*)
- Collective pension insurance plans (*seguro colectivo*)
- Non autonomous funds (*fondos de pensiones internos*)

Private pensions: personal (voluntary)

- Associated plans (*planes asociados*)
- Personal plans (*planes individuales*)
- Mutual pension provident entities (*entitades de prevision social or mutualidades de prevision social*)
- Assured future plans (*planes de prevision asegurados*)

SPAIN: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION[1]

The public pension system consists of two different programs. The first program is a mean-tested non-contributive old-age pension granted to persons aged 65 and older, who have not acquire enough pension contributions or are not entitled to a contributory old-age pension at all. It is required that the person have lived in Spain at least 10 years after reaching the age of 16 and for five consecutive years just before claiming the pension. This pension is financed solely by tax revenues. In addition, pensioners can benefit from additional services: right to healthcare, social services and future protection through new legislation focused on situations of dependency.

The second program is represented by an earnings-related system financed through contributions (and special schemes exist for civil servants working for the central government or the justice system and for people working for the armed forces). This pension system is mandatory for all employees and provides pension entitlements after a minimum contribution period. For retirement pension, this period is 15 years (of which at least 2 must have occurred in the last 15 years). It is financed through contributions paid by employees (4.7% of earnings) and employers (23.6% of earnings).

The method of financing is of a PAYG type, with a defined benefit formula. Benefits are calculated as a percentage of a so-called 'base pension', which is an average of the contributions paid during the 15 years before retirement. A full pension of 100% of the 'base pension' is reached after 35 years and six months (gradually raising to 37 years by 2027) of contributions. The retirement age is lower for those working under hazardous, dangerous and unhealthy conditions.

Early-retirement is possible under certain conditions.

OCCUPATIONAL VOLUNTARY

Typical Plan Design

Occupational pension plans are typically defined contribution (DC). The total number of occupational pension plans was 1.340 in 2016. About two-thirds are DC plans, one-third is hybrid arrangements and a small portion of pension plans is DB plans.

DB pension plans are typically final average pay plans, financed mainly by the employer. DC plans are now dominant and employers typically provide between 65% and 80% of total contributions to these plans.

Employers can make contributions until the age 67 or 65 years when it is credited 38 years and 6 months of contribution, for men and women. Total annual employer contributions to pension plans per year shall not be exceeded EUR 8,000. These limits include any contributions made to individual pension plans.

The retirement age is the same as the age under the social security scheme. (i.e. age 67 or 65 years when it is credited 38 years and 6 months of contribution, for men and women). Early retirement is possible under two conditions: serious illness or long-term unemployment.

Retirees may choose between three alternative benefit options: annuities, lump sums, or a combination of both. By 2016, 49,8% of total benefits were paid as lump sums, and 23,1% as mixed of benefits.

[1] For more information, see Spain, Social Security Country Profiles at https://www.issa.int/en/country-details?countryId=ES&regionId=EUR&filtered=false

In relation to the contingency with the highest amount of benefits, retirement remains the main one, with 86.6% of the total amount.

Coverage

Occupational pension plans cover private-sector employees. Discrimination in coverage is prohibited, but differences in the contribution and benefit structure for different categories of employees are allowed, provided that they are based on objective criteria. Plans may be divided into sub-plans to provide for different categories of employees.

Benefits covered in occupational pension plans are retirement, death, disability and it may be provided in defined contribution or defined benefit.

Fees (to be paid to manager and custodian entities)

There are no legal rules concerning administrative costs charged to plan members, but there is a maximum commission based on the ~~size~~ type of pension funds' assets.

Until 2018, there was the same management fees for every managed investment that was 1.50%, however this limit was modified introducing three types of limits depending on the type of investment:

- A cap of 0.85% is applied for fixed-income funds, which means a decrease of 65 basis points compared to the previous limit (1.50%);
- A cap of 1.30% for mixed funds, 20 basis points less;
- And 1.50% for equity funds (the same limit as the previous one).

In the case of custody fees, the limit has been reduced as well from 0.25% to 0.20%.

