Changing prospects for early retirement in Portugal

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The Portuguese government has been facilitating access to early retirement for workers with long contribution records. Conversely, some proposals under discussion point to increased restrictions for many workers for whom early retirement would no longer be possible, even with penalties. It seems crucial to clearly define the role of early retirement in a sustainable and adequate pension system.

Description

The Portuguese government is implementing a set of reforms related to early retirement. These are taking place in phases. The first phase of implementation took place in October 2017. From that time, workers aged 60 or more with a contribution record of at least 48 years could retire early. Moreover, workers with a record of at least 46 years, who started their working life at the age of 14 or younger, no longer incurred any early retirement penalty (and the sustainability factor, which takes into account average life expectancy and which is set at 14.7% in 2019, does not apply). This is thought to have benefited around 15 thousand people until September 2018, at a cost of about €30 million.

The second phase took effect in October 2018, once again reflecting the government's stated objective of valuing very long contributory careers and the workers who started their contributory career at a very young age. This phase extended access to early retirement without penalties to workers aged 60 or more with a contribution record of at least 46 years who started their working life at the age of 16 or younger. This is expected to affect around 1.5 thousand people in the first year and to cost around €4.5 million.

The third phase will come into force in January 2019. There will be no application of the sustainability factor for workers aged 63 or more with a contribution record of at least 40 years. As from October 2019, also workers aged 60 or more with a record of at least 40 years will be able to retire without application of the sustainability factor. However, the 0.5% penalty for each month below the statutory retirement age of 66 years and 5 months will still apply.

Another potential change under discussion, as was already the case in 2017, was the possibility that only workers aged 60 years or more who, at the age of 60, had at least 40 years of contributions could apply for early retirement. This would mean that those aged 62 with 41 years of contributions, who, aged 60, had 39 years of contributions, would not be able to retire early. The government is considering establishing a transition period if this change becomes effective, although it is also unclear what form this would take. However, it stresses that without imposing restrictions on early retirement, contributions would have to be significantly higher or pensions would have to be lower in order to avoid unsustainability in the near future.

The Social Democrat Party (Partido Social Democrata – PSD) and Social Democrat Centre (Centro Democrático Social – CDS), both in the opposition, criticised the proposals and voted against the 2019 State Budget. The Left-Wing Bloc (Bloco de Esquerda –

BE), who signed a parliamentary agreement with the government, argued that it is not sensible to ease access for some workers while excluding others, who are not eligible even if they agree to pay the penalties. The Portuguese Communist Party (Partido Comunista Português – PCP), who also signed a parliamentary agreement with the government, insisted on access to early retirement for all those having completed at least 40 years of contributions. Even members of the governing party, the Socialist Party (Partido Socialista – PS), voiced concerns about the actual reach of the measures and called for additional clarification.

The European Commission has also expressed concern about the situation. Despite acknowledging that the pension system appears sustainable in the short term, and that long-term sustainability has been strengthened in the last few years, in its Country Report 2018 for Portugal it voices explicit concerns that recent measures may contribute to higher pension spending in the short term and jeopardise the objective of ending, for the first time in recent years, the extraordinary budgetary transfers to the social security system. These transfers are expected to come to an end in 2018, although this is deemed to be a result of the economic upswing and of the increase in social contributions.

Outlook & commentary

The debate on this important matter is expected to continue during the coming months, in connection with crucial themes such as the ageing of Portuguese society, the prolonging of working life, the sustainability of the pension system and the protection of vulnerable workers.

In this context, it seems crucial to discuss and achieve a clear definition of the overall objectives and intended reach of early retirement within a sustainable but also fair and protective pension system.

The European Commission's 2018 Pension Adequacy Report emphasises that, in general, new reforms can be seen as attempts to rebalance the triangle of pension adequacy: for a given expenditure level, a pension system must strike a balance between three competing objectives: replacement rate, poverty protection and length of retirement.

It would be helpful if early retirement could be explicitly discussed with reference to this or a similar framework. That would certainly help to develop more structural approaches to early retirement as well as a more informed and wider societal understanding of its implications. The absence of clear political commitment or strategic guidelines may result in ad-hoc reforms and measures dictated by particular economic conditions.

Any strategy should obviously be flexible so that it is more able to respond to changing national and global challenges. However, it seems risky to link a strategy closely to the behaviour of the economy. Despite improvements over the past few years, the country's economic situation remains fragile and dependent upon economic cycles. Moreover, it is important to bear in mind, and learn lessons for the future from, the impacts of employment contraction in the recent past, which increased the prospect of unsustainability of social security in general and of the pension system in particular.

Further reading

European Commission (2018a), "Commission Staff Working Document – Country Report Portugal 2018 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances", SWD(2018) 220 final.

European Commission and Social Protection Committee (2018b), "Pension Adequacy Report 2018: current and future income adequacy in old age in the EU – Volume I", Luxembourg: Publications Office of the European Union.

Perista, P. and Baptista, I. (2017), "ESPN Flash Report 2017/25 'Easing early retirement in Portugal'", European Social Policy Network, Brussels: European Commission: http://ec.europa.eu/social/BlobServlet?docId=17802&langId=en.

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