

The reform of the public pension system in Spain

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Introduction: from conflict to unstable consensus

The debate on the future of the public pension system –including the contributory, obligatory and pay-as-you-go systems– became almost twenty years ago the debate *par excellence* on the Welfare State in Spain, being at the same time an object of consensus and conflict between political and social forces. This is due to three fundamental reasons: firstly, because this debate condenses almost all the political problems as regards the future of social protection in Spain; secondly, because it is a permanent object and corner stone in the negotiations between the government, the trade unions and company representatives; finally, it is one of the most important vectors involved in the structuring of Spanish public opinion which at present, however, largely supports the existence of a pay-as-you-go pension system.

The ‘permanent’ reform of the public pension system began during the democratic era with the Law No. 26/1985 Urgent Measures for the Rationalisation of the Structure and Protective Action of Social Security. The reaction of trade unions towards this law was the first general strike of the democracy against the first socialist government. This required an adjustment to or stricter enforcement of the regulations for access to the pension system, a cut in pension costs and the refusal of the socialist government to apply a law of non-contributory pensions that would compensate for the negative effects of the reform.

The 1985 reform began two processes that have been moving, until today, in a slow but continuous manner: on the one hand, a process of financial adjustment was put into place in order to reduce the cost of pensions in the long term, to toughen the access conditions and bring the proportion between the workers’ contribution and the pensions they receive closer together; on the other hand, and what is perhaps most important, ideological

conditions and legal and institutional tools will be constructed to favour complementary private pension systems. Both processes could, in time, result in a three-polar pension system: an assistance system (basic and financed by general taxes), a professional or contributory system (financed by contributions) and a private system (financed by individual or joint savings).

The main concern of the political debate since 1985 to the present day has been focused on the alternative between the reformed maintenance of the pay-as-you-go system or its transformation into a capitalisation system (public or private). The debate and the negotiations are not able to prevent this ideological and institutional transition from taking place, in favour of an obligatory mixed system (half pay-as-you-go and half capitalisation) that could be heading towards a future obligatory system of private investments.

Even if the privatisation of the actual state system is rejected by Spanish society and the pensioners themselves, a slow but inexorable acceptance of the inevitability of some sort of privatisation is taking place. This is the result of the alarm created during the period 1990–1995 due to the supposed bankruptcy of the state system and the media campaign led by the economic groups interested in the creation of pension models as in Chile.

Given the fact that any radical change in the pension system would implied an economic risk (the financing of the transition) and it would be the source of potential political conflicts (two general strikes have already taken place), it seems plausible to think that during the present decade, we will have to choice between two options mentioned before: a) the maintenance of the pay-as-you-go system but with continuous reform in favour of a greater capitalisation; or b) a slow transition towards a mixed system, of pay-as-you-go and capitalisation. For some, this would be the model of political equilibrium. For others, a transition towards inevitable and complete privatisation. A mixture of both (a and b) options could be an alternative, which is the thesis of this paper.

To justify this thesis the following steps will be taken: firstly, a description of the evolution of the state pension system will be made with the aid of some basic indicators. Also, the main reforms that have taken place since 1985 until 2001 will be described, as well. Secondly, the political and economic debate which has arisen from the positions taken by the fundamental actors in the pension problem, will be described: the government, trade unions, employers organisations, political parties and think tanks. Finally, different political options in question concerning the future of the pension system and the possible tendencies in the medium term will be established. The agreement on the reform of the system is unanimous amongst all the social and political forces but its objectives and the possibilities of reaching them differ considerably. This is what we intend to show with the following.

The evolution between the pensions system between 1985–2001: situation and reforms

Evolution of the Spanish pension system

In order to understand the importance and the achievements of the successive political agreements and the different legislative reforms which the public pension system has suffered in Spain, it is necessary to be familiar with its evolution and its main characteristics of coverage and protective intensity as well as the demographic and economic factors which affect its survival.

Firstly, the present pension model in Spain is a public system with two subsystems:

- a) The contributory system, which in turn has two levels. The most important -and which focuses all of the political debate- is the contributory system of social security, financed by social contributions from workers and employers. In addition, there exists the pension system of civil servants, which has never been the object of discussion (known as the passive classes system);
- b) The non-contributory or social assistance system, financed by general taxes, under the control of social security and managed by the CCAA (Autonomous Communities). It provides benefits to people over sixteen year olds unable to work, people suffering from chronic illnesses or those who at sixty-five have not covered the minimum contributions to receive a full pension.

