Pension System in Southern European Countries – Challenges and Opportunities

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Abstract[1]
This paper reviews the pension systems of Portugal and explores comparative analysis with other Southern European (SE) countries and tries to show responses to the new political and economic realities in recent years. According to a review of pension systems in SE countries, this paper summarizes and highlights the main features and trajectories of the development of social security systems in four countries (Portugal, Italy, Greece, and Spain) that are dealing with the challenges of these systems. It also examines the deeper challenges for the future that are posed by demographics and suggests some emerging proposals with respect to the architecture of reformed systems. Comparative analysis of this region the challenges still remain unchangeable last decades. According to crucial issues raised in the pension system of SE, to the respond of these challenges the author is forming several approaches with recommendations and proposals for solving the problem in pension system.This paper reviews the pension systems of the region and explores comparative analysis based on historical brief background and tries to show responses to the new political and economic realities in recent years. It summarizes and highlights the main features and trajectories of the development of social security systems in four countries (Portugal, Italy, Greece, and Spain) that are dealing with the challenges of these systems. It also examines the deeper challenges for the future that are posed by demographics and suggests some emerging proposals with respect to the architecture of reformed systems. In the future as for the next research we are planning to work on the individual pension models based on PROST program (The World bank) as options simulation toolkit for each countries separately in Southern Europe. This study will reflect a developing process of the fully funding pension scheme and its implication on social-economic factors. The structure of the paper is the following- Section 2 discusses the common socio-economic indicators of the SE countries, focused in particular on the aging process. Section 3 details the pension systems of these four SE countries: Greece, Italy, Portugal, and Spain. This section also highlights the major reforms carried out by their governments over the last decade. Finally, Section 4 consists of conclusion.
Keywords: aging, pension, retirement age, pension spending.

Introduction

Demographic change is considered to be a worldwide phenomenon today, resulting from such universal tendencies: declining fertility, mortality, rising longevity, migration[2]. Most countries in the world experience declining fertility or still have stagnating fertility. Increasing life expectancy and declining fertility rate caused financial difficulties in Southern European countries, and especially pension systems in the world today face a series of challenges.

The European Union (EU) has been extended to include almost 500 million people (about 124 million[3] or a quarter of the total), and European populations are today facing a common future in a number of important respects. Amongst other things, these include an ageing of populations, a changing working life and a new gender balance[4]. Dramatic increase in the number of retired people (so called "Baby Boomers") had been provoked by creation of classification of this group as the "young old" (between 65-74), the "old" (between

[1] The authors acknowledge the comments from the participants at the Conferences "The Welfare State in Portugal in the Age of Austerity" where a previous version of this work has been discussed. The authors also thank the comments from anonymous referees of International Affairs and Global Strategy: Remaining errors are authors' exclusive ones.

[2] B. Malmberg, K. Tamas, D. Bloom, R. Munz, D. Canning, 2006 Global Population Ageing, Migration and European External Policies, © Institutet för Framtidsstudier

[3] Eurostat, 2013. ADEQUACY AND SUSTAINABILITY OF PENSIONS

[4] World Population Ageing 2013, Department of Economic and Social Affairs Population Division, United nations, New York, 2013 , http://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2013.pdf

74-84) and the "oldest-old" (above 85+) groups[1]. Therefore pension spending will become higher in rapidly rising longevity in an age, unless lasting reform is undertaken. Demographically "aging world" creates threats and confrontation in both PAYG and funded systems.

According to the Survey of Health, Ageing and Retirement in Europe[2], more than 90 percent of older peoples live independently in the North Europe, when the same parameter for Southern Europe is hardly 60 percent. This trend clarifies the real depth of the problems with social care and support for older people in the world and especially in Europe today.

The increase of the dependency rate, the reduction of fertility rates and the decrease of birth rates are important aspects to determine current and future adversity of Southern European (Greece, Italy, Spain and Portugal) Pension System. Today, there are almost 4 people of working age for every person over 65. By the estimation of experts it was expected that there will be only 2 people of working age for every person over 65 in 1950.[3] People born in that time are expected to live between 6 and 8 years longer than people born today and people retiring are expected to live between 5 and 7 years longer than people retiring today[4].

Population aging is becoming one of the "mega trends" for the new century. Therefore, three main points are emphasized: 1) the challenge of population aging (declining fertility and increasing longevity) and its implications for the maintenance of adequate and sustainable pensions, 2) financial sustainability as "a necessary precondition for an adequate provision of pensions in the future," and 3) "the modernization of pensions systems," which relates to the labor market: part-time, temporary, self-employed and mobile workers (statutory schemes respond well to the challenge of providing pensions for atypical workers).

For more than a decade now, this pension issues as big challenges for almost all countries in the world has been discussed in the context of the modernisation by the way of reforms of social security system. Historically the "European social model" as welfare state(s) were founded in Europe based on the recognition of social rights. These welfare states are considered today as fundamental within the European and international legal order (European Social Charter, 1961)[5]. Nevertheless, social policies have some differences among the various European national systems of social security (Esping-Andersen G, 1990). In the majority of European countries, the reform efforts that have been conducted are considered insufficient, even though European countries have undertaken major reforms to make their pension systems financially sustainable. The similarities and the differences among Southern European countries draw special criticism to some previous trials of taxonomy, like the one purposed by Esping-Andersen (1990, 1999).

One major criticism of Esping-Andersen's classification is that he did not systematically include the Mediterranean countries. Which has become a cause for lively debate about the existence of a "Southern" or "Latin Rim" model of social policy. According to Busch et al. (2013), classification of welfare in SE is considered to be as either the "Latin Rim" of European social policy (Leibfried, 1992; Ferrera, 1996) or the "Southern model" of social policy (Ferrera, 1996) characterised by a clientistic and rudimentary design. The Southern European welfare states was considered as a "clientistic" because some employees in certain industries and occupations are still privileged and they are considered "rudimentary" because, among other important things, family policies and labour market policy was not well developed (Busch et al, 2013). In all four countries in the region, "Bismarckian" type of public pensions of plays a central role. Among the multi-pillar schemes (second pillar) and individual voluntary provision (third pillar) are not very widespread and refined in SE (except of the case of Italy's pension system, with an additional NDC scheme since 1995).

The Southern European countries has been considered as a model of the conservative welfare regime (Esping-Andersen, 1999; Katrougalos & Lazaridis, 2003). The welfare systems of Italy, Greece, Portugal and Spain share all the basic institutional characteristics of the "state corporatist" welfare model. All of their Constitutions establish the normative principle of the "Social State" either explicitly[6] or by means of constitutional provisions guaranteeing a number of social rights[7].

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1 Lisa Kimball, Ph.D.2011, SPIRITUAL VITALITY OVER 70, Center for the Ministry of Teaching, Virginia Theological Seminary

2 Survey of Health, Ageing and Retirement in Europe (SHARE) study (Munich Center for the Economics of Aging, 2011).

3 Corin Taylor, Senior Policy Adviser, The Pensions Apartheid: The problem, the cost and the tough choices that need to be made

4 Corin Taylor, Senior Policy Adviser, The Pensions Apartheid: The problem, the cost and the tough choices that need to be made written by Corin Taylor, Senior Policy Adviser

5 See the Social Charter of the Council of Europe (1961), the Community Charter of the fundamental social rights of workers (1989), the European charter of fundamental rights (2000); see also the ILO regulations.

6 Constitution of Spain and the Constitution of Portugal.

7 The articles 2-4,31,31,35-38,41,45,46 of the Italian Constitution. 21.22.of the Greek one, 39-52.129.148. 149 of the Spanish and 56.59.63-72.108.167.216 of the Constitution of Portuguese.

There is sufficient evidence of similarities and shared experiences at the socio-economic and political levels for undertaking fruitful comparative analyses across the four countries. But alongside these similarities, these four countries exhibit significant differences as well. Italy has had a longer democratic experience than the rest of the Southern nations. According to the Joint Report by the Commission and the Council on adequate and sustainable pensions that was approved on March 6, 2003 by the Council[1], it was stated that all the European countries had developed pension systems, so that old age was no longer synonymous with poverty, situation is now threatened by the aging process.

All the countries in this region inherited state monopoly pay-as-you-go (PAYG) schemes using conventional defined benefit (DB) (traditional) formulas. The main discussion on the old pay-as-you-go (PAYG) systems still remains a core agenda of hot debate globally among politicians, researchers and academics Therefore, the financial unsustainability of PAYG systems, combined with the prospective aging population across the world, has led many countries to re-think their pension systems.

