



EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# Financing social protection

## Spain

Gregorio Rodríguez Cabrero  
Julia Montserrat Codorniu  
Ana Arriba González de Durana  
Vicente Marbán Gallego



**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion

Directorate C — Social Affairs

Unit C.2 — Modernisation of social protection systems

Contact: Giulia Pagliani

E-mail: [Giulia.PAGLIANI@ec.europa.eu](mailto:Giulia.PAGLIANI@ec.europa.eu)

*European Commission*

*B-1049 Brussels*

## **European Social Policy Network (ESPN)**

# **ESPN Thematic Report on Financing social protection**

## **Spain**

**2019**

*Gregorio Rodríguez Cabrero (Coordinator), University of Alcalá (Madrid)*

*Julia Montserrat Codorniu, Centre of Social Policy Studies (Barcelona)*

*Ana Arriba González de Durana, University of Alcalá (Madrid)*

*Vicente Marbán Gallego, University of Alcalá (Madrid)*

The European Social Policy Network (ESPN) was established in July 2014 on the initiative of the European Commission to provide high-quality and timely independent information, advice, analysis and expertise on social policy issues in the European Union and neighbouring countries.

The ESPN brings together into a single network the work that used to be carried out by the European Network of Independent Experts on Social Inclusion, the Network for the Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) and the MISSOC (Mutual Information Systems on Social Protection) secretariat.

The ESPN is managed by the Luxembourg Institute of Socio-Economic Research (LISER) and APPLICA, together with the European Social Observatory (OSE).

For more information on the ESPN, see:

<http://ec.europa.eusocialmain.jsp?catId=1135&langId=en>

***Europe Direct is a service to help you find answers  
to your questions about the European Union.***

**Freephone number (\*):**

**00 800 6 7 8 9 10 11**

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

## **LEGAL NOTICE**

This document has been prepared for the European Commission, however it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

More information on the European Union is available on the Internet (<http://www.europa.eu>).

© European Union, 2019

Reproduction is authorised provided the source is acknowledged

Quoting this report: Rodriguez Cabrero, G and Montserrat, J (2019). ESPN Thematic Report on Financing social protection –Spain, European Social Policy Network (ESPN), Brussels: European Commission.

## Contents

SUMMARY .....	4
1 CURRENT LEVELS AND PAST CHANGES IN FINANCING SOCIAL PROTECTION .....	5
1.1 Social protection expenditure by function .....	6
1.1.1 Pension expenditure.....	7
1.1.2 Expenditure on healthcare .....	10
1.1.3 Unemployment expenditure .....	12
1.1.4 The social protection expenditure: other functions .....	13
1.1.5 Complementary schemes of social protection .....	14
2 CURRENT MIX AND PAST CHANGES IN THE SOURCES OF FINANCING SOCIAL PROTECTION .....	15
2.1 Sources of social protection financing.....	15
3 STRENGTHS AND WEAKNESSES OF THE EXISTING MIX OF FINANCING OPTIONS AND POTENTIAL FUTURE SOURCES OF FINANCING - NATIONAL DEBATE ON THE TOPIC.....	19
REFERENCES .....	20

## Summary

Expenditure on social protection in Spain during the period 2005-2016 grew at the same pace as the EU average, measured at constant value (base 2005). However, measured in terms of 'expenditure per inhabitant in purchasing power standards', even though the state has made an effort to reach an expenditure level equivalent to that of other neighbouring countries, the gap with the EU has widened, rather than narrowed. This is due to Spain's late adoption of welfare state policies and standards, and to the economic crisis.

In Spain, as in the rest of the EU, the main items of social expenditure are directly related to old age and health. Both functions account for approximately two thirds of gross expenditure on social protection. As a result of budget cuts during the economic crisis and rationalisation measures to address the spending on pharmaceuticals, health expenditure, as a share of GDP, decreased by 3.8 percentage points (pp) between 2005 and 2016, falling below the EU average. On the other hand, spending on old age during the same period went from below the EU average to slightly above it, with an 8.3 pp increase. The growth in spending on old age stems from an effort to improve both the minimum and the non-contributory pensions. Currently, the future of spending on pensions is being debated from a dual perspective: the impact of the recent reforms to the pensions system on individual pensions, and the expected increase in aggregate expenditure as a result of population ageing and the imminent phase of *baby-boomers* retiring. In the other social protection functions, one remarkable feature is that expenditure on unemployment is higher than the EU average; meanwhile there is low spending on family, housing and social exclusion functions.

Complementary schemes of social protection, such as occupational and individual pensions, do not seem to play a very important role in increasing public social protection, as there are no compulsory measures for occupational schemes, and young people are reluctant to invest in individual plans. The commission linked to these financial products is also rather high.

The 'mix' of social security resources and state contributions for the financing of social protection changed dramatically some 30 years ago, with adoption of the General Health Law (1986), which became fully effective in 2002. This law made healthcare universal (the previous approach had been assurance based), and so changed the financing model from one based on social contributions to one based on taxes. The second change to national policies, following a similar approach, was the Law on Assistance to Dependent People (2006), although its economic impact has been much lower than the General Health Law.

The balance between social contributions and government contributions (taxes) has shifted from 63.5%/34.3% in 2005 to 55.8%/42.3% in 2016. This significant change is due, essentially, to the health financing system, and also to the transfer of some specific expenses (minimum supplementary and non-contributory pensions) from the social security to the state. That leads us to believe that the 'slimming down' of social contributions and the increase in financing through taxation is not a temporary solution, involving government transfers to cover the social security deficit, but is part of a new approach to the supply and funding of social protection services.

The sustainability of the welfare system will depend on the balance between the three agents that participate in its financing: state, social security and individuals. It is expected that the change in the traditional model for financing social protection will persist in the future.

## 1 Current levels and past changes in financing social protection

Gross expenditure on social protection in Spain, measured as a share of GDP, increased by 4.2 pp in the period 2005-2016 (2 pp above the EU-28 mean); measured in constant values (base 2005), the mean annual percentage change is the same as that of the EU-28 (Table 1).

