



AIReF BEGINS PUBLICATION OF TECHNICAL DOCUMENTS UNDERPINNING ITS OPINION ON LONG-TERM SUSTAINABILITY OF GENERAL GOVERNMENT PUBLISHED IN MARCH

- By means of this publication, the Independent Authority for Fiscal Responsibility (AIReF) reinforces its commitment to transparency, making the methodological and analytical basis for its long-term scenario available to citizens, experts and public officials
- In the document on revenue and unemployment, AIReF estimates the tax collection of VAT, Special Taxes, PIT, CIT, Social Security contributions and unemployment spending until 2070. It includes estimates differentiating spending by age in the case of VAT and Special Taxes and by wage bill in the case of contributions and PIT
- In the second document, AIReF estimates that ageing will put upward pressure on spending on healthcare and long-term care, but will reduce spending on education. It includes estimates by age, gender and territory for these items
- The last two documents focus on analysing the impact of the reform of the system of spending pension, on the behaviour of agents when retiring, the replacement rate and the Internal Rate of Return (IRR)
- AIReF concludes that the latest reform mainly increases pension spending through an increase in the average pension and observes an increase in the number of people delaying retirement after the reform and a reduction in the number of people taking early retirement
- AIReF estimates that the reform increases pension system spending by 2.7 points of GDP until 2050, raises revenue by 1.4 points of GDP, increases the generosity rate by 13 points, the Internal Rate of Return (IRR) by 0.5 points and the replacement rate by 7.5 points
- In the coming weeks, AIReF will publish the pending macroeconomic documents on the impact of revenue measures, the minimum wage, the recent labour market evolution and demographic projections

The Independent Authority for Fiscal Responsibility (AIReF) published a set of technical documents today underpinning the Opinion on the Long-Term Sustainability of the General Government (GG), presented on March 31st. In these documents, AIReF provides a detailed analysis of the revenue and unemployment model, the healthcare, education and long-term care models, and the spending, adequacy and equity of the pension system.



By means of this publication, AIReF reinforces its commitment to transparency and technical rigour, making the methodological and analytical basis of its long-term scenario available to citizens, experts and public officials.

These documents provide detailed projections for public revenue and expenditure, including the methodologies used to estimate the evolution of key variables such as pensions, unemployment, healthcare, education and long-term care. An analysis of the adequacy, equity and contribution of the pension system is also included, with special attention to the impact of the reforms from 2021 to 2023. Specifically, four documents have been published:

- Methodology for revenue and unemployment models
- Methodology for healthcare, education and long-term care models
- Methodology for estimating spending on pensions
- Adequacy, equity and contribution of the pension system. Impact of the 2021-2023 reform

In a few weeks, AIReF will complete the publication with the pending macroeconomic technical documents: Macroeconomic impact of revenue measures, Impact of the minimum wage, Recent evolution of the labour market based on microeconomic data, and Demographic projections.

In the first technical document published today, AIReF estimates tax collection from Value Added Tax (VAT), Special Taxes, Personal Income Tax (PIT), Corporate Income Tax (CIT), Social Security contributions and unemployment spending until 2070. Estimates are included by cohort models that consider ageing in the case of VAT and Special Taxes and based on the wage bill in the case of contributions and PIT. Overall, AIReF explains that revenue measures account for 1 point of GDP of the 2.8-point increase in revenue forecast between 2023 and 2050. These increases are explained by income taxes due to cold progressivity and, to a lesser extent, by social contributions due to the measures approved. The weight of taxes on products increases slightly until 2050, then declines and returns to its 2023 weight due to the effect of ageing. The weight of GG revenue increases by an additional 0.5 points between 2050 and 2070.

In the second document, AIReF estimates that ageing will put upward pressure on spending on healthcare and long-term care, but will reduce spending on education. Specifically, AIReF projects that healthcare spending will increase by 1.4 points of GDP between 2023 and 2050 and an additional 0.1 points until 2070, and that spending on long-term care will increase by 0.7 points of GDP from 2023 to 2050, and by an additional 0.3 points until 2070. Conversely, it expects spending on education to fall by 0.8 points of GDP from 2023 to 2050 and then increase by 0.2 points from 2050 to 2070.