The structure of the paper is the following. Section 2 discusses the common socio-economic indicators of the SE countries, focused in particular on the aging process. Section 3 details the pension systems of these four SE countries: Greece, Italy, Portugal, and Spain. This section also highlights the major reforms carried out by their governments over the last decade. Finally, Section 4 consists of conclusion.

Pension Systems and Statistical Figures of the Southern European Countries

Pension benefits – mostly from public schemes – are the main source of income of older Europeans, who are a representative and growing part of the EU population (120 million or 24%).[2] It represent a significant and rising share of public expenditure: more than 10% of GDP on average today, possibly rising to 12 ½ % in 2060 in the EU as a whole. But with spending on public pensions ranging in Europe (from 6% of GDP in Ireland to 15% in Italy) today, countries are in rather different situations although they face similar demographic challenges. The sustainability and adequacy of pension systems depends on the degree to which they are underpinned by contributions, taxes and savings from people in employment.

Although both types of pension schemes have their own advantages and disadvantages, which has been described by Eatwell, the table 1. shows that there is no any ideal pension model in world (Eatwell, 2003).

Table 1 – Advantages and Disadvantages of Pension Systems

Pension Systems	Advantages	Disadvantages
Pay-as-you-go (PAYG) pensions	* Simplicity and transparency * Low administration costs * Progressive redistribution * Wide coverage * Do not inhibit the mobility of labor * Low risk	* Budgetary burden * No "choice" * Over-commitment to a specific level of pensions * Resistance to tax funding
Fully-funded (FF) pensions	*Higher returns from professional equity investment Saver has independence and choice * Increases savings and growth * Promotes the development of financial markets *Effective Corporate governance * Automatically adjusts the level of pension to available returns	*Regressive impact on the distribution of income * High administrative costs * Limited coverage * Uncertain return (high risk) * Need for a social security safety net * In some cases limits mobility of labor (occupational pensions)

Source: Eatwell J. 2003, The Anatomy of the Pension "Crisis"

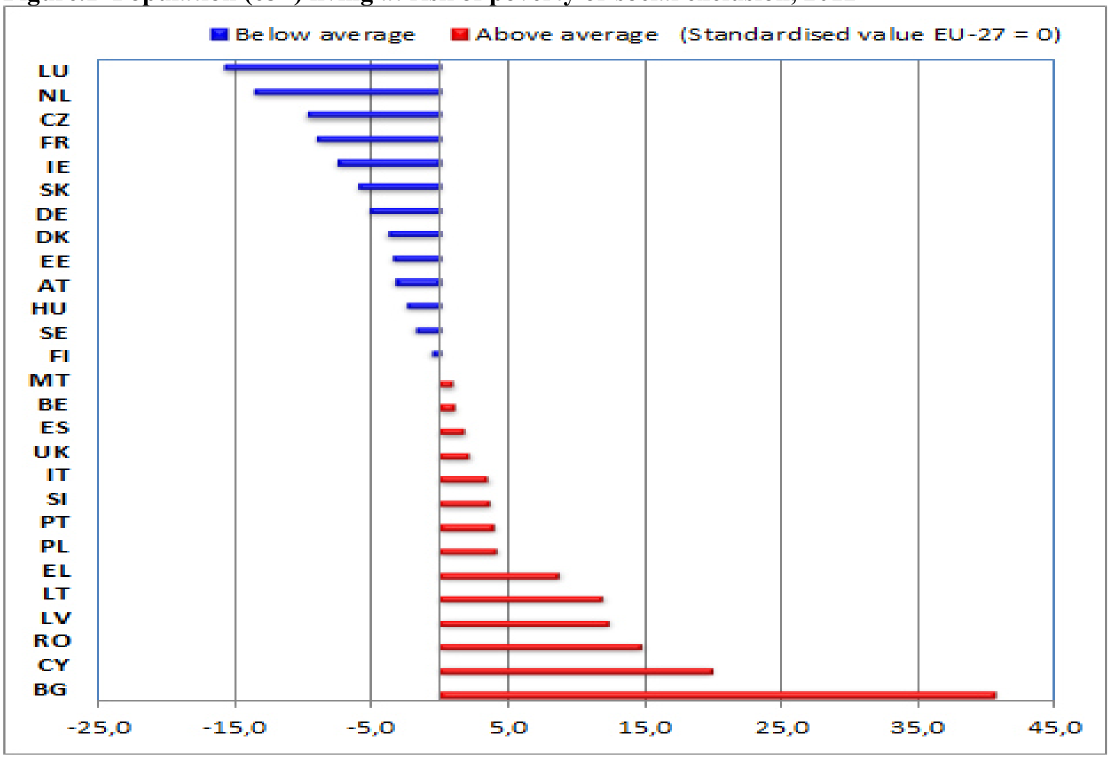
Before detailing the discussion for each SE country, it may be convenient to discuss some indicators for Greece, Italy, Portugal and Spain (GIPS) with specific figures. Pension models for this region have been heavily discussed in recent years. These countries are all in recession and have current account deficit according to data taken from the latest statistical sources and reports[3]. Poverty rate and income inequality are also increasing and the unemployment rate is significantly high.

[1] Joint report by the Commission and the Council on adequate and sustainable pensions, Council of the European Union, Brussels, 10 March 2003, ECOFIN 76, SOC 115, 7165/03.

[2] An Agenda for Adequate, Safe and Sustainable Pensions 2012, White paper, http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1194&furtherNews=yes

[3] Eurostat, OECD, IMF, and World Economic Outlook. 2014

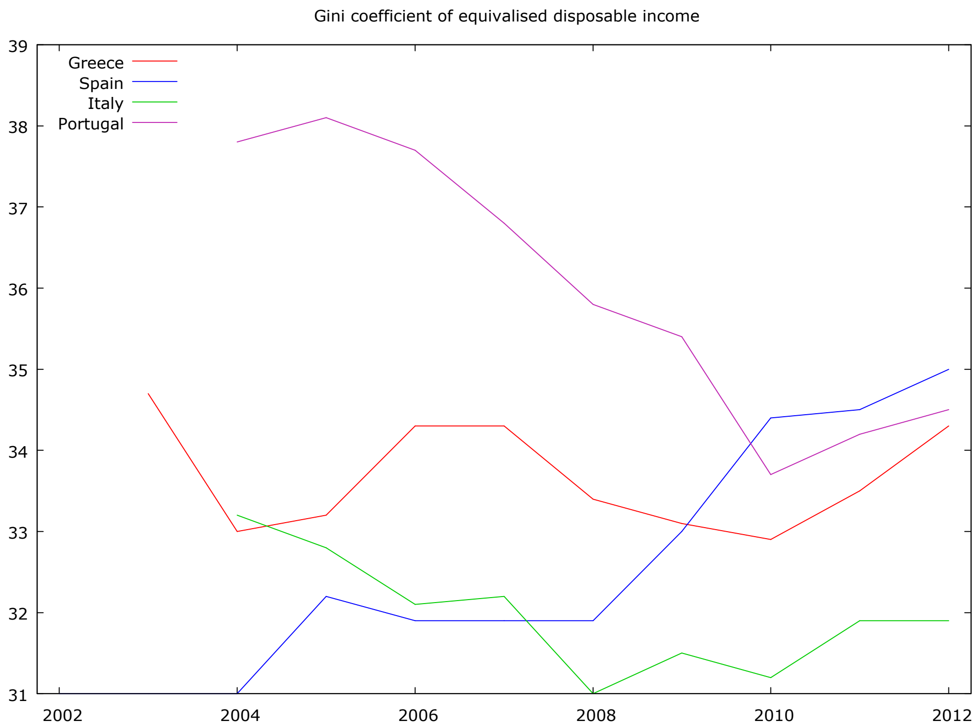
Figure.1 Population (65+) living at risk of poverty or social exclusion, 2012



Source: Eurostat.2013

According to figure.1 the living at risk of poverty in population since 65 ages in all the southern European region is above average. Most critical position is characterized for Greece, followed by Portugal, Italy and Spain. Gini index is getting raised in Spain since 2010 and it indicates increasing rates for Portugal as well. (Figure 2.)