**Table 1. Gross expenditure on social protection, 2005-2016**

	As a share of GDP			Millions of euros at constant prices (2005=100)		
	2005	2016	Change 2005-2016 (pp)	2005	2016	Mean annual change 2005-2016 (%)
<b>EU-28</b>	26.0	28.2	2.2	100	122.6	1.9
<b>Spain</b>	20.1	24.3	4.2	100	119.8	1.9

Source: Eurostat, ESSPROS database.

Gross expenditure on social protection as a percentage of GDP increased during the period of economic crisis, and decreased in the period of economic recovery (from 2014 on). The gap between the Spanish figure and the EU-28 indicator narrows during the first period, but starts to widen again after the start of economic recovery in 2014. This highlights the notable temporary nature of some expenditure items (Table 2).

**Table 2. Gross expenditure on social protection, percentage of GDP**

	Spain	EU	Difference (Spain - EU)
<b>2005</b>	20.1	26.0	-5.9
<b>2008</b>	21.4	26.0	-4.6
<b>2010</b>	24.6	28.6	-4.0
<b>2013</b>	25.8	28.9	-3.1
<b>2016</b>	24.3	28.1	-3.8

Source: Eurostat.

In spite of the budgetary increases made during the period 2005-2016, not only has Spain's expenditure been insufficient to reach the same level of expenditure as in the EU generally, but the difference has widened, as is shown by the indicator 'expenditure per inhabitant in purchasing power standards (PPS)' (Table 3).

**Table 3. Total expenditure per inhabitant in purchasing power standards (PPS)**

	2008	2010	2013	2016
<b>EU-28</b>	6,774.7	7,292.9	7,763.3	8,232.0
<b>Spain</b>	5,497.0	5,791.7	5,973.9	6,349.0
<b>(Spain - EU_28)</b>	-1,277.7	-1,501.2	-1,789.4	-1,883.0

Source: Eurostat.

The impact of levies (taxes and/or social contributions) on the total gross value of social protection benefits is small. As a percentage of GDP, the difference between gross and net social protection spending was 1.4% in 2015, almost 1 pp below that of the EU-28. However, the impact of levies has increased throughout the period 2007-2015 (Table 4).

**Table 4. Gross and net social protection as a share of GDP**

	Gross expenditure (% of GDP)			Net expenditure (% of GDP)			Net minus gross (pp)		
	2007	2010	2015	2007	2010	2015	2007	2010	2015
<b>EU-28</b>	25.2	28.6	28.3	23.5	26.5	26.1	-1.7	-2.1	-2.2
<b>Spain</b>	20.3	24.6	24.7	19.4	23.5	23.3	-0.9	-1.2	-1.4

Source: Eurostat, ESSPROS database.

In 2015, the effective tax and social contribution rates on social protection expenditure reached 5.5% of total social expenditure, of which 5.1% came from taxation and 0.4% from social contributions. Throughout 2007-2015, the weight of taxation increased, while that of social contributions remained practically constant (Table 5).

**Table 5. Effective tax and social contribution rates on social protection expenditure**

	2007			2010			2015		
	Tax	Contrib.	Sum	Tax	Contrib.	Sum	Tax	Contrib.	Sum
<b>EU-28</b>	5.2	1.7	7.0	5.2	2.1	7.2	5.7	2.1	7.8
<b>Spain</b>	4.1	0.3	4.3	4.3	0.3	4.7	5.1	0.4	5.5

Source: Eurostat, ESSPROS database.

Spain has the majority of its benefits non-means tested. Only family benefits (except in a few cases) and non-contributory benefits are means tested. The proportion of these is higher than in the EU-28, but in the period analysed here, this percentage decreased by 0.3 pp, whereas in the EU-28 it increased (Table 6).

**Table 6. Share of gross expenditure on social protection in means-tested benefits**

	As a percentage of GDP				Percentage point change			
	2005	2008	2010	2016	2005-2008	2008-2010	2010-2016	2005-2016
<b>EU-28</b>	10.3	11.8	12.1	12.1	1.5	0.3	0.0	1.8
<b>Spain</b>	13.4	13.4	14.7	13.1	0.0	1.3	-1.6	-0.3

Source: Eurostat, ESSPROS database.

### 1.1 Social protection expenditure by function

In Spain, as in the rest of the EU, the main items of social expenditure are directly related to old age: pensions (mainly retirement pensions) and health. Both functions account for approximately two thirds of the gross expenditure on social protection.

In 2005, as a share of social expenditure, gross social expenditure on health was higher than in the EU-28 (2.7 pp), while expenditure on old age was lower (6.3 pp). However, in 2016 the situation was reversed: spending on health was 1.9 pp below the EU-28 average, and spending on old age was 0.5 pp above.

Regarding the other categories of social spending, one can see that, although expenditure as a share of GDP increased by 0.4pp between 2005 and 2016, as a share of social expenditure it decreased by 4.5 pp. This shows the influence of the value of GDP in the calculation of this indicator (Table 7).



**Table 7. Breakdown of gross expenditure on social protection by function (1)**

	2005			2016		
	Sickness/Health	Old age	Other	Sickness/Health	Old age	Other
	<b>As a share of GDP</b>					
<b>EU-28</b>	7.2	9.7	9.1	8.0	10.9	9.2
<b>Spain</b>	6.2	6.3	7.6	6.6	9.7	8.0
	<b>As a share of social expenditure</b>					
<b>EU-28</b>	28.7	38.6	32.7	29.5	40.1	30.4
<b>Spain</b>	31.4	32.3	36.3	27.6	40.6	31.8

Source: Eurostat, ESSPROS database.

A characteristic of Spain is the significant weight of unemployment benefits in overall social protection expenditure. However, the relative importance of this expenditure in the total amount of gross expenditure is small, at around 8% in 2016. The evolution of expenditure on this function is bell-shaped, growing in the years of the crisis and falling with the economic recovery. The only other function for which the percentage of gross expenditure on social protection was higher in Spain than in the EU-28 was 'survivors'; however, in both the EU-28 and Spain the percentages decreased in 2016 (Table 8).

