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Good Practices in Social Security

Good practice in operation since: 1999, revised 2007

Higher retirement pensions

A case of the General Directorate for Social Security

General Directorate for Social Security
Portugal

Summary

This measure is implemented by the application of a bonus rate to the amount of the retirement pension for each month of additional effective work and differentiated based on the contribution years. An alternative bonus mechanism for individuals who are entitled to request early retirement without any reduction but opt to continue working is also provided for.

Retirement pensions are accordingly increased in the following situations:

Request for a retirement pension after age 65

If the insured person is aged over 65 and has completed at least 15 calendar contribution years recorded in the general scheme when he requests his retirement pension, it will be increased by application of the monthly rate to the number of effective months of work performed between the month when the individual reaches age 65 and the month of the commencement of the retirement pension up to the limit of age 70.

The monthly rate of the increase varies based on the number of contribution years recorded on the date of the retirement pension request:

AGE	CONTRIBUTION YEARS	MONTHLY INCREASED RATE (%)
Over age 65	From 15 to 24	0.33
	From 25 to 34	0.5
	From 35 to 39	0.65
	Over 40	1

Request for a retirement pension before age 65

If the insured person fulfils the conditions to request an early retirement pension without application of a reducing factor, and if he does not make such a request, the retirement pension is increased by the application of a monthly rate of 0.65 per cent to the number of contribution years recorded based on the effective work performed between the month when these conditions are fulfilled and the month when the individual reaches age 65, or the commencement date of the pension if it occurs prior to this age.

In the two cases, the amount of the higher retirement pension cannot exceed 92 per cent of the highest reference salary taken into account for the calculation of the retirement pension.

CRITERIA 1:

What was the issue/problem/challenge addressed by your good practice?

Given demographic changes, Portugal (like other industrialised countries) is confronted with population ageing and, at the same time, a fall in the working population compared to the number of pensioners.

Moreover and in spite of the increase in life expectancy, we note that individuals retire relatively early from the employment market, which results in the average retirement age still being low.

Therefore, in order to face these challenges, several measures have been adopted to encourage older workers to remain on the employment market and simultaneously discourage early retirement.

In the pursuit of this objective, Portugal has implemented the payment of higher retirement pensions, which in conjunction with other adopted measures may result in an increase in the employment rate of older workers.

CRITERIA 2:

What were the main objectives and the expected outcomes?

This measure is aimed at encouraging older workers to extend the duration of their length of employment service and consequently also at discouraging early retirement, since leaving the employment market early represents a burden on the social security system.

Moreover, the extension of the length of service may also have a positive impact on demographic dependence rates, which are still higher for pensioners than active individuals, which may have positive effects on the durability of pension systems.

CRITERIA 3:

What is the innovative approach/strategy followed to achieve the objectives?

Higher retirement pensions were adopted for the first time in 1999 in the scope of the retirement age flexibility scheme. The aforementioned measure was revised in 2007 when the new disability and retirement pension scheme came into force under the general social security system (Legislative Decree No. 187/2007 of 10 May), which was introduced following the agreement on social security reform entered into between the government and the social partners in 2006.

In the scope of the new scheme, several measures aimed at encouraging active ageing were introduced, among which we highlight “higher retirement pensions”, which were implemented by the application of a new bonus rate to the amount of the retirement pension, which encourages longer employment service with increased contribution years.

As opposed to the previous scheme, this increase is allocated for each month of additional effective work and differentiated based on the contribution years. A provision is also made for an alternative bonus mechanism for pensioners who are entitled to request early retirement without any reduction¹ but opt to continue working.

¹ Early retirement may be requested as from age 55 if at this age 30 contribution years have been recorded. In this case, the amount of the retirement pension is reduced further to the application of the 0.5 per cent reducing factor for each month between the request for the retirement pension and age 65. The number of months of early retirement is reduced by 12 months for each group of three years exceeding 30 years of service.

CRITERIA 4:**Have the resources and inputs been used in an optimal way to implement the practice?**

Research has been carried out to assess the effectiveness of the measure and also with a view to adapting legislation relating to employment, unemployment protection and pensions to limit the provisions which discourage older workers from continuing to work longer and also dissuading early retirement.

Given this context, the applicable reducing factor for early retirement has been increased whereas the calculation of the increase has been amended to encourage longer employment service.

CRITERIA 5:**What impact/results have been achieved so far?**

The introduction of the measure in 1999 led to a gradual increase in the number of pensioners entitled to a higher retirement pension. Moreover, we also recorded a drop in the number of individuals requesting early retirement in recent years.

As regards the results of the application of higher retirement pensions implemented further to the approval of the new legal pension and disability scheme in 2007, and although this is a recent measure, we already note a significant increase in the number of higher retirement pensions as a result of the more favourable allocation conditions than under the previous scheme.

NUMBER OF PENSIONERS WITH A HIGHER PENSION (LEGISLATIVE DECREE NO. 9/99)		NUMBER OF PENSIONERS WITH A HIGHER PENSION (LEGISLATIVE DECREE NO. 187/07)	
DECEMBER	NUMBER OF PENSIONERS	DECEMBER	NUMBER OF PENSIONERS
1999	14	1999	-
2000	157	2000	-
2001	333	2001	-
2002	473	2002	-
2003	591	2003	-
2004	730	2004	-
2005	861	2005	-
2006	984	2006	-
2007	1,053	2007	1,522

2008	1,049	2008	5,597
February 2009	1,049	February 2009	6,299

Source: National Pensions Centre

Given this information, we can conclude that the measure is likely to have a positive impact and contribute to promoting active ageing of older workers.

CRITERIA 6:

What lessons have been learned?

Please see above.

CRITERIA 7:

To what extent would your good practice be appropriate for replication by other social security institutions? Please explain briefly.

This initiative may be copied by other social security systems insofar as the same social, economic, demographic and cultural challenges are being faced by other countries. Another important aspect relates to encouraging older workers to continue working, who are consequently entitled to a higher retirement pension in view of the increased allocation conditions.