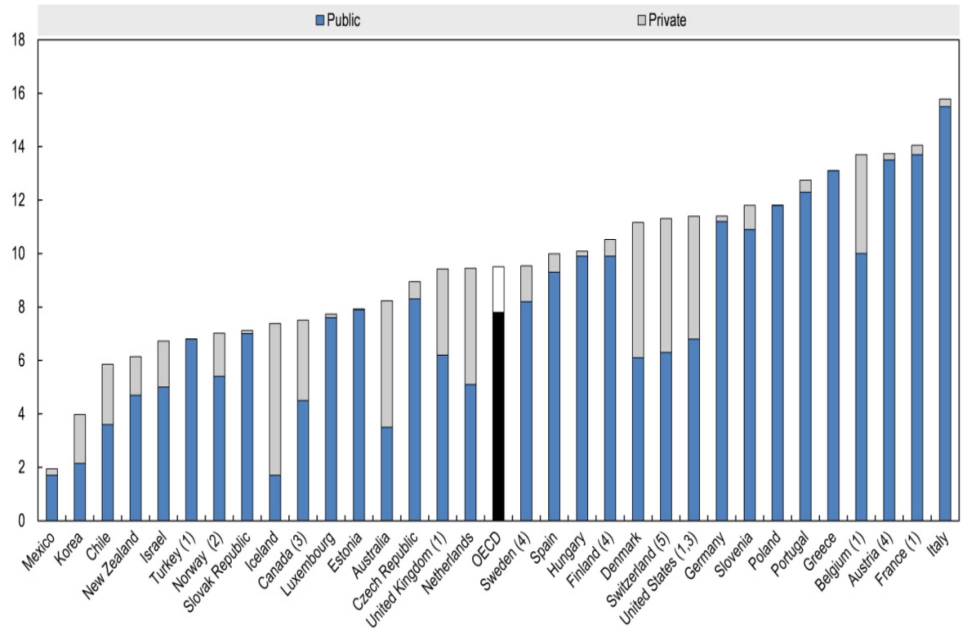
Figure 2. Gini Coefficient of equalised disposable income



Source: Eurostat. 2013

According to OECD data of expenditure on social protection (as a % of GDP), we can confirm that the amount of expenditures have increased in recent years. The reality is that among the southern European countries the crisis in pension system is very harsh in Greece. Overall, crucial challenges remain in respect to all three dimensions (distributional justice, benefit adequacy and fiscal rationalization), as well as in respect to thoroughly encouraging active ageing. But pension indicators even in this region are not similar in terms of retirement ages and the average monthly pension amounts.

Figure 3. Public and private expenditure on pensions in selected OECD countries, 2012, As a percentage of GDP



Source: OECD Global Pension Statistics.

The figure 3. reflects that public pension expenditure remains most high index in Italy, the private pension expenditure doesn't play powerful role in Southern European countries. Pubic pension expenditure on social protection is most high in Greece, followed by Italy. Public pension spending in Italy represents 15.4% of GDP, and Portugal with 12.3% and Greece with 13%, and in SE Spain is the country with the least spending of public pension at 9.3% (while the average of this indicator in OECD is 7.8%).

Southern European countries are different from each other with specific indicators (Gross replacement rate, public pension spending, life expectancy , etc.) of pension systems. Therefore, these parameters define the scope of the problem in these countries.

Table 2. – Key indicators for SE Pension systems 2013

Indicators		**Greece**	**Italy**	**Portugal**	**Spain**	**OECD**
Gross replacement rate	**Average earner (%)**	53.9	71.2	54.7	73.9	54.4
	Low earner (%)	75.4	71.2	67.5	73.9	71
Public pension spending	**% of GDP**	13	15.4	12.3	9.3	7.8
Life expectancy	**at birth**	80.7	82.2	79.8	82	79.9
	at age 65	19.2	20.3	18.9	20.4	19.1
Population over age 65 and over	**% of working-age population**	31.7	34.5	30.1	27.9	25.5
Average worker earnings (AW)	**EUR**	20 100	28 900	15 700	25 600	32 400

Source: OECD (2013), Pensions at a Glance 2013: OECD and G20 indicators.

Table 2 reflects SE countries' experience in series of demographic and social changes: increased life expectancy, aging population, shorter active phases and longer retirement periods. All of these factors, along with growing concern about the sustainability of public pension systems, have resulted in the increased importance of complementary pension systems, especially in light of favourable tax treatments.

For each country in SE, despite many similarities, differ from one another in a variety of settings such as pensionable age (for man and woman) and its further increases in the pensionable age, conditions of access to early retirement, which are indicated in the Table 3.

Table 3. Pensionable ages and complementary pensions in SE

Southern Europe	Pensionable age for M/W	Pensionable age for M/W in 2020	Further increases in the pensionable age for M/W after 2020	Conditions of Access to Early Retirement
Spain	65/65	66 y 4m / 66 y 4m	67+/67+	60 years old (general scheme); Penalty: 4% per year of anticipation
Italy	65 y 4m / 60 y 4m	66 y 11m / 66 y 11m	67+/67+	58 years old (35 years of contributions); Without any restriction in terms of age (40 years of contributions)
Portugal	65/65	65/65	65/66	55 years old; Contributory period: 30 years; Penalty: 0,5% per month of anticipation.

Source: Eurostat, Financial Solvency of the Pension Systems in the European Union, 2013

Pensions are a substantial part of the electorate in these countries. Most of the political decisions made in order to attract voters who are at the root of the serious obstacles of this system. Therefore pension issues is considered to be as much more the political than socio-economic issues.

1. A characterization of the pension systems of GIPS

The pension system in Portugal

Portugal, like other European countries, has been deeply affected by ageing population. In particular, in the last 30 years, a deteriorating the main demographic indicators such as the birth rate and gains in life expectancy are deteriorating. The change in the demographic pyramids yields an increasing old-age dependency ratio, which has almost doubled in 2013 compared to 1960 year (12.7% in 1961, to 29.9% in 2013)[1] while longevity index (ratio of the number of oldest old persons (aged 75 and over) to the number of elderly persons of an age when they are generally economically inactive (aged 65 and over), grew from around 33.3% to 48.9 % in the same period. The Social Security expenditure as a % of GDP from 7.6% in 1990 has been increased to 22% in 2012.[2]

Portuguese Pension System and its previous evolution takes special relevance. The main two remarkable demographic risks are threaten to this system - a decrease of the labor force and an increase of retired people, which is doubling of the dependency rate[3]. This situation deteriorates the financial base of PAYG Systems and becomes burden for state budget of the country.

A brief history of Social security in Portugal

Primarily, the legal concept of social security as "seguranca social" was appeared in 1973[4] and the required period of participation in the old-age insurance system had been reduced from 10 to 3 years, the minimum contribution period from 60 to 24 months, and relatively, the retirement age of women from 65 to 62 years (Chuliá E, Asensio M 2007). Initially, social security contribution was 23.5% of the salary, which was increased, to 28.5%, including 20.5% payable by the employer and 8.0% by the employee. After the 1974 revolution new government the thirteenth old-age pension[5] payable at Christmas were introduced.(Stańko D. 2004) From 1985 under new regulation additional retirement schemes was established financed by the employers and supervised by the Portuguese Institute of Insurances (*Instituto de Seguros de Portugal, ISP*) (Pavao Nunes J. 2007).). Later, the standard contributory rate for the general scheme of social security was fixed at 35 per cent[6].

The majority of the population in Portugal is involved essentially in two different systems: Solidarity System of Social Security (covered all employees of the private sector and independent workers) and the System of Government Employees Social Protection (for only civil servants), adopted by Caixa Geral de Aposentações..

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1 Ageing indicators in Portugal, 2014 , http://www.pordata.pt/en/Portugal/Ageing+indicators-526
2 PORDATA 2014.
3 Tânia Cristina Simões de Matos dos Santos, 2012, Immigration and pension system in Portugal, Center of Research in International Business & Strategy, WORKING PAPER Nº 84/2012
4 Chuliá E – Asensio M (2007), Portugal: in search of a stable framework, in: K. M. Anderson, E. M. Immergut and I. Schulze (Eds.), The Handbook of West European Pension Politics, Oxford, University Press, pp. 499-554.
5 Like in Greece
6 Vanda Cunha, Ariana Paulo, Nuno Sousa Pereira and Hélder Reis, 2014, THE REFORM OF THE PORTUGUESE PUBLIC EMPLOYEES' PENSION SYSTEM: REASONS AND RESULTS

The systems differs by mechanisms and histories, in terms of old-age, early retirement condition, disability, survivors (widows and orphans) pensions and other specific situations including those due to reduced capacity to work and those due to labour market reasons[1].

