

## CRISTINA HERRERO APPEARS BEFORE THE TOLEDO PACT COMMITTEE

- Since her last appearance before this Committee, there have been significant reforms to the pension system, and AIReF has carried out various analyses of its sustainability
- In March, it published the report on the new expenditure rule for the system, as required by law, although it considers that this is not an adequate indicator for measuring sustainability
- It accompanied the report with an update of its Opinion on the Long-term Sustainability of the General Government (GG), which offers a comprehensive and unfragmented view of sustainability, with demographic, economic and budgetary forecasts for 2050 and 2070, as well as an initial analysis of the adequacy and contributory nature of the pension system
- AIReF has approached the supplementary system through its evaluation function, with an analysis of the tax benefits of pension plans published in 2020 and a new Study on Occupational Pension Plans to be published in 2026

The President of the Independent Authority for Fiscal Responsibility (AIReF), Cristina Herrero, appeared today before the Toledo Pact Committee and explained AIReF's ongoing monitoring of pensions to fulfil its mandate of ensuring the sustainability of public finances. AIReF approaches pensions from various angles, ranging from continuous monitoring throughout the year for the purposes of supervising fiscal rules and providing an Opinion on the Long-term Sustainability of the General Government, to the new three-year Report on the Pension Expenditure Rule commissioned as of March 2025, and an approach to the labour market and supplementary pension systems through the institution's public policy evaluation function.

This is the second time the President has appeared before the Toledo Pact Committee since she took office in 2020. Since her first appearance that same year, significant reforms to the system have been approved, and the pension expenditure rule has been introduced. AIReF, for its part, has updated its long-term forecasts twice, has begun to analyse the contributory nature and adequacy of the system, and has received evaluation commissions affecting the supplementary pension system.

Cristina Herrero recalled that the entry into force of the pension rule requires AIReF to issue a [report on compliance with that rule](#), which limits spending to 15% of GDP, provided that the revenue measures adopted as of 2020 to strengthen the system have an average impact of at least 1.7% of GDP between 2022 and 2050. AIReF published its report in March 2025 and determined that the established limit of 13.3% of GDP in net expenditure had not been exceeded. However, it also pointed out that the net

expenditure limit is not an adequate indicator for measuring sustainability, since, despite being met, all pension spending projections show upward pressure for the period 2022-2050 and a need for increasing transfers from the State.

Furthermore, it reiterated that the calculation of this expenditure rule has methodological weaknesses and problems of time inconsistencies, as it is heavily influenced by the time at which it is evaluated; it shows excessive sensitivity to changes in scenarios, especially changes in potential growth and migration flows; and it restricts the assumptions and results of pension spending forecasts to those contained in the Ageing Report, agreed by the Member States and the European Commission. It also undermines AIReF's independent supervision capacity, as its analysis is limited to the impact of revenue measures and uses methodological assumptions that are external to AIReF and common to all countries. This situation, in the words of the President, has been exacerbated by the request for a new report by June 2026.

### **Opinion on Long-term Sustainability**

Cristina Herrero indicated that, despite the report's findings, AIReF's view of the pension system has not improved since the 2023 diagnosis, when measures would have been necessary under the pension expenditure rule. AIReF noted this situation in its update to the Opinion on the Long-term Sustainability of the General Government, which it published simultaneously with the report. In its opinion, AIReF addresses sustainability from a comprehensive and independent perspective, with a holistic and non-fragmented view, as pension spending is not the only pressure on long-term expenditure. The opinion provides a comprehensive overview of the dynamics of expenditure and revenue across the whole GG Sector, an update of demographic, economic and budgetary projections to 2050 and 2070, and an analysis of adequacy and contributory capacity.

Specifically, AIReF estimates that Spain's total population will increase to 52.1 million people by 2050 due to the gradual increase in longevity and net foreign migration. However, the working-age population is expected to begin declining as of 2029, causing the dependency ratio to show an upward trend until the end of the 2050s, nearly doubling its current value. In that year, there will be 1.4 workers for every inactive person, compared with the current ratio of 2 workers for every inactive person.

In this context, AIReF estimates that real growth in the Spanish economy will tend towards 1.3% in the long term and will require demanding productivity growth of 1.1% of GDP. Pension spending will increase from 12.9% of GDP in 2023 to 16.1% in 2050, before falling to 14.7% of GDP in 2070. This implies an increase in pension spending of 3.4 percentage points of GDP over the period 2022-2050, compared with the 3-percentage point increase forecast in the 2023 opinion. The reforms of the pension system between 2021 and 2023 have already led to an increase in spending of 0.5 points, which will rise to 2.7 points by 2050, mainly due to the revaluation of pensions in line with the CPI and the elimination of the sustainability factor.

Cristina Herrero also highlighted the First [Analysis of Adequacy, Equity and Contributory Capacity](#) conducted by AIReF within the framework of the opinion, which offers an intragenerational and intergenerational perspective on the system. Specifically, she pointed out that the 2021-2023 reform represents an increase in the system's generosity rate (average pension over average salary) of 13 percentage points, in the Internal Rate

of Return (IRR) of 0.5 percentage points, and in the replacement rate (last salary over initial pension) of 7.5 percentage points.

### **Approach through the evaluation function**

Finally, Cristina Herrero reviewed AIReF's approach to both the labour market and supplementary pension systems through its evaluation function. In addition to its fiscal supervision role, AIReF performs an evaluation function, whereby it analyses the effectiveness and efficiency of public spending policies that the GG has commissioned it to evaluate.

In this regard, AIReF conducted a study in 2020, commissioned by the Council of Ministers, on incentives for recruitment. The study concluded that these incentives cannot replace structural reforms and made several proposals to improve their efficiency. According to the Ministry of Finance, all of these proposals have been implemented. Also in 2020, and in response to the same request from the Council of Ministers, AIReF conducted a study on [tax benefits](#), analysing the tax incentives for individual pension plans. It concluded that this incentive did not achieve its goal of incentivising long-term savings and proposed a complete reformulation of the incentive.

Furthermore, the 2022 Law on Incentives for Occupational Pension Plans provides for an analysis of their effectiveness by AIReF. The action plan for this study is pending approval, and AIReF expects to deliver this evaluation by the end of the first half of 2026.