**Table 8. Breakdown of gross expenditure on social protection by function (2)**

	As a share of GDP					
	Disability	Survivors	Family	Unemployment	Housing	Social exclusion
	<b>2005</b>					
<b>EU-27</b>	2.0	1.7	2.1	1.5	0.5	0.5
<b>Spain</b>	1.5	2.0	1.2	2.1	0.2	0.2
	<b>2016</b>					
<b>EU-27</b>	2.0	1.5	2.4	1.3	0.5	0.6
<b>Spain</b>	1.7	2.3	1.3	1.9	0.1	0.2
	As a share of social expenditure					
	Disability	Survivors	Family	Unemployment	Housing	Social exclusion
	<b>2005</b>					
<b>EU-27</b>	8.0	6.7	8.4	5.8	2.0	1.8
<b>Spain</b>	7.6	10.0	5.9	10.8	0.9	1.1
	<b>2016</b>					
<b>EU-27</b>	7.4	5.5	8.7	4.6	2.0	2.2
<b>Spain</b>	7.1	9.7	5.4	8.1	0.5	1.0

Source: Eurostat, ESSPROS database.

### 1.1.1 Pension expenditure

Public pensions are regulated and managed by two different bodies: social security and central government. The former handles the general population, including civilian staff and civil servants of the regional and local administrations; the latter deals with the staff of constitutional bodies, civil servants of the central administration and their civilian staff. Both social security pensions and government pensions (*government pensions*) follow a defined benefit pension scheme. In the case of the former, the pensions are paid out of social contributions and follow a pay-as-you-go (PAYG) system; in the case of the latter, the pensions are paid out of taxation. Some 93% of the total population of pensioners in 2016 fell under the social security system scheme, and the remaining 7% fell under the central government system.

The social security system provides a double level of protection: contributory (professional) and non-contributory (assistance-based). The contributory element covers the contingencies of old age, invalidity and survivors. The non-contributory element covers the contingencies of invalidity and old age of those individuals who are not entitled to contributory pensions and who find themselves in situations of need. The government pensions are purely contributory pensions.

Social security pensions have a guaranteed minimum annual amount, which is established by central government. The minimum supplements are more frequent among survival pensions (widowhood, orphanhood), and among retirement pensions under the self-employed workers scheme, because a significant proportion of the latter make minimum contributions and have fewer years of contribution. In 2016, 26% of retirement pensions had minimum supplements. Women represented 64% of the total number of pensioners receiving pensions with a minimum supplement.

The social security pension system distinguishes different types of legal relationships with the individuals and classifies them into either the general scheme or special schemes. The general scheme<sup>1</sup> is the largest, and includes employed workers over 16 years of age, regardless of the type of contract. Special schemes include schemes for self-employed workers,<sup>2</sup> seafarers<sup>3</sup> and coal miners.<sup>4</sup>

With a few exceptions, both social security pensions and government pensions are capped by a maximum amount (the same for both), which is established in the state budget.

In order to benefit from a non-contributory pension, one must have resided on Spanish territory for a minimum of 10 years. The maximum annual amount for non-contributory pensions is incompatible with individual or family annual earnings higher than the so-called Public Income Indicator of Multiple Effects (IPREM).

Contributory pensions (social security pensions and government pensions) represent 98.2% of total expenditure, while non-contributory pensions make up the residual percentage (Table 9). These data come from national statistics.

**Table 9. Budget on pensions (millions of euros)**

	2017	2016	% of total	Yearly var. (%)
Total contributory pensions	136,600.9	132,429.5	98.2%	3.1%
Total non-contributory pensions	2,486.1	2,440.7	1.8%	1.9%
<b>Total expenditure on pensions</b>	<b>139,087.0</b>	<b>134,870.2</b>	<b>100%</b>	<b>3.0%</b>

Source: 2017 General State Budget.

The expenditure on pensions is, for the most part, devoted to non-means-tested pensions (almost 93% in 2016). This percentage, although high, is 2.4 pp lower than the EU average (Table 10).

<sup>1</sup> The general scheme is subdivided into special schemes (domestic employees, agricultural employees, among others).

<sup>2</sup> This includes physical persons who carry out an economic or professional activity on their own account, members of cooperatives and directors of companies that have control over the firm.

<sup>3</sup> This includes both self-employed and employed workers.

<sup>4</sup> This only includes employed workers.

**Table 10. Expenditure on pensions by means testing, percentage of GDP**

	Type of pension			
	Spain		EU	
	Non-means tested	Means tested	Non-means tested	Means tested
<b>2005</b>	91.8%	8.2%	96.3%	3.7%
<b>2008</b>	91.4%	8.6%	95.1%	4.9%
<b>2010</b>	91.5%	8.5%	95.0%	5.0%
<b>2013</b>	91.7%	8.3%	95.3%	4.7%
<b>2016</b>	92.9%	7.1%	95.3%	4.7%

Source: Eurostat.

The evolution of total expenditure on pensions measured in constant prices (base 2005) shows an increase of 42.5% in the period 2005-2016, which means an average year-on-year variation of 3.9%.

The most important variation occurred between 2005 and 2008, as a result of salary increases in the years prior to the crisis (which raised the regulatory bases for the calculation of pensions) and an increase in the guaranteed minimum pension, which was raised at above the Consumer Price Index (CPI) throughout those years. The period 2013-2016 saw a percentage increase in expenditure on pensions that was slightly above the preceding period (2010-2013). One reason for this is the large number of early retirements in 2013. This was to avoid new retirement regulations that came into effect in 2014 under the pension reform laws, and that meant worse conditions (Table 11).

**Table 11. Total expenditure on pensions**

	Million euros (base 2005)	Average yearly variation	
<b>2005</b>	82,349.9	2005-2008	5.1%
<b>2008</b>	94,862.0	2008-2010	3.3%
<b>2010</b>	101,174.5	2010-2013	2.3%
<b>2013</b>	108,237.7	2013-2016	2.8%
<b>2016</b>	117,406.5	<b>2005-2016</b>	<b>3.9%</b>

Source: Eurostat.

