

AIReF publishes its Opinion on the Determination of the 2015 Revaluation Pension Index

THE 2015 REVALUATION PENSION INDEX LIES BELOW 0.25% AND IT MUST APPLIED THE MINIMUM LEGAL INCREASE

- The 2015-2020 expenditure forecasts provided by the Government are in line with AIReF estimates. However, the official revenue projections for this period appear rather demanding.
- Official estimates show a gradual closure of the gap between revenue and expenditure for the 2014-2020 period.

The Independent Authority for Fiscal Responsibility (AIReF) published today on its web (www.airef.es) its Opinion on the Determination of the 2015 Revaluation Pension Index. The Opinion concludes that the formula result for 2015 of the Revaluation Pension Index lies below the 0.25% and therefore the minimum legal increase must be applied. This is in line with the Draft Budget of the State and the Public Administrations.

AIReF assessment, which includes a substantial amount of explanatory information for the public, takes into account the information on revenue and expenditure figures in the Social Security System provided by the Ministry of Employment and Social Security (MOESS).

The Opinion states that “the 2015-2020 expenditure forecasts provided by the Government are in line with AIReF estimates”. It also explains that “the corresponding expenditure projections supplied by the MOESS are consistent with AIReF’s calculations for the change in the number of pensions and the replacement rate. The expenditure projections are obtained by exploiting micro-data on the labour force (Muestra Continua de Vidas Laborales) and demographic projections from the National Statistical Institute.”

As regards revenue, AIReF states that “official revenue projections for 2015-2020 (implying an average annual growth rate of 4.1%) are assessed as demanding”.

The Opinion also adds: “there are two necessary conditions for these figures to materialize. First, the macroeconomic environment should develop in line with the Draft State Budget (DSB) baseline scenario. Second, the measures designed to broaden the Social Security System contributory bases and to improve its



management efficiency would have to generate the total amount of revenues originally estimated”.

According to AIReF, “projections for the 2015-2020, based on the medium-term macroeconomic scenario included in the DSB, amount to an average annual growth of around 3%, well below the official figures”.

“The detailed macro assumptions behind this scenario are the following: employment and wages average growth of 1.86% and 1.87%, respectively; and inflation gradual convergence over the coming years to the European Central European Bank inflation target (estimated at 1.8%)”

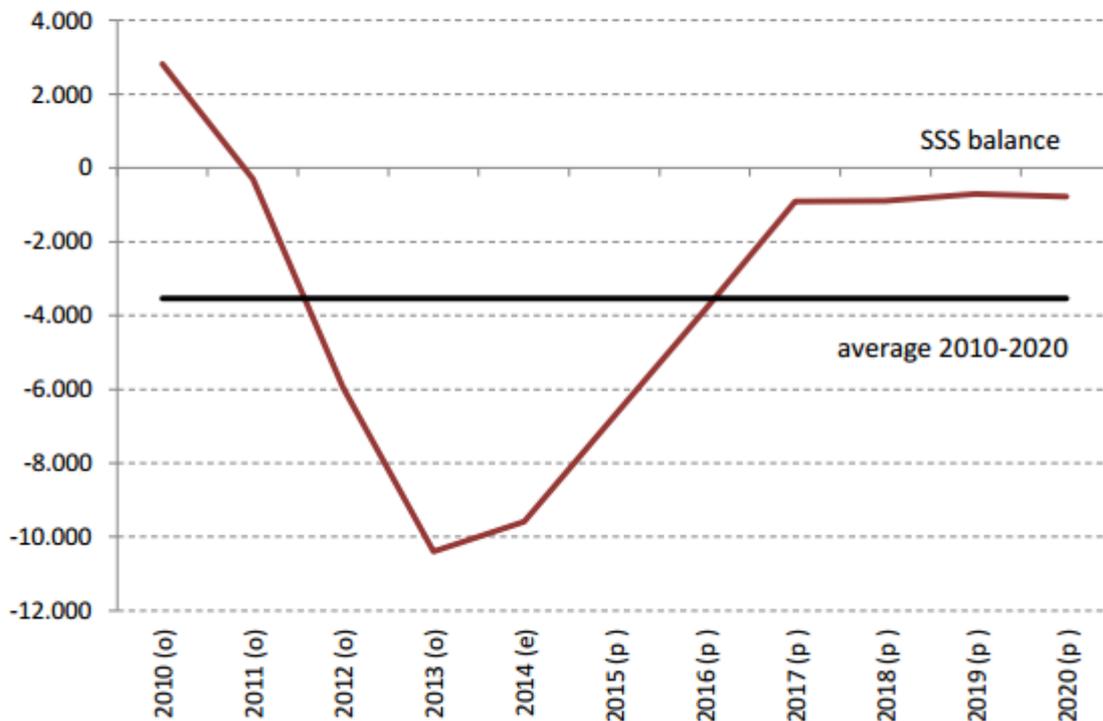
From the annual growth rate of 3% in the baseline scenario, “achieving the level of revenue projected by the Government would require an additional 1% of GDP of revenue per year for the period 2015-2020.”.

In the same line, AIReF explains that “extra revenues from the policy measures aimed at broadening the bases (approx. 2,500 million euros by including payments in kind) and increasing efficiency (yielding approx. 3,700 million euros from the full implementation of the new direct payment system –CRETA– and the execution of an anti-fraud campaign) appear as crucial to close the gap. The gains from these measures will also have to stay over the subsequent years.”

Gap between revenue and expenditures

According to AIReF, the information provided by the MOESS “shows a gradual closure of the gap between revenue and expenditure for the 2014-2020 period”.

The gap between revenue and expenditure in the SSS contributory segment



The latest available year (2013) presents a deficit, which gradually disappears over the projection period (see the continuous line in the graph above). The average balance for the 11 years used in the calculation of the 2015 PRI is represented by the dotted line in the graph.

Recommendations

AIReF makes the following recommendations:

1. AIReF recommends taking into account the PRI for decisions on the long-term sustainability and sufficiency of the contributory pension system. It is particularly desirable that revenue developments are closely monitored since changes in expenditure are more inertial and therefore more foreseeable.
2. AIReF recommends improving transparency by publishing the information required for the PRI calculation. This involves publishing the baseline series, including the different components of expenditure and revenue, together with the underlying macroeconomic assumptions and the final PRI, before applying the legal boundaries. This would, in turn, improve public understanding of this mechanism. Although a publication date is not set by law, it would be



convenient to supply this information within the annual DSB (i.e. the Social Security Economic and Financial Report).

3. AIReF recommends the Government to publish the methodology used to go around the circularity of the PRI formula.

4. AIReF believes consolidated SSS revenues and expenditures should be used. The current legal obligation to use non-consolidated figures for revenue and expenditure operations between entities inside the SSS presents some drawbacks when applying the PRI formula. First, the same criterion must be used to project these operations for revenue and expenditure and therefore these elements need to be identified. Second, the imbalance correction component in the formula is systematically lower when using non-consolidated data. The latter feature decreases the speed of adjustment in times of deficit or surpluses.

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