

The financial impact of Spanish pension reform: A quick estimate

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Abstract

In this paper we present a preliminary estimate of the financial impact of the recent reform of the Spanish pension system. After updating the projections of pension expenditure constructed in de la Fuente and Doménech (2010) for the period 2008-60, we analyze the impact on this variable of raising the retirement age from 65 to 67 years, extending from 15 to 25 years the period over which wages are averaged to calculate the starting pension and increasing from 35 to 37 the number of contribution years required to obtain a "full pension." Conditional on a series of assumptions about the evolution of employment, productivity and demographics, our estimates suggest that these measures will reduce pension expenditure by up to 1.4 percentage points of GDP once the reforms have been fully implemented in 2027, thereby stabilizing pension expenditure at a bit over 9% of GDP during the transition period and preventing the emergence of a structural deficit in the system before the end of the next decade. On the other hand, the existing uncertainty about the future evolution of the relevant variables suggests that it would be desirable to bring forward in time the introduction of the periodic evaluation of the system (the so-called *sustainability factor*) so as to have in place a mechanism that can be used to modulate the rhythm and scope of the reform if the system's financial situation requires it before the end of the transitional period.

Keywords: pension reform, Spain, retirement age.

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