The one the initial major revision of the social security system was done in 1993, by increasing the legal retirement age for women to 65 years and the minimum contributory period has been raised from ten to fifteen years. Keeping the stability of the pension system of Portugal with three pillars[2] is based on the Bismarck's formula completed with the Beveridges welfare solution. The public pension system functions in the pay-as-you-go formula and is a compulsory system with a defined benefit financed by the contributions contributed by employers, employees and by the budgetary subsidy. Pension funds, both professional and individual, are of less importance in Portugal. Without financial assistance in the form of a budgetary subsidy, the pension system in that country ceases to be viable and generates a deficit every year. According to projection of European Union Portugal might spend 20% of its GDP in 2050 solely on pensions (Schneider, 2009).

There are two main regimes in the system: A) the basic regime (Regime Geral, RG), and B) the regime for state officials (Regime de proteccao social da funcao publica) managed by the CGA and most often identified by that very abbreviation. The basic regime contains three schemes: a non-contribution one: a) *the Non-Contribution and Equalizing Regime*, (regarded as a kind of 'zero pillar' as it is financed by public taxes, first of all by the VAT (social VAT - in comparison with other SE countries, the use of a certain amount of income from VAT to finance the pension system is an exclusive solution), without contributions.) b) *the Basic Contribution Regime* (the retirement age is 65 for both sexes[3].), c) *the Transitory Rural Regime* for farmers. All the schemes are managed by the Institute for Financial Management of Social Security (Instituto de Gestao Financeira da Seguranca Social, IGFSS)[4].

Without financial assistance in the form of a budgetary subsidy, the pension system in that country stops to be viable and generates a deficit every year. The persistent economic downturn and higher public debt increases urgently need for adjustments and modernization in the pension schemes in order to ensure their long term sustainability. Portugal has higher shares of pension expenditures than the average level. Old-age pensions and early pensions are the most important items among the pension expenditures disability pensions and survivor pensions only play a minor role.

The old-age pensions for civil servants in current pension system are calculated from 1 January 2004, with reference to 90% of the salary. Towards the end of that year, the value of funds accumulated in the FEFSS[5] -- was approximately €5.8 billion (Chulia E. Asensio M. (2007) From 1 July 2005, the VAT was increased from 19% to 21% and the funds obtained in such a way earmarked in equal parts for social security and for the pension fund 2006 saw the introduction of a solidarity old-age allowance. According 2012 data, the FEFSS had accumulated 10.7 billions of Euros.

Table 4. Indicators concerning social expenditure and beneficiaries

Indicators % in GDP / years	2010	2011	2012	2013	2014
Education: expenditure	5,0	4,6	4,1	4,3	3,9
Health: transfer for NHS	5,0	4,8	4,7	4,8	4,5
Social security: transfer for the funding of the non-contributive regime	4,3	3,9	3,8	3,8	3,7

Sources: Several official sources 2014 (Social Security, INE, Government)

The table 4 reflects a strong decline in social expenditure (health expenditure, unemployment benefit and education). Unemployment benefit coverage rates have fallen and so has the number of persons receiving family allowances and minimum incomes. Inequality, which was already high in Portugal, has increased further, with the 10% highest income earners now gaining 10 times more than the 10% lowest earners.

[1] B. Malmberg, K. Tamas, D. Bloom, R. Munz, D. Canning, 2006 Global Population Ageing, Migration and European External Policies, © Institutet för Framtidsstudier

[2] 1) The public pension system as the 1st pillar, 2) company pension schemes as the 2nd pillar and 3) individual saving and pension schemes as the 3rd pillar, with other there are other pension solutions for the financial and telecommunications sectors and for lawyers

[3] In the case of certain professional groups, the standard retirement age is younger than the above, this being 60 (for flying staff in the aviation sector), 55 (for port employees, merchant navy seamen, fishermen, air traffic controllers and for ballet artists)3 or even 50 (for miners) Ballet artists may retire as early as at the age of 45 but with relevant reduction of the pension benefit. For other professional groups, early retirement is possible at the age of 55 on condition of 30 years of participation in the system - Social Security Programs Throughout the World: Europe, 2006 (2006), p. 2 53

[4] http://www.portaldocidadao.pt/PORTAL/entidades/MTSS/IGFSS/pt/ORG_instituto+de+gestao+financeira+da+seguranca+social.htm, accessed 7 January 2008.

[5] Fund for Financial Stabilisation of Social Security (Fundo de Estabilizacao Financeira da Seguranca Social, FEFSS)

There were some ways of old-age pension calculation, one of the formulas was used for the people with the participation period in the system being less than 20 years:

$$\mathbf{P = 2\% * N * R}$$

where:
P – a monthly old-age pension,
2% – an annual accumulation rate,
N – years of the participation in the scheme,
R – the base salary.
Another formula was for the people with more than 20 years participating in the scheme the accumulation rate was between 2.0 and 2.3% and depended on the relationship between the individuals salary and the minimum national one. (Whitehouse E. 2007)
The base salary was calculated with reference to the following formula:

$$R = \frac{E}{N} 14$$

where,
E – the average monthly salary. **N** could not be more than 40 and, if the number of years of participation in the scheme was actually greater than the above number, 40 years with the highest earnings was taken into consideration.
14 –time, old-age pensions are paid 14 times a year thus including two bonus payments, which was made in July and before Christmas. (Whitehouse E. 2007)
There were another different schemes for farmers (The Transitory Rural Regime (RESSAA/RRT) And regime for state officials (CGA), Company pension plans, Individual saving and pension plans. The old-age pension for farmers was calculated with reference to the following formula:

$$\mathbf{P = \frac{R \times 90\% \times T}{36}}$$

where:
P – the monthly old-age pension,
R – the last or average salary,
T – the number of years of actual participation in the scheme.

The scheme is still managed by the General Pension Fund (Caixa Geral de Aposentacoes, CGA) ruled by the Ministry of Finance (Ministerio das Financas e da Administracao Publica)[1].

The total number of beneficiaries in ADSE - Public Administration Social Security Fund during the 56 years has cardinally increased from 57 174 in 1966 to 1 333 477 in 2012. Retirees of the Public Administration Retirement Fund increased from 203 141 individuals in 1993 to 471.149 individuals in 2013[2].

According to evolution of the total number of old-age pensioners of public pension fund, retirees in Portugal constantly doubled from 203 141 amount in 1993 to 471 149 persons in 2013. Which has been effected on the public pension spending amount.[3] Public pension expenditure in Portugal is dramatically increasing when revenue of the retirement fund decreasing. In other words it demonstrates, the value of pensions has been increasing, due to the increase of the number of pensioners and because of the composition effect (this effect is associated to new pensioners entries, whose pension value, on average, is higher than the pensions value received by individuals who leave the system). Social Security revenue in 1971 from 58,613.7 Euros (Thousands) increased to 2012 to 37,321,397.5 Euros (Thousands). Among the revenue, the share of contributions raised from 452,503.1 in 1980 to 13,082,142.3 in 2012 and VAT additional consignment from 433,954.2 Euros (Thousands) (in 2000) to 891,895.0 Euros (Thousands) 2012.

In addition, the real economic activity slowdown in recent years, the economic, social and demographic effects of ageing and the maturation of Pension System have been contributing for the deterioration of the Portuguese Social Security financial sustainability. The rank of Portugal is on 9th the position with 24.5 percentage of population aged 60 years or over in 2013. (on 1st Rank is Japan, 2nd - Italy).

1.1. *Austerity Policy impact on Pension system in Portugal*

Against the background of the structural challenges facing the Portuguese economy and contagion from the sovereign debt crisis in other euro area countries, financial conditions facing the Portuguese banks have acutely worsened. To restore market confidence and to raise the potential of our economy to generate socially balanced growth and employment we are proposing a far-reaching reform programme, backed by substantial international

[1] http://www.cga.pt/cgaInicio.asp, accessed 4 January 2 008.
[2] Sources/Entities: CGA/MF, PORDATA 2014
[3] Sources/Entities: CGA/MF, PORDATA 2014

financing to meet balance of payments needs.[1] Austerity measures fall into four types, each with its own unique consequences for the enjoyment of human rights: a) public budget contractions affecting social spending, b) regressive taxation measures, c) labour market reforms, and d) structural reforms to pension plans[2].

Many governments have chosen to reform pension systems, potentially deepening the increasing vulnerability and risk of poverty among older persons. Pensioners require special protection in accordance with Article 23 of the revised European Social Charter (ETS No. 163), which provides that Parties must, among other things, undertake to make available to elderly persons "adequate resources enabling them to lead a decent life and play an active part in public, social and cultural life". Many of these austerity measures (as a worldwide phenomenon) – characterised by public expenditure cuts, regressive tax hikes, reduced labour protection and pension reforms – have exacerbated the already severe human consequences of the economic crisis marked by record levels of unemployment.