Taxation

Contributions paid by both employers and employees into the occupational pension plans are tax-deductible up to cap of EUR 8.000. Investment incomes are tax-exempt, while lump-sum benefits are tax-exempt up to 40% (on contributions paid before 1 January 2007) of the cash value of accrued benefits or accumulated capital.

PERSONAL VOLUNTARY

Typical Plan Design

Individual pension plans may only be DC. Associated plans could be DB, DC and hybrid.

Coverage

Individuals and the self-employed may participate in individual pension plans established by financial institutions.

Taxation

The same tax regulations related to contributions are applied to personal pension plans. The maximum tax-deductible limit applies to the total contribution from both an occupational and individual pension plan.

MARKET INFORMATION

Occupational voluntary

Pension funds must be managed by fund administrators. An *entidad gestora de fondos de pensiones* (pension fund management entity) or authorised life insurance company may administrate a fund. The fund administrator is responsible for managing contributions and benefits. Pension fund management entities must be established as limited companies with the sole business aim of managing pension funds.

They must comply with certain prudential requirements as capital, fit and proper, conflict of interest, complying with the requirements lay down in IORP Directive and be authorised and registered by the competent authority, the Directorate General for Insurance and Pension Funds.

The occupational pension funds' asset represented in 2016 the total amount of EUR 35.513,7 million, of which EUR 8.160,6 correspond to obligations of benefit defined and most of them are assurance.

In 2016, the average balance of the consolidated rights of the occupational member's accounts is EUR 17,415, almost double of the personal pension plans.

The biggest source of growth in the position account has been the profitability obtained by the pension funds due to the good behaviour of the financial markets. The weighted annual average profitability of all pension plans in 2016 was 1.99%, with the average in occupational plans of 2.68% and 1.62% in individual plans.

The total contributions in 2016 was EUR 4,536,800,000 which implies an increase of 2.41% with respect to 2015. Contributions in occupational plans decreased by 0.53% while contributions in personal plans increased by 4%. It emphasizes the reduction of the contributions of the sponsor support since 2012 as a result of the suspension of the contributions of public sponsor support.

Most of the people who have a pension plan in Spain is an individual pension plan (78.6%) whose consolidated rights represent 65.7% although the average contributions in occupational pension plans are greater than those made in individual pension plans.

Personal voluntary

As of 31 December 2016, Members contributions represented EUR 9,830,000, of which 80.3% corresponded to accounts of personal plan participants.

REFERENCE INFORMATION

KEY LEGISLATION

2018: Royal Decree 62/2018, of 9th February, which modifies the regulation on the instrumentation of the companies´ s commitments for pensions with the workers and beneficiaries, approved by the Royal Decree 1588/1999, of 15th October, and the regulation of plans and Pension funds, approved by royal Decree 304/2004, of 20th February.

2017: Law 27/2011, of 1 August, on updating, adequacy and modernization of the Social Security

System

2014: Royal Decree 681/2014, of 1th August, which modifies the regulation of plans and pension funds, approved by royal Decree 304/2004, of 20th February, the regulation on the instrumentation of the companies´ s commitments for pensions with the workers and beneficiaries, approved by Royal Decree 1588/1999, of 15th October.

2011: Act 2; of 4 March, amends Act 1/2002.

2009: Royal Decree 1299, amends Royal Decree 304/2004

2007: Royal Decree N°1684: updating 2004 Royal Decree 2004: Royal Decree N°304, developing 2002 legislation

2002: Royal Decree consolidates the Pension Plan and Pension Funds Law of 1987 and regulates the establishment of pension plans, pension funds, and pension fund management entities. It also defines maximum contribution limits, regulates tax treatment, and includes measures to protect rights.

1999: Royal Decree provides the regulatory framework for the implementation of employers' pension agreements with employees and beneficiaries.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Directorate General for Insurance and Pension Funds (Ministry of Economy)

SELECTED KEY OFFICIAL STATISTICAL REFERENCES

The Bank of Spain

http://www.bde.es/homee.htm

The Directorate General for Insurance and Pension Funds (Ministry of Economy)

http://www.dgsfp.mineco.es/

Spanish Confederation of Mutual Societies (CNEPS) http://www.cneps.es/.

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

Association of Collective Institutions and Pension Funds: Inverco: http://inverco.es