The pension reforms, approved by law in 2011 and 2013, had a significant impact. They had the objective of curbing the growth of the cost of pensions in the long term (2015-2060), in order to ensure the sustainability of the social security system. The main changes concerned the configuration of the retirement pension. Its main objective was to reduce the amount of the pension, by increasing the proportionality between contributions and benefits; meanwhile, the working life was lengthened and an intergenerational equity factor was introduced. The main parameters affected were the legal retirement age; the number of years worked to receive the maximum amount of the pension; and the calculation of the regulatory base. Since the adoption of the reforms, all the changes have been applied – except for the intergenerational equity factor (sustainability factor),<sup>5</sup> which was due to be introduced in 2019, but has been postponed until 2023 (and it will only affect new pensioners).

### Drivers of the increase in pension expenditure

The main drivers of the increase in pension expenditure are a rise in the number of pensioners, the revaluation of pensions and the substitution effect in pensions (the difference between the pension of those who enter and those who leave the system).

<sup>5</sup> This factor will correct the initial amount of pension according to the life expectancy of the newly retired persons.

### a) Number of pensioners

In 2016, pension expenditure targeted 9.5 million pensioners and totalled 10.4 million pensions, amounting to a pension/pensioner ratio of 1.09. The retirement pensions were the most numerous (61% of the total), followed by survivors' pensions (27%) and disability pensions (11%). While the number of retirement pensions has increased over time, fewer people are receiving survivors' and disability pensions (due to policies controlling the management of expenditure). Between 2005 and 2016, the number of pensioners increased by 1.22 million and the number of pensions by 1.4 million. These data come from national statistics. See Table 12.

**Table 12. Total number of pensioners and pensions.**

	No. of pensioners	No. of pensions	Annual variation no. of pensions	Pensions by type (% of total)		
				Old age	Disability	Survivor's
<b>2006</b>	8,333,592	9,042,534		59.0%	11.8%	29.2%
<b>2008</b>	8,548,158	9,332,031	3.2%	59.1%	12.0%	28.8%
<b>2010</b>	8,880,722	9,680,624	3.7%	59.8%	11.8%	28.4%
<b>2013</b>	9,251,948	10,100,565	4.3%	60.6%	11.4%	28.0%
<b>2016</b>	9,558,626	10,447,780	3.4%	61.4%	11.2%	27.4%

Source: Eurostat.

### b) Revaluation of pensions

The process of pension revaluation has suffered its ups and downs throughout the period covered here. Between 2005 and 2010, the pensions were uprated in line with the CPI, and minimum pensions were revalued at above this indicator. As a consequence of the budgetary restrictions caused by the crisis, the uprating of pensions was suspended in 2011, except for minimum pensions and non-contributory pensions. In 2012, a general uprating of 1% was applied, and another general revaluation of 1% and 2% for those with pensions of below €1,000 per month was applied in 2013. From 2014 onwards, the measures of the pension reform came into effect, practically freezing the growth in pensions until 2018.

In 2018, as a result of citizens' protests, the new socialist government approved a proposal to uprate pensions in line with the CPI, and to increase minimum pensions at above that figure. The proposal covered the years 2018 and 2019, and it was hoped that the Parliamentary Commission of the Toledo Pact would approve it indefinitely.

### c) The substitution effect on pensions

This is the difference between the amount of pension of those who enter the pension system and those who leave it. The difference is estimated at approximately 8% more for those entering the system, but the effect of the 2011 pension reform has been to reduce that to 5%.

## 1.1.2 Expenditure on healthcare

In 1986, the General Health Law introduced the universal right to public health, breaking with the concept of the beneficiary of social security. So, the scope of social protection was extended to all citizens residing in the Spanish state, regardless of their economic level or their relationship with social security status. Health coverage using public financing reached 96.1% of the population in 1986, when the law was approved; seven years later, in 1993, the percentage was 98.5%. By 2008, the protected population was estimated at 44.2 million, a figure that does not include the 1.9 million people with civil servants' mutual insurance companies, who are protected by private insurance entities.

The planning and administration of healthcare is devolved to the regions, and central government maintains a catalogue of services that are obligatory for all of them; it also reserves for itself responsibility for setting the price of pharmaceutical products and certain public health responsibilities.

Healthcare expenditure is financed through general taxes, according to the *Ley General de Sanidad*. Central government transfers the budget for this expenditure to the Regional Governments (Autonomous Communities), which manage 92.2% of the total spending; the remaining percentage is distributed among diverse entities with residual competencies (central state, local administration and social security).

Health benefits are free of charge, except for pharmaceutical products, to which a co-payment applies. Products consumed in hospitals or in user care centres are exempt. Co-payments were implemented long before they became universal, but the amounts to be paid were not significant and pensioners were exempt.

In 2012, as a result of the economic crisis and the high level of expenditure, the co-payment conditions became more demanding (RD 12/2012). Co-payment is established according to income, age and the severity of the illness. There are three contribution tiers depending on income (from 0% to 60%); in the case of pensioners, there are maximum contribution limits per month, depending on income; patients with serious or chronic illnesses have a reduced contribution of 10%, with a maximum monthly contribution limit. People in need are exempt from charges.

Between 2012 and 2018, the right of universal access was abolished by introducing the concepts of 'insured' and 'beneficiary', which significantly altered the universalistic character of healthcare access in Spain, as it had existed since the establishment of the National Health System in 1986. But with the change of government in 2018, universal access to healthcare services was reinstated (Royal Decree-Law 7/2018, of 27 July), with effect from 1 July 2018.

Table 13 shows the evolution of health expenditure; it shows a growth of 7.5% between 2005 and 2016. An important increase in health spending is observed before the economic crisis, followed by big cuts during the period of economic crisis, with significant decreases between 2010 and 2013, and a recovery between 2013 and 2016.

**Table 13. Public healthcare expenditure**

	Base 2005	Interval years	Variation (%)
	€ million		
<b>2005</b>	57,257.1	2005-2008	18.6%
<b>2008</b>	67,894.9	2008-2010	-1.3%
<b>2010</b>	67,033.6	2010-2013	-16.8%
<b>2013</b>	55,752.5	2013-2016	10.4%
<b>2016</b>	61,564.4	<b>2005-2016</b>	<b>7.5%</b>

Source: Eurostat.