Although both systems will be referred to, we will focus almost exclusively on the contributory system of social security as it almost entirely monopolises the political debate.

As can be seen in table 1, over the last twenty years there has been a very significant increase in the number of social security pensions. One could say that the public pension system reached its institutional maturity in the 90s, to the extent that in 1980 the relationship between the active population and pensioners was 2.5 social security members and in the year 2000 the number was 1.7. The number of contributory pensions has practically doubled in twenty years mainly due to the fact that the 80s were a period of huge increase. This huge increase was due to the following factors: an acceleration of the ageing process of the Spanish population (in 1980 11% of the population was 65 or over and in 2000 this figure increased to 16.8%), the adjustments made by hundreds of thousands of industrial workers, the early retirement of hundreds of thousands of farmers, the incorporation of organisations which were previously not included in social security (Telefonica, ONCE) and an increase in early retirement (i.e. retiring before the age of 65: 60-70% of pensioners belonging to the social security general regime retire before the age of 65, and around 40% retire at the age of 60). These factors explain the 4% average inter-annual increase in the number of pensioners during the 80s. During the 90s this process slowed down and settled at an increase of around 2%, which is a value just about half of that found in the previous decade. In this sense, everything seems to indicate that we have entered into a period of relative stability in terms of the increase in the number of pensioners. This will last until the beginning of the next decade when the demographic factor will again have an intense effect on the situation due to the retirement of the population born in the 1950s and onwards. It is also important not to forget that the universalisation process of social security and of the pension system in Spain took place

in the 1980s. The consolidation of political democracy, the economic crisis and the acceleration of the ageing process of the population are, in effect, the reasons behind this extensive and intense rise in the number of pensions. The coverage of elderly population by contributory pension system shows the near total universalization.

On the other hand, the increase in pension costs has settled to a value that is around 10% of the GDP (see table 1). It has even tended to decrease slightly due to the combined effect of a strong increase in the GDP, superior to the cost of pensions and to the moderating effects of the reforms which began in 1985; in other words, due to the reduction in the protective intensity. However, there are factors in the increase in pension costs which explain the traditional increase in pension costs such as: compensating effects due to inflation, the increase in value of new pensions which are moving closer to real salaries and, lastly, the supplements to pensions which benefit minimum pensions above and beyond their contributions (a third of pensions are made up of these supplementary benefits especially widows' pensions 44%, orphans' pensions 48% and retirement 33%).

Regarding the non-contributory pensions, Law No. 26/1990 on Non-contributory pensions consist in an ordering and rationalisation of the previous systems (FAS, LISMI) which are condemned to extinction. At present, the new system protects a population of about 700,000 people, whom 40% of them are the elderly. The amount they receive is about 45% of the minimum wage and its aim is to aid social integration and the battle against poverty. The financing involved was, until now, confused, through taxes and contributions from social security. Since the year 2000, the financing has been through general taxes applying the Pact of Toledo (1995) on pensions.

In short, the maturing process of the public pension system is the consequence of the following factors: demographic factors (ageing), economic factors (the restructuring of the Spanish industrial and agricultural systems) and institutional factors (the ordering and rationalisation of the current systems). The understanding of these factors demand a further analysis taking into account that the pressures on pensions in Spain, as in other South European countries, will be not fully felt until 2020 onwards, when dependency ratios will be one of the highest in the EU countries.

1. Demographic factor: the evolution of Spanish population (see table 2) in the next coming decades will change sharply the structure of age groups. Although the working population will grow until a percentage of 63 between all ages, the crucial fact is that the percentage of people older than 65 will grow up to 32.5 by year 2050, while population groups between 0-14 will decrease down from 26.2 per cent in 1950 to 13.6 in year 2050. In global terms, the general dependency rates will start to worsen from the third decade of this century.
2. Economic growth factor: the prospects of economic performance are not easy to project because there are complex factors playing as work productivity, evolution of real wages, rates of inflation and employment and the size and structure of working population. However, in the Spanish case, there is a general agreement between

experts to project the future evolution of pension according to rates of GDP growth between 2 and 2.5%.