The Austerity policy in Portugal caused massive demonstration the slogan "no to exploitation, inequality and impoverishment" against it.[3] Protest was organised by The CGTP trade union attacking to the so-called "Social Partnership Agreement"[4]. Austerity policy through the package of measures increased taxes, cuts in salary and pension amount, payment for healthcare, increased fares in public transport, higher tuition fees, increased hours of work, disregards on collective bargaining rights has caused the vast aggression on the living standards of the local people, especially for workers and pensioners.[5]

According to lost affordable market access and facing fairly large bond repayments, the Portuguese government decided to make a formal request for the assistance program to the "TROIKA" (IMF and the European authorities) in April 201[6]. The program covers four areas: (1) fiscal policy; (2) structural fiscal reform; (3) financial and corporate sectors reforms; and (4) competitiveness reforms. Which is based on €78 billion of international financial assistance over three years, corresponding to about 50 per cent of Portugal's GDP in 2011. This financial program was impartially well designed but made a number of over-optimistic assumptions:

- Due to fiscal adjustment and private deleveraging, real GDP was anticipated to decrease in 2011 and 2012 and, but afterwards to subsequently rebound.
- Unemployment was anticipated to rise in 2011 and 2012 but then to decline.
- Inflation was anticipated to be high in 2011 and 2012 because of tax increases but low afterwards.
- The fiscal deficit was anticipated to reach 3 percent of GDP by 2013 in line with the Excessive deficit Procedure objective. Public debt was expected to peak at 115.3 percent of GDP in 2013 and then to decline.

The first Memorandum of Understanding (MoU) between the Troika and the Portuguese government, signed in May 2011 by all governing parties (**PS** - Socialist Party -Partido Socialista, **PSD** - Social Democratic Party "Partido Social Democrata" and **CDS**- People's Party – "Partido Popular"). The MoU contains specific conditionality on the expenditure side of fiscal policy, by reducing pensions above 1500 € according to the progressive rates applied to the wages of the public sector, suspend application of pension indexation rules and freeze pensions, except for the lowest pensions in 2012[7]. According to austerity policy on a massive scale has suffered Greece (more than 25% of GDP), followed by Portugal with 16% of GDP, Spain - 12% of GDP and 7% of GDP for Italy. (Figure 4)

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[1] International Monetary Fund, 2011. Memorandum of Economic and Financial Policies (Portuguese version), and Technical Memorandum of Understanding

[2] I. Ortiz and M. Cummins, "Age of Austerity: A Review of Public Expenditures and Adjustment Measures in 181 Countries", Initiative for Policy Dialogue and the South Centre Working Paper, May 2013; Report of the UN Independent Expert on extreme poverty and human rights, Magdalena Sepúlveda Carmona, 17 March 2011, A/HRC/17/34.

[3] Jorge Martin, Portugal: Massive demonstration against cuts and austerity http://www.marxist.com/portugal-massive-demononstration-against-cuts.htm

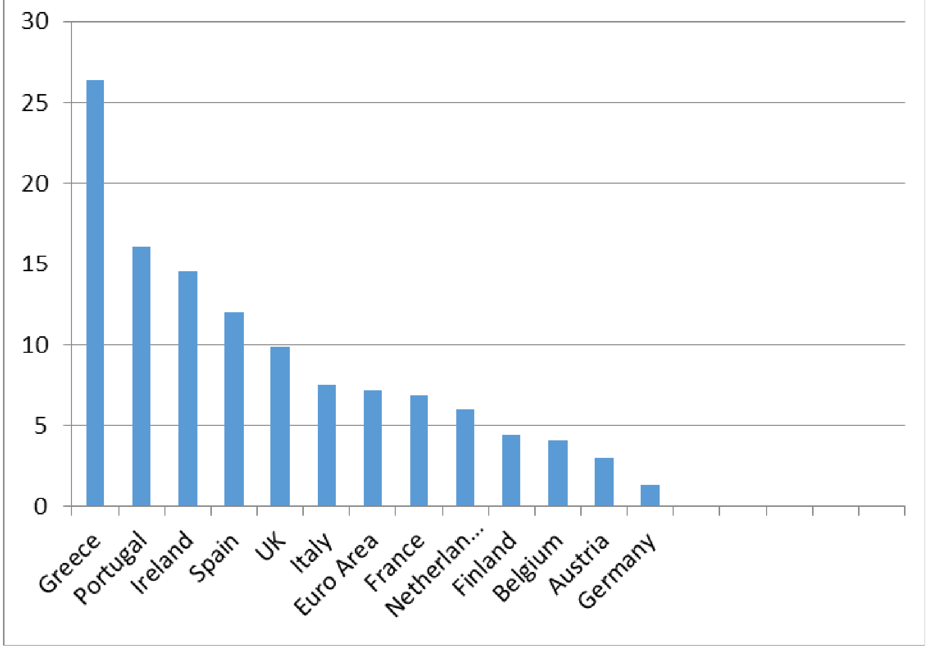
[4] Reduction of holiday entitlement from 25 to 22 days a year and the number of public holidays from 13 to 9 (significantly Independence day and Republic day are axed!). Reduction in lay off compensation from 30 days per year worked to 20 days. Flexibilization of working hours – 150 hours a year will be decided by the employer, lengthening the working day in busy periods, shortening it in others. Unemployed workers who accept work that pays less than their unemployment benefit are to keep 50 per cent of that benefit (thus saving the employer a lot of money). 50% reduction in overtime payment and in the payment of the 2 annual bonus payments. Increasing the cases in which workers can be sacked legally. Reduction in unemployment benefit, both in relation to the amount of money received and the length of time for which it will be received. Weakening of national collective bargaining in favour of company agreements (where workers are in a weaker position).

[5] International Marxist Tendency. Portugal: Massive demonstration against cuts and austerity http://www.marxist.com/portugal-massive-demononstration-against-cuts.htm

[6] Directorate General for Internal Policies Economic Governance Support Unit (EGOV)
2014. The Troika and financial assistance in the euro area: successes and failures, Economic and Monetary Affairs Committee of European Parliament.

[7] Portugal: Memorandum of Understanding on Specific Economic Policy Conditionality, 2011,3 May

Figure. 4 Total of fiscal cuts from 2010 to 2014, in % of GDP (Austerity on a massive scale)



Source: IMK Report. Die Krise schwelt weiter. March2013.

The expenditure per beneficiary of ADSE from 1990 until financial crisis has been increasing, which raised almost 7 times , from 104.8 Euro –to 743.5 Euro. (In 2012 Social Security revenue *per capita* was 3,549.4 Euro, when in 1990 year it was only 424.9 Euro). After financial crisis and due to the austerity policy this amount was halved gradually and in 2012 was 343.40[1]. Social Security pensions, from total expenditure 12,329,339.4 (Euro - Thousands) old-age (all schemes consists of 9,454,711.1 Euro, and rest of them belongs to disability and survival – (both of all schemes) pensions. As for contributions, Contributions in total of Social Security revenue (%) it was decreased. In 1960 year social security expenditure in Portugal was 1.2% in GDP, when in 2012 this indicator had been increased almost 20 times[2].

3.1 The pension system in Greece

The public scheme of Greece has two components – a sort of minimum pension, and social safety nets. The retirement age is 65 for men and 60 for women. An early pension is payable from age 60. The Greek pensions system faces two fundamental problems. First, it is dominated by the state system pillar, funded directly – and in present circumstances unsustainably – by the stricken public purse. Public sector pensioners are paid directly by the government.

Greece has the second-fastest aging process in the EU after Italy, with the old-age dependency ratio expected to increase from 27.6% in 2007 to 57.0% in 2050 compared to 50.4% in EU/27 (EPC, 2009), in a system entirely pay-as-you-go, which was predicted to have widespread cash shortfalls well before aging started. Financial sustainability has been the main concern behind the pension reforms enacted in Greece in the last years. Retirement-income adequacy may be an important concern for future retirees, but working longer may help to make income more adequate. It is also suggested that pension expenditures would have increased from about 13% of GDP to about 24% by 2050. Rapid population aging in conjunction with the effects of the economic crisis and the rules and conditions of the pension system have put pension financing under severe stress.