In the first period, between 2005 and 2008, there was an 18.6% increase in expenditure. One fact that should be highlighted is the incremental number of beneficiaries following the *foreign workers normalisation process*, which brought into the system more than half a million people. Another important factor was the high level of pharmaceutical spending on prescriptions, around 18% of the total health budget. Two characteristics of this phenomenon were the high ratio of prescriptions per beneficiary and the high average amount per prescription. In this context, the policy of the rational use of medication took a step forward in 2006, with the approval of Law 29/2006, of 26 July, on guarantees and rational use of medication and health products. This reduced the prescriptions-per-beneficiary ratio from 20.6 in 2008 to 19.5 in 2016, and the cost per prescription from €13.45 to €11.20.

The second period, from 2008 to 2013, was characterised by the budget cuts implemented. First, there were cutbacks in pharmaceutical expenditure, in order to reduce the cost per prescription; and second, there was a drastic reduction in the financing from the central state to the Regions (Autonomous Communities). The main effects of the budget cuts were the following: reductions in staff, closure of services, reduction in the number of hours for surgical operations or for user services, and a growing outsourcing of services to the private sector. This led to a deterioration in quality standards in all aspects (waiting lists, time for medical visits, etc.).

In the period 2013-2016, healthcare expenditure rose again for various reasons, one of them being an easing of the budget cuts in the crisis years thanks to the economic recovery. One example of this is the one-off €1,197 million expenditure on hepatitis C treatment in 2015.

### **1.1.3 Unemployment expenditure**

Unemployment benefits act as an automatic counter-cyclical stabiliser by counteracting, to some extent, the crisis effect on household incomes. Unemployment benefits may be of two kinds or levels: contributory and as social assistance. Contributory unemployment benefits expenditure is financed through social contributions paid by employers and employees for just this contingency. Otherwise, the benefits at the assistance level are financed through the state budget (taxes).

Unemployment benefit is contributory, received by unemployed people who have contributed to social security for this coverage for at least one year in the previous six years. It has a maximum duration of two years (either consecutive or cumulative). The amount received is a percentage of the regulatory base, dependent on previous contributions – a percentage that varies according to the number of months of receipt (70% for the first six months and 50% for the remaining time). There are maximum and minimum amounts, depending on the number of children.

There is a non-contributory unemployment benefit for people with less than six months of contribution to social security. Those with family responsibilities may apply with just three months of contribution. The benefit can last up to six months.

For unemployed people over 55, there is a non-contributory benefit that they can get if they have exhausted the contributory one. The entitlement lasts until their retirement age, so long as they do not get a job. Prior to July 2012 (RD 20/2012) this benefit applied to people over 52.

There are also some assistance pensions, of a temporary nature, for unemployed people who are in poverty according to the scale established by the Administration. There are more favourable conditions for those with family responsibilities.

The economic crisis has seriously affected the economy, causing very high unemployment and long-term unemployment rates. The unemployment rate grew significantly during the crisis years, reaching 26% in 2013 and leaving 6.2 million workers in situations of unemployment (Table 14).

**Table 14. Labour indicators**

	Employment rate	Unemployment rate	Long-term unemployment rate (*)
<b>2005</b>	63.5	9.2	-
<b>2008</b>	65.1	11.3	10.7
<b>2010</b>	58.8	20.0	15.9
<b>2013</b>	54.8	26.2	35.0
<b>2016</b>	59.5	19.7	42.8

(\*) As a percentage of total unemployment. Data from Q2.

(Long-term unemployment = 2 years or more)

Source: Eurostat, Labour Force Survey.

The evidence shows that unemployment benefits coverage went down as the economic crisis progressed. In 2012, it stood at 65.8%, a reflection of the lack of social protection for a great number of unemployed people – the long-term unemployed, as well as people who had not reached the required contribution time for entitlement to unemployment benefit. In 2016, just 55.1% of the unemployed received the benefit. The level of protection has fallen in recent years, because of the persistence of the crisis meant that many long-term unemployed people exhausted the contributory benefit period and moved onto the social assistance level.

The shift of benefits from the contributory to the social assistance level is not only a feature of periods of economic crisis, but is also governed by the intrinsic characteristics of the labour market. A large proportion of temporary contracts leads to many spells of unemployment, which tend to turn into long-term unemployment. As the number of social assistances increases, society impoverishes further because these are temporary and discretionary activities of low economic amount.

#### **1.1.4 The social protection expenditure: other functions**

Regarding other functions (e.g. family, housing or social exclusion), the common characteristic is the low proportion of total social expenditure. As a share of GDP, spending on the family function accounts for 1.3%, the housing function – 0.1%, and the social exclusion function just 0.2%.

The Law on long-term care<sup>6</sup> (LTC) was approved in December 2006, making universal the right for any dependent person to get the related benefits. This is, then, a universal benefit, designed to help all citizens, of any age and affected by disabilities to perform the ordinary life activities. Almost 80% of beneficiaries are older people (65 or more). Entitlement is according to a scale approved by the government; it is the same in all the Spanish Regions. This regulation came into force in 2007, and currently the benefit reaches nearly a million people.<sup>7</sup> It encompasses two modalities: services and economic transfers. Due to the economic crisis, instead of the planned eight years (2007-2015), roll-out took three further years and concluded in July 2018.<sup>8</sup> At present, expenditure on LTC accounts for 0.7% of GDP; it is envisaged that it will reach about 1% of GDP when fully developed.

<sup>6</sup> Law 39/2006 on the Promotion of personal autonomy and care for dependent persons .

<sup>7</sup> IMSERSO SAAD website: <https://goo.gl/tMqqgp>, 31 January 2019.

<sup>8</sup> Royal Decree-law 20/2012, of 13 July, on measures to guarantee budget stability and foster competitiveness, <http://goo.gl/VQDLZ> .

### 1.1.5 Complementary schemes of social protection

Spain is characterised by a low level of development of occupational and individual pensions. The coverage rate of supplementary pensions among the population aged 15-64 is 3.3% in occupational pensions and 15.7% in individual plans; total contributions amount to 0.82% of GDP.<sup>9</sup>

Occupational plans make up a little more than half of the total (54.3% in 2016), but there has been a steady decline since the beginning of the crisis (5.1pp between 2008 and 2016). It should be remembered that the contributions to pension plans for public employees were suspended in 2013, having been initiated in 2010.

