European Commission

# Easing early retirement in Portugal

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*The Portuguese government recently expressed its intention to ease the access to early retirement for workers with long contribution records. Successive proposals have been announced within an ongoing debate framed by the discussion on the sustainability of the pension system, which is also turning into a debate about the right to early retirement.*



## Description

The Portuguese government is currently preparing a set of reforms related to early retirement. This is work in progress, and the concrete design of the proposal is still unknown. It will probably be implemented in three phases, to be completed by 2019. It is the government's intention that the first phase should come into force in 2017. The law under preparation will not apply to civil servants covered by the "Caixa Geral de Aposentações" (Civil Service Pension Fund [CGA]) regime although the government is considering future convergence.

Early retirement will only be possible for workers aged 60 years or more who, at the age of 60, have at least 40 years of contributions – this means that those aged 62 with 41 years of contributions, who, at the age of 60 had 39 years of contributions, will not be able to retire early (in the current framework, early retirement is possible for workers aged 60 or more with 40 years of contributions). Workers with 46 years of contributions will not suffer any penalty if they retire from the age of 60 onwards. For workers with a record of contributions lower than 46 years, early retirement penalties are reduced by four months for every year of insurance record beyond 40 years of contributions (prior to the 2015 reform, the reduction model was 12 months for each period of three years for workers with more than 30 years of insurance record). This change regards the first phase of implementation of the reforms and it is deemed to involve around 18 thousand people.

For all other workers, the penalty per month of retirement before the person's statutory retirement age will be kept. This is set at 0.5%. The penalty will be slightly lower (0.4%) for workers complying with the conditions for early retirement who started working before the age of 16.

Another change under discussion is the end of the application of the sustainability factor in the formula applied for the calculation of early retirement pensions, which takes into account average life expectancy and is currently set at 13.88%. This is expected to be part of the second phase of implementation; it is not clear yet when this will come into force.

There were different reactions from the parties who signed a parliamentary agreement with the government. The decision was praised by the Left-Wing Bloc (Bloco de Esquerda – BE) who argued that the double penalty imposed on early retirement pensions (i.e. sustainability factor - 13.88% - plus 0.5% per month of early retirement) should come to an end, because sometimes it leads to cuts of over 50% in the amount of the pension, placing it below the poverty threshold. The Portuguese Communist Party (Partido Comunista Português – PCP) considered the proposal a step forward, although still insufficient.

As for the opposition parties, the Social Democrat Party (Partido Social Democrata – PSD) criticised the absence of a joint proposal by the government and the parties supporting it in parliament, and the absence of parliamentary debate; especially regarding the budgetary impacts of the changes. The Social Democrat Centre (Centro Democrático Social – CDS) considered the proposal to be misleading, since early retirement without penalties would only be possible for people who started their contributory career at a very early age.

Even before the presentation of the proposal, the European Commission had voiced its concern as to the government's intentions. In its Post-Programme Surveillance Report for Portugal regarding the Autumn of 2016, it stated that such reforms would jeopardise the long–term sustainability of the pension system and the objective of eliminating, by 2019, extraordinary transfers from the State Budget to Social Security. It also considered that although the government presented new measures in the pension system, their expected impact on cost reduction was not clear.

## Outlook & commentary

The debate on this most important subject is expected to continue during the coming months, as part of discussions on the control of public expenditure and the sustainability of the pension system. Despite significant improvements, the country's economic situation remains fragile, and easing early retirement in the context of a growing debate on prolonging working life may, moreover, be controversial.

However, as new details on the proposal are disseminated, it seems clear that certain changes do not aim at facilitating early retirement. This is the case of the new rule, by virtue of which only workers who at the age of 60 already had a contribution record of 40 years can take early retirement without any penalty.

In any case, it should be emphasised that the debate is also becoming a matter of defending - or not - the right (of any worker) to early retirement.

From a social policy perspective it seems crucial that early retirement pensions should protect their beneficiaries from the risk of poverty. This is often not the case under the current framework, as the penalties may be too heavy and, additionally, they frequently apply to contributory careers based on low salaries. The minimum salary (RMMG) in Portugal is currently €557/month. Data from the Office for Studies and Planning of the Ministry for Solidarity, Employment and Social Security (GEP/MTSS) reveal that during the first nine months of 2016, the RMMG was the salary earned by 37.1% of all new contracts, compared to 31.5% in 2015 and 23.1% in 2014. According to the data issued by Statistics Portugal (INE), by the end of the third quarter of 2016 almost 1.2 million employees, i.e. a little over 30% of all employees, earned up to €600/month. At the same date, nearly 60% of employees earned €900 or less per month.

The latest data from Eurostat show that, in 2015, 12.1% of the working population aged 55 to 64 was poor (13% males and 11.1% females). Additionally, it should be mentioned that the working poor population represents approximately 30% of the poor.

### Further reading

European Commission (2017), Post-Programme Surveillance Report Portugal, Autumn 2016, Institutional paper 051, March 2017, available at: [https://ec.europa.eu/info/sites/info/files/ip051_en_0.pdf](https://ec.europa.eu/info/sites/info/files/ip051_en_0.pdf)

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