The institutional fragmentation of the public pension system (the existence of 'old' and 'new' pensions) and the lack of uniform solutions in that area constitute another important obstacle. Its consequences are sharp differences between the benefits while paying the same contributions. A wide range of pension privileges is another problem the Greek will have to face in future. The high unemployment rate, especially among women, leads to the lack of liquidity of the Greek pension system.[3]

Among other southern European countries Greece presents an extreme example of the extent of political factors' influence in Europe. Pension issues are more macro problem for Greek society. Part of the current

[1] Sources/Entities: ADSE/MF, PORDATA).2014

[2] *Source: Data Sources: IGFSS/MSSS, PORDATA*

[3] The Greek National Strategy Report on Pension (2005), p. 8.

pension problem is due to the fact that current workers were the "missing generation" when the parameters of the current system were decided three decades ago. (Tinios, 2003)

In terms of financial sustainability, the reforms in Greece aim to reduce pension spending significantly, by around 10% of GDP. The intention is for this to be achieved by strengthening the link between contributions and benefits, which will have an impact on the replacement rates of the system. Where the current rates are around 100%, we may expect a significant decline once actuarial estimates are calculated using the parameters introduced in the recent reform.

The real GDP growth rate of Greece among relatively notable and it is declining by -3,9 %, when the same index for the European Union is 0,1 % (Table 5).

Table 5. Real GDP growth rate Percentage change on previous year

GEO/TIME	2006	2007	2008	2009	2010	2011	2012	2013
European Union (28 countries)	3,4	3,2	0,4	-4,5	2,0	1,6	-0,4	0,1
Greece	5,5	3,5	-0,2	-3,1	-4,9	-7,1	-7,0	-3,9
Spain	4,1	3,5	0,9	-3,8	-0,2	0,1	-1,6	-1,2
Italy	2,2	1,7	-1,2	-5,5	1,7	0,4	-2,4	-1,9
Portugal	1,4	2,4	0,0	-2,9	1,9	-1,3	-3,2	-1,4

Source: Eurostat,2014

Over the past three years, Greece has substantially reformed its pension system. However current pension expenditures are still relatively high, the expected increase in the future has been reduced drastically to 15% of GDP by 2050. Reforms implemented in recent years were done under the loan package agreed between Greece, the EU, the IMF and the ECB[1].

3.2 The pension system in Italy

The Italian public pension system is one of the most generous PAYG systems, which has resulted in a kind of quasi-complementary system (private, typically Bismarkian[2]). However, in the 1990s, this public pension system began to show signs of weakness, especially because of its huge public expenditures. The cause of crisis of the Italian pension system is considered an increase of life expectancy, decreasing birth-rates, the change in labor markets and the uncontrolled increase of public spending for social security. Nevertheless Italy is a never-ending pension reforming country still has negative fiscal prospects for Italian public pensions, especially due to the very slow phasing in of the new system. This should be accelerated. The differential retirement age between men and women should be equalized. The design flaws of the NDC formula should be fixed. One of the good practice likely to be considered is the introduction of the NDC system, which will reduce average replacement rates. While this will have a minor impact to employees in a Standard Employment relationship, the effects for workers holding atypical contracts will be detrimental. Pension credits and more homogeneity in treating various working categories should be a priority.

An increase in retirement age has been considered as a major driver of pension spending reductions in Italy. With public pension spending representing 15.4% of GDP (compared to an OECD average of 7.8%), Italy had the most expensive pension system within the OECD in 2009. As a consequence, the government addressed a series of reforms. One of the most important reforms was the introduction of pension funds into Italian legislation.

Currently the pension system in Italy contains four basic elements: A) the general pension plan for the hired workers, B) the pension plan for the self-employed, C) the pension plan for civil servants and D) pension plans for selected occupational groups. (Schludi M. 2005). There also functions the so-called social cheque (assegno sociale) for all those who turned 65 and whose pension plans do not provide sufficient means to live on[3].

Pension reform has decreased generosity substantially and could result in a significant rise in poverty; unemployment carries a very heavy price in pension terms. Pension system quite expensive at present, but reform reduces future rises in contribution rates by decreasing pension wealth very significantly for future pensioners. The combination of generous benefits, powerful trade unions, and unstable governing coalitions has made reform hazardous for Italian political leaders. Nevertheless succeeding Italian governments have managed

[1] Greece's economic policy program –monitored through 12 quarterly reviews- is supported with a €110 billion financing package provided by the euro area member states (€ 80 billion) and the IMF (€ 30 billion).

[2] A Bismarckian pension system is associated with larger public pension expenditures with a smaller fraction of private pension and with lower income inequality than Beveridgean systems.

[3] In 2 004 it amounted to €367 monthly. The Handbook of Western European Pension Politics (2007), p. 881.

to pass a series of significant reforms that have substantially scaled back benefits. The long transition periods that largely insulate current and near-retirees from the changes, however, call into question their political durability. Prior to the reforms of the 1990s, the normal or full-benefit retirement age for Italian workers was officially 60 for men and 55 for women.

The reforms implemented during the 1990s tried to tackle a series of problems inherent in the previous system. The most important changes were designed in 1992 (Giuliano Amato reform plan), according to Act 421/199210 and Act 124/199311, which introduced an increase in the retirement age for men (from 60 to 65) and women (from 55 to 60) and this changes to be phased in over ten years. At the same time, the reform increased the number of wage years counted in the initial pension benefit formula from 5 to 10 for older workers with at least 15 years of contributions at the time of reform and to a career average for younger workers with less than 15 years of contributions.

As a result of the reform, pension expenditure constituted 14.9% of the GDP (Franco D. 2002). Moreover, the minimum number of years of contributions necessary for early retirement was increased from 15 to 20 years. This reform was followed by the failure of the ambitious reform of Prime Minister Silvio Berluskoni in 1994, which concerned (Marano A., Sestito P. 2005): 1) the incitement for later retirement for the participants of the old pension plans, 2) the introduction of the required period of employment of 35 years to be eligible for pension under the new plan for those who wanted to retire earlier than at the age of 65 in the case of men and at the age of 60 in the case of women, 3) the increase of the minimum early retirement age under the new plan to 60 in 2008 and to 62 in the years to come (Arza and Kolhi, 2011). The Berlusconi proposal, however, was defeated in the wake of fierce protests by the Italian trade unions—and the resulting political firestorm contributed to the rapid dissolution of his first government.[1]

The next 1995 reform (supported by a left-wing parliamentary majority (Berlusconi's successor as prime minister) – the "Dini government"[2]) included a huge reduction in expenditure on pensions because it introduced a mixed system, which is in part PAYG and in part a funded system, emphasizing complementary social insurance systems. This reform possessed the features of a systemic reform, unlike to parametric "Amato reform". Even so, this system is not fully developed, as the complementary social insurance measures experienced delays. According to this reform, the benefit structure was modified to control costs, and a flexible retirement rate was also introduced (from a minimum of 57 years of age to a maximum of 65). Additionally, new computation rules were established for seniority pensions. Dini managed to pass a second major reform which, after a long transition, will replace Italy's traditional defined benefit pension system with a new system of "notional defined contribution" (NDC) accounts. The system's financing remains entirely pay-as-you-go—hence the term "notional."

Thus, according to Dini reform essential constituents were the following (Schludi M. 2005): 1) pension contributions were a part of social insurance premiums, 2) introduction_of the individual pension contribution record known as notionally defined contribution (NDC), 3) pension rate was dependent on the amount of contributions, which were to be indexed by a current index of the average increase of the GDP of the last five years, 4) gradual increase of the sufficient period of employment from 35 to 40 years, which allowed pension eligibility, 5) introduction of the random retirement age within the 57 to 65 age bracket (Gronchi S. Nistico S. 2006) to calculate the rate of pension the amount of consolidated pension contributions was divided by life expectancy after the retirement, 6) a decrease of the minimum required sufficient period of employment to 5 years, which allowed for eligibility for the base pension with the simultaneous cancellation of the base level pension, 7) the replacement of the social pension (pensione sociale) by the social cheque (assegno sociale) (Ferrera M., Jessoula M. 2007).

Italian legislation recognizes two broad categories of complementary pensions: occupational plans and personal plans**.** There are three types of occupational plans: negotiable, open and pre-existing; but there is only one type of personal plan: the individual pension plan.

The difficulties for old-age pension reform in Italy are illustrative of both "particularism" and "populism." However, unlike the case in Spain (the "Toledo Pact"[3]/Pacto de Toledo), the absence of a "rainbow" consensus among the political forces has so far frustrated comprehensive pension rationalization, something that in turn has further fuelled neo-populism. This Pact emphasised strengthen social protection for the most vulnerable groups who have a lower level of pension cover.