According to data from the report of the Directorate General of Insurance and Pension Funds, the annual average contribution per participant in the occupational plans was €347, while in the individual plans it was €579; total contributions represented 0.32% of GDP and 0.5% of GDP, respectively. However, the accumulated wealth per participant is lower in occupational plans than in the individual plans (Table 15).

**Table 15. Total occupational and individual pension plans**

	Occupational 2016	Individual 2016
<b>Total contributions / GDP (%)</b>	0.32%	0.50%
<b>Contrib. / participant (€ year)</b>	347	579
<b>Assets / participant (€)</b>	7,912	9,859

Source: Report of the Directorate General of Insurance and Pension Funds.

In the period 2011-2014 (in the midst of the economic crisis), the median amount invested in private pension plans increased among households aged 65-75, but experienced a sharp decline among younger households, according to the Financial Survey of Families (*Encuesta Financiera de las Familias – EFF*), using data from 2014. The participation is higher for households headed by a person aged 55-64, and for those headed by a self-employed worker. There is a high concentration of participants in the lower tranches of the distribution: more than 80% make contributions below €900 per year and 75% below €300.

While at the height of the crisis, the reason for this low dynamism was mainly uncertainty about the conduct of the financial markets and the decline in household incomes, the fact that it continued in the early stages of the recovery may also be attributed to other causes, such as high unemployment rates, especially among young people, wage moderation, the need to prioritise other unmet investment needs, such as housing, and the high rates of commission linked to these financial products.<sup>10</sup>

Regarding healthcare, the private sector complements and extends the public assistance offer. In 2016, Spain devoted 9% of its GDP to health expenditure (6.6% public and 2.5% private). It ranks fourteen among the OECD countries in terms of private health expenditure.

More than 7 million people pay insurance companies for private health coverage. The vast majority of them have dual coverage, as they continue to have the public health cover. The main reasons for taking out health insurance are: better possibilities for choosing either one's general practitioner or specialist, less waiting time for medical consultations and better hospitality comfort.

<sup>9</sup> European Commission (2015).

<sup>10</sup> Economic and Social Council of Spain (2016).



## 2 Current mix and past changes in the sources of financing social protection

### 2.1 Sources of social protection financing

In Spain, the financing of social protection is a mix of social contributions and taxes. In general, cash benefits are financed by social contributions, and benefits in kind by taxes. Those benefits that are characterised by universal access (such as healthcare and long-term care) tend to be financed by taxes, with only some residual benefits funded by social contributions. On the other hand, monetary benefits (such as pensions) financed through social contributions are supplemented by taxes to guarantee a minimum pension. Also, welfare pensions are financed through taxation. Finally, there are certain fiscal allowances, the expenditure on which shows up directly as lower tax revenue.

Another source of financing is 'private' and comes from co-payments, etc. This source involves out-of-pocket spending to receive a benefit, either as a service or in cash. This source of funding is to be found in those social domains that are universal, such as healthcare or LTC.

In 2016, the balance between social contributions and government contributions was fairly even, albeit with a predominance of the former. In Spain, financing is in the order of 56% for social contributions and 42% for government contributions, with 2% for other receipts. This distribution is quite similar to elsewhere in the EU. During the period covered here, there was a convergence in the structure of the sources of financing, so that as the weight of social contributions declined, so the weight of government contributions increased. But in Spain, there has been a significant change in the respective weights of the sources of financing. In the period of economic crisis (2008-2014), the social contribution receipts dropped dramatically (by nearly 10pp), while in the EU-28 they decreased by 1.3pp; however, from 2014 onwards, the receipts of social contributions showed a slight recovery. Likewise, government income in Spain during the period analysed increased by 8pp – well above the EU-28's 2.6pp (Table 16).

**Table 16. Division of financing for social protection by main source (percentage of total financing)**

	Spain			EU-28		
	<i>Social contributions</i>	<i>Government</i>	<i>Other receipts</i>	<i>Social contributions</i>	<i>Government</i>	<i>Other receipts</i>
<b>2005</b>	63.5	34.3	2.2	58.7	37.8	3.5
<b>2008</b>	62.0	36.7	1.3	55.7	38.4	6.0
<b>2010</b>	55.2	43.3	1.5	54.9	39.4	5.7
<b>2013</b>	52.6	44.7	2.7	54.4	40.4	5.2
<b>2016</b>	55.8	42.3	1.9	54.5	40.4	5.1
<b>Variation in pp</b>						
	<i>Social contributions</i>	<i>Government</i>	<i>Other receipts</i>	<i>Social contributions</i>	<i>Government</i>	<i>Other receipts</i>
<b>2005-2008</b>	-1.5	2.4	-0.8	-3.0	0.5	2.5
<b>2008-2010</b>	-6.8	6.7	0.2	-0.8	1.0	-0.2
<b>2010-2013</b>	-2.6	1.4	1.2	-0.5	1.0	-0.5
<b>2013-2016</b>	3.2	-2.5	-0.7	0.1	0.0	-0.1
<b>2005-2016</b>	<b>-7.7</b>	<b>8.0</b>	<b>-0.2</b>	<b>-4.2</b>	<b>2.6</b>	<b>1.6</b>

Source: Eurostat.

Taxes are the main way of funding healthcare, family, housing and social exclusion, while social contributions apply for old age, survivors, disability and unemployment, although all of them receive a mix of ways of funding (Table 17).

**Table 17. Division of financing social protection by main source and function (percentage of total financing)**

Function	Social contributions	Taxes	Other receipts
<b>Healthcare</b>	15.0	<b>82.8</b>	2.2
<b>Old age</b>	<b>72.7</b>	20.4	6.9
<b>Survivors</b>	<b>79.4</b>	14.3	6.3
<b>Disability</b>	<b>62.4</b>	27.9	9.7
<b>Unemployment</b>	<b>70.2</b>	29.5	0.3
<b>Family</b>	23.7	<b>72.9</b>	3.4
<b>Housing</b>	0.8	<b>98.2</b>	0.9
<b>Social exclusion</b>	0.0	<b>86.8</b>	13.2

Data 2015.