In this document, AIReF includes estimates by age, gender and territory for these items. For example, it states that per capita healthcare spending declines until age 14, increases slightly until age 45, and then begins a sharp upward slope until the last age group. It also notes gender differences: between the ages of 20 and 45, spending is higher for women, mainly due to maternity, while from age 75, it is higher for men. It also breaks down the evolution of healthcare spending into growth due to demographics and other factors, and estimates that demographics will have a decreasing impact on the evolution of this item, with its effect being almost zero as from 2060. It also notes that the Autonomous Regions (ARs) with the highest growth due to demographic factors until



2023 have been the Balearic Islands, the Canary Islands, Madrid, Catalonia and Valencia.

Similarly, it estimates spending on education using a cohort model, differentiating the demographic impact from other factors. In this case, it estimates that demographics will have a negative impact on education spending until the mid-2030s, before beginning an upward path and stabilising around 2050. It also notes that this factor has not affected all ARs in the same way, with the historical impact being most negative in Extremadura and the Canary Islands. The ARs with the most positive effect from this factor have been the Balearic Islands and Navarre.

It also estimates spending on long-term care using a cohort model, considering the evolution of beneficiaries and the cost per age group. In this regard, it points out that the beneficiaries of long-term care are mainly men up to the age of 65, while from that age onwards they are mainly women. AIReF notes that the cost profile by age is higher for the middle ages, given that the need for assistance is usually more pronounced in these cases. From the age of 40, the profile begins to decline, before increasing again, especially in the case of women, in the older age groups.

Pensions

AIReF focuses the other two documents on the pension system. Specifically, in the third document, it analyses the impact of the reform on spending and on the behaviour of agents when they retire. AIReF estimates that spending on this item will increase from 12.9% of GDP in 2023 to 16.1% of GDP in 2050, falling to 14.7% in 2070. The increase is due to the evolution of the number of pensions, which will reach a growth rate of 2.1% in 2033. The average Internal Rate of Return (IRR) of the system in 2023 is 5.7%, which means that for every euro contributed, pensioners will receive 1.6 euros. The rate is higher on average for women due to their longer life expectancy, despite the fact that their average pension remains lower, at almost €1,200 compared with more than €1,600 for men. The average replacement rate in 2023 is 71.7%, with some differences between groups.

Grouping individuals according to the key characteristics of each indicator, AIReF finds that long careers and women with short careers and minimum pensions obtain a higher replacement rate. Short careers, which do not receive supplementary benefits, have the lowest replacement rates. For the IRR, it is minimum pensions and women that obtain the highest returns.

AIReF also observes a reduction in the number of people taking early retirement and an increase in those delaying retirement after the reform. Specifically, the aggregate data show a 10-point decline in early retirement that continues in 2025 and an increase in delayed retirement from just under 5% of the total to 11.3% in the cumulative data for February 2025. In this context, AIReF maintains in its baseline scenario that 30% of people will delay their retirement by three years or until the age of 68, thus maintaining the historical trend of an increase in the participation rate of people over 60, which means that the effective retirement age would rise from 65.2 to 66.2 by 2035.

Lastly, regarding the impact of the 2021-2023 reform, AIReF concludes that spending on pensions will mainly rise as a result of an increase in the average pension. Specifically, it estimates that the repeal of the Pension Revaluation Index (IRP) and the sustainability factor will increase the average pension by more than 25% by 2050. In addition, the



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reform increases the average IRR of the system by 0.5 percentage points in 2023 and increases the replacement rate. However, AIReF notes that the various measures may have different effects on spending, adequacy, equity and the contribution. In general, measures that increase spending improve the adequacy and profitability of the system, while those that reduce it worsen it.