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[1] David Natali, "Italy: The Reformed Pension System," 2004, p. 2. Available at http://www.ose.be/files/mocpension/ItalyOMC.pdf.

[2] A form of government where decision-makers are chosen for a governing office based on their technical expertise and background.

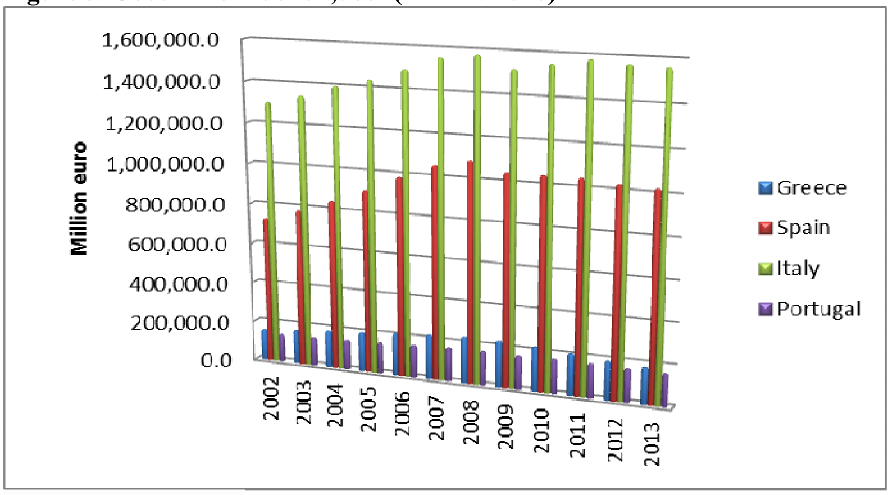
[3] The "Toledo pact" is is an ambitious reform of the Spanish social security system approved by the Spanish parliament on 6 April 1995, aimed at streamlining and guaranteeing the future of the Spanish social security system, based on the recommendation of World Bank in 1987. Boletín Oficial de las Cortes Generales, Congreso de los Diputados, 12 de abril de 1995. Número 134

The two most popular reforms in Italy were the Amato reform and, in 1995, the Dini reform. According to these reforms, the public old age pension system changed from a defined benefit to a notional defined contribution system (NDC), which was applied to all workers on a pro-rata basis since January 2012 (rather than from the mid-2020s). The increase in retirement age (again, since January 2012) and the gender harmonisation of the public and private sector pension systems were also publicly assumed as objectives.

Prime Minister Romano Prodi's government enacted a more modest reforms in 1997, based on the Maastricht's treaty's fiscal targets. Later on in 2004, more essential reform was impelmented, by Berlusconi's government. Thus, during the last decades and still in currently pension reform in Italy has provoked repeated clashes between reform minded governments and strong trade unions.[1] The role of Unions still remains essential high in Italy. Especially after the 2011 reform there is a broad discussion among social partners regarding the effectiveness of adopted reforms in pursuing financial sustainability.

In 2011, retirement ages in Italy is 65 and 60 for men and women, respectively. According to 2012 reform retirement age raised to 66 for men (and for women in the public sector), which will also be the normal retirement age for all women by 2018. Private-sector workers, however, contribute 7.41 percent of wages to a severance pay fund, called the "Trattamento di Fine Rapporto," or TFR. Only new workforce entrants in their early twenties were fully affected.[2] Pension expert at the OECD (d'Addio,2013) considers there is a high risk of retired people's poverty however financial sustainability of Italy and . Government deficit still is remarkably high in the region with more than 1 million and half Euro, (Figure 5). The second position is presented by Spain with about 1 million Euro. The rest of countries Greece and Portugal keeps almost the same amount of this indicator.

Figure 5. Government deficit,debt (in Mln. Euro)



Source: Eurostat,2014

3.4 The pension system in Spain

The Spanish welfare state incorporates elements of both Bismarckian and Beveridgean traditions, and can be labelled with respect to other regimes of social protection. It combines universal and targeted access to services and benefits. Since the end of the Franco regime in 1975, Spanish political leaders have placed great emphasis on achieving consensus among the major political parties, employer associations, and trade unions. Both Spain and Italy introduced mandatory state retirement insurance for private-sector workers in 1919. The beginning of Franco regime, in the late 1930s, most Spanish workers enjoyed at least some sort of minimal pension coverage. But successive years, the generosity of pension benefits for employment sectors was increased. Perhaps the most significant liberalization occurred in 1963, when legislation created a large number of special schemes running parallel to the main old-age insurance program, the "Régimen General de la Seguridad Social," or RGSS (J.C. Capretta, 2007).

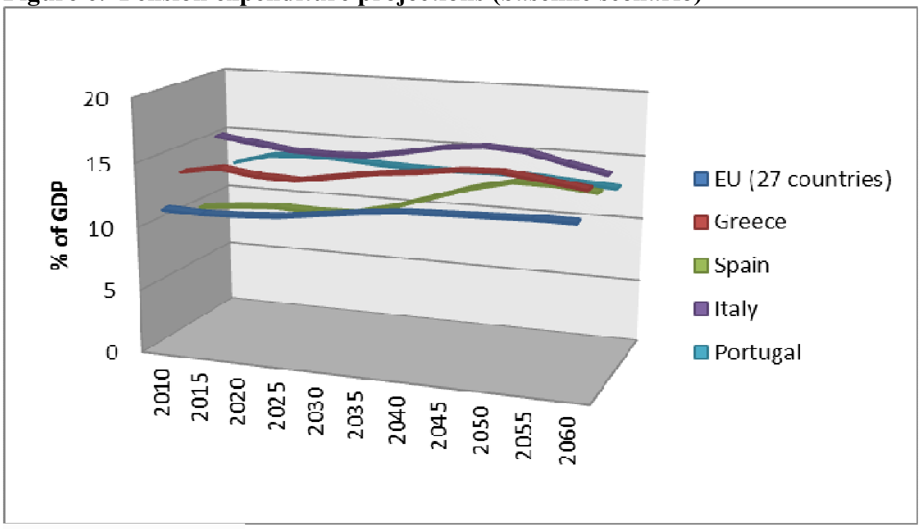
Since 1975 the harmonization of contribution and pension benefit regulations among various schemes started during the rapid transition to constitutional democracy period, after Franco. The public pension plan had been reformed under new jurisdiction of one agency and introduced "Instituto Nacional de la Seguridad Social," or INSS. But "Régimenes Especiales de la Seguridad Social," or RESS still continues to operate for the selfemployed, agricultural workers, seaman, domestic employees, and coal miners. Which is a traditional,

[1] James C. Capretta, 2007. Global Aging and the Sustainability of Public Pension Systems, An Assessment of Reform Efforts in Twelve Developed Countries, Center for Strategic & International Studies, Washington, DC 20006
[2] Pensions at a Glance, 2013

defined benefit, pay-asyou-go system. Workers with the minimum 15 years of contributions who retire at age 65 receive a benefit equal to 50 percent of their average covered annual earnings. The replacement rate rises with each additional year of contributions until it reaches 100 percent for workers with at least 35 years of contributions. Early retirement with reduced benefits is allowed beginning at age 61 for workers with 30 years of contributions. Spain also maintains a variety of minimum income provisions for the elderly. Retirees who have contributed to the RGSS for at least 15 years but have earned a pension below about 30 percent of the average wage are eligible for a "top up" payment. Participants in the special schemes enjoy a similar but more generous minimum pension guarantee. For persons who are not eligible for a pension at all, there is a minimum income payment equal to about 20 percent of the average wage.

The main demographic trends of Spanish population is substantial increases of the groups over 60, 65, 80 age. In the last decades the number of younger people has increased by 90% while the number of old aged people increased by 195 %[1]. Therefore the ageing population in future decades will make older people's dependency a more urgent problem. Pension spending projection from 2010 to 2060 these countries are anticipated to keep their indicators within 15 %, but most representative parameter is characterised to Italy and Greece followed by Portugal and Spain while this rate for EU (27 countries) ranges from less than 10%.(Figure 6)

Figure 6. Pension expenditure projections (baseline scenario)



Source: Eurostat,2014

The present pension system in Spain fulfils its function of supplying older people with sufficient resources. The surplus in the pension system even allows for allocating resources in the form of securities to the pension reserve fund. According to various forecasts, the resources in the pension reserve fund should be sufficient until 2020 or 2036[2]. It seems that the only way to prevent system insolvency is to reach for capital solutions. So far, however, in Spain there have been no attempts aiming at the introduction of system changes concerned with the adopted pension solutions. The prepared and theoretically reviewed proposal on the transition to the NDC system presented (Vidal-Melia C. Dominguez-Fabian, 2006) in 2006 did not go beyond the phase of scientific projection. Pensions have become a critical lifeline in Spain. With the unemployment rate at 25%, and even higher among young people, many Spaniards have become reliant on pension-drawing parents and grandparents to support them.