Source: Spasova and Ward (2019), Annex ESSPROS tables

Regarding the source of 'social contributions', the main contributors to the general social security scheme are employers and employees; while the self-employed contribute to their special social security scheme. The social contributions of workers are calculated as a percentage of their salaries; those of the self-employed are calculated as a percentage of the regulatory base, which is in a range set by the government. Both of them have ceilings. The following tables show their ceilings and the rates of social contributions (Table 18 and Table 19).

**Table 17. Division of financing social protection by main source and function (percentage of total financing)**

Sources of financing	Overall contribution	Unemployment (*) (**)	Wage guarantee fund	Vocational training	Accidents at work and occupational diseases
Employees	4.7	1.55		0.1	Exempt
Employers	23.6	5.5	0.2	0.6	(***)
<b>Total</b>	<b>28.3</b>	<b>7.05</b>	<b>0.2</b>	<b>0.7</b>	

Data: 2016.

Ceiling: €3,642 per month.

(\*) Employment contracts: permanent position.

(\*\*) Employment contracts with non-permanent position. Rates: employers 6.7% and employees 1.6%.

(\*\*\*) Rates fixed by government according to the different levels of risks of jobs.

Source: Eurostat, Mutual Information System on Social Protection (MISSOC).

**Table 19. Rates of social contributions: self-employed**

	% of the base
<b>General</b>	26.5
<b>General + temporary invalidity</b>	29.8
<b>General + end of activity</b>	29.3
<b>Accidents at work and occupational diseases</b>	Variable

Ceilings (€ month)	Maximum	Minimum
<b>General</b>	€ 3,642	€893.10
Exceptions:		
<b>Self-employed aged &gt;48 years or according to their previous social contributions</b>	€1,964.70	€893.10

Data for 2016.

Source: Social security statistics.

A comparison of social contribution income by main sources of financing between Spain and the EU-28 shows that in Spain, the weight of employers' social contributions is greater than in the EU-28: in 2016, it was almost 8% higher. Meanwhile, the weight of workers' contributions was almost 50% below that of the EU-28. Likewise, the contributions of self-employed workers in Spain are almost double those of the EU generally. These data are linked to labour market conditions. The social contributions of pensioners and others<sup>11</sup> are negligible in both Spain and the EU-28 (Table 20).

**Table 20. Social contributions by main source: percentage of total financing**

	Spain				EU-28			
	Employers	Employees	Self-employed	Pensioners and others	Employers	Employees	Self-employed	Pensioners and others
2005	49.4	8.9	4.8	0.5	38.5	16.1	2.4	1.7
2008	48.7	8.7	4.3	0.3	36.5	15.1	2.5	1.7
2010	42.9	7.9	4.0	0.3	35.9	14.5	2.5	2.0
2013	40.5	7.5	4.2	0.4	35.0	15.0	2.4	2.0
2016	42.6	8.3	4.5	0.4	34.9	15.2	2.4	2.1
<b>Variation in pp</b>								
	Employers	Employees	Self-employed	Pensioners and others	Employers	Employees	Self-employed	Pensioners and others
2005-2008	-0.7	-0.1	-0.5	-0.2	-2.0	-1.0	0.0	0.0
2008-2010	-5.8	-0.8	-0.3	0.1	-0.6	-0.5	0.0	0.3
2010-2013	-2.4	-0.4	0.2	0.1	-0.9	0.4	-0.1	0.0
2013-2016	2.1	0.8	0.3	-0.1	-0.2	0.2	-0.1	0.1
<b>2005-2016</b>	<b>-6.8</b>	<b>-0.5</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-3.6</b>	<b>-0.9</b>	<b>-0.1</b>	<b>0.4</b>

Source: Eurostat.

The financing of social protection through taxation comes from general taxes – i.e. there are no taxes earmarked for these benefits. The Regions have very little fiscal autonomy; only some indirect taxes have been ceded. They manage the money that comes from central government through monetary transfers.

<sup>11</sup> This section includes the contributions of pensioners with flexible retirement.

### Drivers of the variations in the sources of financing for social protection

There are several factors that lead to a reduction in income from social contributions. One of the most important is a decrease in the number of social security contributors due to the economic crisis. The unemployment rates increased dramatically, and the number of people unemployed reached 6 million at the peak of the crisis (2013). Another factor is the strong salary devaluation, which implies lower contribution bases than previously. The salary devaluation that workers experienced as a result of the 2010 and 2012 labour reforms, which aimed at lowering business expenses and so preventing mass company closures, resulted in a loss of salary purchasing power of around 11pp, compared to 2008, at the start of the crisis. Other factors were: the increase in the proportion of temporary contracts, and – last but not least – the reduction, linked to active employment policies, of some employers' contributions.

The result was a decrease in the average income from social contributions per individual in the social security scheme. The income per contributor was lower in 2016 than it was in 2010, both years having a similar number of contributors (Table 21). These data come from national statistics.

**Table 21. Social contributions per individual**

Year	No. of contributors (thousands)	Euros by contributor (yearly)
2005	17,835.4	6,538.60
2008	19,005.6	7,581.30
2010	17,581.9	7,725.70
2013	16,224.7	7,621.30
2016	17,518.4	7,424.80

Source: Social security statistics.

### Surplus or deficit in social protection schemes

The social security system has shown increasing deficit figures since 2011, reaching a 1,6% of GDP in 2017. This worsening is caused by a significant increase of the expense in contributory pensions as a percentage of GDP and also a small decrease of the social contribution ratio over GDP.

While the central public administration has covered the deficits by issuing public debt, the social security scheme has drawn on the Pension Reserve Fund, which was created during the years of economic prosperity, and loans granted by the state.

The Pension Reserve Fund was set up in 2000 and was endowed with the revenue from social security surpluses and the revenue from assets, but now Reserve Fund is practically exhausted. In 2017, the state granted it a loan of €10.19 billion, and in 2018 another one of €15.20 billion. For 2019, a loan of €13.83 billion was approved in March 2019.

During the period 2011-2013, several regulations were adopted by the government to adjust the fiscal deficit. Among the main moves to increase revenue was a rise in the tax rates for Value Added Tax (VAT) in 2012: the general rate increased from 16% to 21% and the reduced rate from 7% to 10%.

The set of fiscal adjustment measures led to an increase in the *tax burden on labour income*; this indicator increased by 3 pp – from 36.7% in 2005 to 39.6% in 2015. This indicator is measured as the total tax and social security/labour income burdens.

### **3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing - national debate on the topic**

The state, seeking to widen the scope of social protection, has taken a new approach to welfare policy, moving away from the concept of 'assured' to that of 'beneficiary'. The first move in this new direction came with the creation in 1986 of the Spanish National Health System (*Sistema Nacional de Salud*), which made healthcare universal in the country and which changed the funding model from one based on social contributions to one financed through taxation. Taking a similar approach, the second shift in national policy came with the Law on Assistance to Dependent People (2006), although its economic impact was much less than the former change.

The conclusion must be that the 'slimming down' of social contributions and the increased weight of taxation in the funding model is not a temporary solution, involving government transfers to cover the social security deficit, but is part of a new approach to the supply and funding of social protection services.

Currently, there are two important topics of debate surrounding the financial sustainability of social security both in the medium and the long term: the funding of general pensions; and more specifically, the self-employed scheme.

Focusing on the old-age expenditure policy is particularly important, both because of the significant ageing of the population and because the 'baby-boom' generation is coming up for retirement (2025 onwards). Although the measures approved in the first major pension reforms of 2011 and 2013 have slowed public spending, they are considered insufficient to ensure sustainability of the social security system. The current debate on future pension reform is at the crossroads of two models: greater prominence of individual effort (individual contribution accounts) or greater prominence of collective income (larger transfers from the state). The debate on the sustainability of the system overlaps with the debate on the adequacy of pensions, since, in Spain, there is a significant concentration of low pensions, mostly among women: in 2016, 26% of retirement pensions had a minimum supplement, and 64% of those pensions were claimed by women. The measures undertaken to supplement public pensions with occupational and individual pension plans have not been as successful as expected, and neither has witnessed an increase in take-up in the post-crisis period.

Also, currently, the peculiarities of the social security scheme for the self-employed are the subject of debate, both in terms of their lower pensions and the deficits they generate (since the number of beneficiaries under this scheme has been increasing, due to the growth of new business relations, such as 'non-standard jobs').

At the same time, healthcare and LTC expenditure will rise both because of the larger proportion of elderly people and because of the generally higher health standards. All this will put more pressure on budgets. In this context, attention should be paid to reducing inefficiency in spending (unnecessary and costly tests, unused spaces, etc.), and also to improving public services' efficiency (technological innovation, etc.).

All in all, the short-term debate centres on how to increase people's social protection and ensure good-quality public services, without incurring high costs for citizens and without creating inequalities or barriers to accessing public services (as could happen with co-payments). In the medium and long term, the debate on social protection financing should result in a combination of political, social and fiscal policies (productivity increase, income guarantees and higher fiscal co-responsibility among individuals).

## References

- Bank of Spain, Spanish Survey of Household Finances (EFF) 2014. Analytical Articles. Spain, 2017. <http://bit.ly/2JDf3O9>
- Dirección General de Seguros y Fondos de Pensiones, Informe anual 2016. Ministerio de Economía, Industria y Competitividad. España, 2017.
- Economic and Social Council of Spain (CES). Report on the socio-economic and employment situation. Madrid, 2005.
- Economic and Social Council of Spain (CES). Report on the socio-economic and employment situation. Madrid, 2015.
- Economic and Social Council of Spain (CES). Report on the socio-economic and employment situation. Madrid, 2016.
- European Commission, Social protection systems in the EU: financing arrangements and the effectiveness and efficiency of resource allocation, Report jointly prepared by the Social Protection Committee and the European Commission Services, 2014.
- European Commission, *The 2015 Pension Adequacy Report: Current and future income adequacy in old age in the EU*, Vol. 2 Spain. Brussels, 2015.
- European Commission, European semester thematic factsheet: Adequacy and sustainability of pensions. Brussels, 2017.
- European Commission, *The 2018 Pension Adequacy Report: Current and future income adequacy in old age in the EU*, Vol. 2 Spain. Brussels, 2018a.
- European Commission, Council recommendation on the 2018 National Reform Programme of Spain and delivering a Council opinion on the 2018 Stability Programme of Spain. Brussels, 2018b.
- Governor of the Bank of Spain, Appearance in the Commission of the Toledo Pact on 15 February 2017. *Parliamentary Proceedings*, 120, 15 February 2017, Session No. 19, 2017.
- Hernández de Cos, P. and Jimeno, J.F., The public pension system in Spain: Current situation, challenges and alternatives. Occasional Papers, no. 1701, Bank of Spain. Spain, 2017.
- Rodríguez Cabrero, G., Appearance in the Commission of the Toledo Pact on 22 March 2017. *Parliamentary Proceedings*, 120, 22 March 2017, Session No. 23, 2017.
- Seguridad Social (2005-2016). Proyecto de presupuestos. Informe económico-financiero. Volumen V. España.
- Spasova S. and Ward T. (2019). *Social protection expenditure and its financing in Europe, A study of national policies 2019*, European Social Policy Network (ESPN), Brussels: European Commission.
- Zubiri, I., Las pensiones en España: Situación y alternativas de reformas. *Papeles de Economía Española*, 147, 2016.

## **Getting in touch with the EU**

### **In person**

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: <http://europa.eu/contact>

### **On the phone or by e-mail**

Europe Direct is a service that answers your questions about the European Union. You can contact this service

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: <http://europa.eu/contact>

## **Finding information about the EU**

### **Online**

Information about the European Union in all the official languages of the EU is available on the Europa website at: <http://europa.eu>

### **EU Publications**

You can download or order free and priced EU publications from EU Bookshop at: <http://bookshop.europa.eu>. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see <http://europa.eu/contact>)

### **EU law and related documents**

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: <http://eur-lex.europa.eu>

### **Open data from the EU**

The EU Open Data Portal (<http://data.europa.eu/euodp/en/data>) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