Economists estimate that as many as 1.7 million of the 16 million Spanish households have no salary earners. Currently, Spain spends around 10% of its GDP on public pensions, the least expressed value in SE, but slightly higher than the OECD average. However, high life expectancy and low fertility are resulting in rapid population aging. This will increase the pressure on pension financing in the future. In 2060, there will also be fewer than two people of active age per retiree compared to more than three currently.

The 2011 pension reform tightened the link between earnings and pension benefits, increased the retirement age to 67 and introducing the general principle of automatic adjustment to life expectancy. Recently, however, Spain has achieved a substantial reduction of old-age poverty, from 21% to 12% between 2007 and 2010. On average, in the OECD countries, the poverty rate among the elderly fell from 15.1% to 12.8% over the

[1] Ministerio Trabajo Y Asuntos Sociales, 2005. Report on the Spanish Strategy for the Future of the Pension System
[2] Synthesis report on adequate and sustainable pensions. Annex. Country summaries (2006), p. 42 .

same period.[1]

Arguably, Spain's pension benefits are more important than unemployment insurance, a benefit for which eligibility eventually expires. The sustainability of the pension system has been one of the main concerns of institutions across Europe, as well as the Spanish government, since the financial crisis began. A reform of the Spanish pension system was not, however, put into law until March 2011, after its main elements were agreed by the social partners and the socialist government at the time. The government assumed it was necessary to get the backing of the social partners in order to keep this sensitive issue within a broad social and political consensus, as has been the case since the mid-1990s.

Between 1998 and 2010, the Spanish social security system ran surpluses, so that in 2011 there were 66 billion euros (around 6.3 per cent of GDP) accumulated in the reserve fund, increasingly invested in Spanish government bonds (Klaus Busch, 2013).

According to Law 27/2011, as the main aspects of the agreement on pensions, has been increased the retirement age from 65 to 67 years and the legal age of early retirement in future will be risen from 61 to 63 years.[2] There is no discrimination for reasons of sex in the Spanish pension system in terms of eligibility requirements and ways of calculating the pensions awarded, though there is a kind of differences in the amount of pension benefits for both sexes. Which is explained relatively shorter career of women´employment history than men`s one.

The reform of the public pension system approved on August 1, 2011, after the adoption of the Report on the Evaluation and Reform of the Toledo Pact, includes as its main subsequent measures:

- the gradual increase of the statutory retirement age by two years, to 67;
- recognition of long-term contribution histories, in such a way that retirement at 65 is possible with a 100% pension when a contribution period of 38 and a half years is certified;
- increase in incentives for voluntary extension of working life beyond the statutory retirement age; and
- use for calculation of the new pension of the contribution bases of the last 25 years prior to retirement, as opposed to the 15 years established before the reform.

The radical changes in the security system implemented due to the Royal Decree 1131/2002 introducing new regulations with part-time workers and created the part-time retirement scheme.

In 2011, the 27/2011 Act was adopted in order to improve and modernise of the social security system. Which has increased the retirement age to 67, and changed the reference period for calculating pension benefit, it has also increased the number of years of contribution required to receive the maximum allowance and important part of this act was tightened eligibility requirements for early retirement. The most recent Act the government also has approved was 23/2013 act on regulating the sustainability factor and the revaluation index for the pension benefits of the social security system. Belt-tightening policy through austerity measures has introduced in Spain. Spain is struggling to cut a budget deficit. Therefore the main decision of this problem lies on the actions towards boosting and forcing a complimentary pension plan - the second pillar. A future with increasingly low public pensions brings up the need for families to plan for alternative savings that enable them to maintain their living standards after retirement.

4. Discussion and Conclusions

Based on the literature review and statistical data, we can argue that the perception of economic crisis alone is not enough to explain the content of the pension reforms. It is well recognized that the pension system is considerably difficult branch of the welfare policy for making reforms; it builds up expectations and establishes legal elements that are hard to reverse. Study shows that such a strong old age solidarity pension system among three pillars, especially the first pillar, functioning under the pay-as-you-go formula still maintains very strong and powerful relationship between old-age pensions and the politicians' will in SE.

The pension crisis, neatly illustrates that challenges may be turned into opportunities if governments take early and well-designed action. Aging is not something that has to be prevented, but it should be managed. Aging becomes a threat when faced with ineffective pension systems created by past governments. In addition, pension reform in political terms is always corrosive of political popularity. It is always easier to pass the problem to a future generation. Moreover, pension reform in a PAYG world necessarily involves the reneging of a promise; reformers must admit that the (unconditional) promise given in the past had actually a limited application.

[1] OECD., (2011), Pensions at a Glance 2011 Retirement-income Systems in OECD and G20 Countries, Online Country Profiles, including personal income tax and social security contributions.
http://dx.doi.org/10.1787/pension_glance-2011-en (Accessed on 16 January, 2014)

[2] Pablo Sanz de Miguel, 2013, Pension reform rows back on early retirement benefits, European Industrial Relations Observatory (EIRO)

Thus, the comparative analysis of how the recent crisis has affected Southern European countries and their pension systems seems to indicate that significant reforms have been necessary when the negative effects of the economic crisis were coupled with a poor performance of the public pension system. In addition, adopting a multi-dimensional approach to assess the reforms in the four countries will show that improvements in financial sustainability may have been achieved at the expense of benefit adequacy. This indicates that substantial challenges still lie ahead, and more policy debate is expecting in this area in the upcoming years.

The three main crucial problems for southern European countries which have been considered are the following factors –demographic, economic growth, and normative or institutional factor. For solution these challenges there are some conventional approaches and opportunities, but because reforming pension system is regarding to politically sensitive issue, each country will need to find its own solution based on social economic indicators. It is important to note that all severe austerity measures and structural reforms aim to improve the fiscal situation in the country, but social security policy are easy sacrifice of austerity measures.

There are opportunities and several measures that should be taken in order to control spending trends over coming decades in Southern European pension challenges –

- Gradually raising retirement age, which would be an attractive option for economies, because it can help boost GDP by increasing the number of years the average person spends working rather than in retirement, and have some clear advantages by promoting higher employment levels and economic growth. (it is easier for the public to understand than cutting pensions or increasing contributions, because those who cannot work longer need to be protected.)
- Abolishing special categories in the pension system
- Indexing only the minimum pension
- Raising Contribution Rates, But in countries where the tax burden is already high, further contribution hikes may jeopardize competitiveness and growth prospects
- Equalise the pensionable age between men and women; and,
- Raising Employment Rates and increasing revenues
- Indexation to inflation rather than earnings
- Restrict access to early retirement schemes and other early exit pathways
- Introducing employee contributions
- Reducing first pillar benefits and reducing Pension Benefits
- Introducing mandatory funded DC second pillar
- Encouraging voluntary third pillar
- Reducing replacement rates could lead to inadequate pension incomes.

This kind of reforms in pension system would need to be accompanied by adequate social assistance programs to protect those who cannot extend their work lives. Indeed, the primary purpose of pensions is to ensure an adequate standard of post-retirement living for individuals, consistent with the resources available to society. The challenge is to reform pension systems without hurting their ability to provide income security for the elderly and prevent old-age poverty.

Despite the difference between GIPS countries, with respect to the speed and the impact of demographic aging and with respect to the policy reforms implemented and their likely long-term effects, population aging is a common trend and thus these countries face similar problems, although obviously the extent and details of these problems differ between countries. Each country should take own activities that fit best in this country's tradition and specific circumstances which can be identified for appropriate policy decisions. Nonetheless, the similarity of the problems faced by different countries would imply that they can learn from each other.

Due to presenting the diagnostic of the problems related to pension system it is clear that the public pension system in all four countries is facing major problems, due to the aging of population in all these four countries. It is not easy to determine the optimal balance between a solidarity -PAYG arrangement and a fully funded system, because both are depending on the characteristics of the shocks that buffet an economy. So the hot debate on pension issues is never over, and the challenge goes on in the years to come.

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