3. Normative or institutional factor: as it has been mentioned above, the most relevant restructuring social protection policy in Spain from 1980 until now has been that related to pensions system. Although there are wide disagreements between political parties on the role that privatization should play, there has been until now a basic consensus about the permanent rationalization of present pay-as-you-go system. All political and social actors are agreed that ageing is not only the argument or pressure factor on contributory pensions system. There are other factors such as replacement rates, the average level of benefit in new pensions compared with those deceased, or the minimum period of contribution for a pension. All reforms from 1985 until the Pact of Toledo have been driven to intensify the actuarial element of pay-as-you-go system at the cost of redistribution policy, improving transparency and greater equity between different contributory regimens.

To all these factors can be added to those processes which started at 1985, mentioned at the beginning of the report: the first is the ideological ascent of privatisation in Spanish society led by business groups belonging to banking and insurance schemes which have the capacity to modify the public vision of the future of social security. The second is the conversion of the pension reform into state politics based on consensus and negotiation between political, social and economic agents. These last two factors are essential in understanding the reforms that shall be analysed next.

Nevertheless, all these factors have been interpreted in different ways when elaborating long-term projections for the next decades. That means different interpretations on the number of pensions, its money value and the number of years that pensions are received, could evolve. Some projections (Ministry of Employment and Social Affairs, Union CCOO and also BBVA) have concluded recently that is possible to guarantee the present pay-as-you-go system with some reforms that widen the period or years of contribution and intensify the actuarial nature of pensions. According to the Ministry of Employment and Social Affairs projection the social spending on contributory pensions could grow up from a maximum of 10.78 per cent of GDP in year 2030 to a minimum of 8.78 (present percentage in year 2000), in base to an economic growth of GDP between 2.7 and 2 per cent (see Table 3). Other projections are rather catastrophic, as those made by *Circulo de Empresarios* (an entrepreneurs association) which have been demonstrated not to be credible. There are other projections (the saving bank *La Caixa*) that demand a deep transformation of pay-as-you-go system into another of mix kind, that is, a contributory system with two levels: a basic pay-as-you-go pension and a second occupational tier based on capitalisation of individual contributions.

The permanent reform of the public pension system

The financial adjustment caused by the Law of Pensions of 1985 and the subsequent social conflicts -the general strikes of June 1995 and December 1988- convinced the socialist government that a pact was required between political forces. So pension reform was in fact a state problem beyond the electoral competition between political parties.

Hence the Pact of Toledo of April 1995 was implemented. This pact was an obligatory and enforced one. It was obligatory because given the ample popular support for a public pension system; its treatment as partisan political material steered towards unforeseeable electoral costs. It was also a 'forced' pact because it was the result of a precarious and provisional agreement beneath which lie profound divergent opinions and conflicts regarding the nature of the political reform to be carried out on pensions.

In any case, the Pact of Toledo includes the legitimisation of the adjustment policies that took place between 1985 and 1995. For some, (trade unions and the socialist party) these policies seem directed at making the public pay-as-you-go system financially viable through measures of greater proportionality between the contribution made and the pension received. They also believe these policies aim to obtain greater equality between the subsystems of social security, as well as a clear separation in the financing of contributory and supplementary benefits. However, for others (employers and the majority of the PP) these policies are viewed as temporary reforms which should inevitably lead to private system in the future, the reasons which will subsequently be discussed.

In table 4, the legislative reforms and the national agreements made on the subject of pensions have been described in a schematic manner. From succinct analysis of the mentioned table, several conclusions and tendencies can be extracted on the subject of institutional reform:

Law No. 26/1985, the Pact of Toledo of 1995 and the Law of Consolidation and Rationalisation of 1997 (which develops the Government-Trade Union Pact of 1996) strengthen the contributory or capitalisation character of the public pension system as well as correct some of the imbalances between these systems. In any case, the minimum period one must contribute in order to receive a pension has increased from 10 to 15 years, calculation of the pension is now 8 instead of 2 years and access to invalidity pensions is controlled.

When the Law of 1987 on Private Plans and Funds was established, private plans and funds, to complement pensions, began very early on. The Law of Ordination and Supervision of Private Insurance strengthened this tendency in two ways in 1995. One way was ideological (catastrophic visions of what social security was to become). The other way was about taxation (progressive increase in tax deductions in order to promote private saving pensions). In consequence there has been a spectacular increase in complementary pension funds (from 1% of the GDP in 1990 to 5% in 2000; from 320,000 participants in 1990 to 3,510,000 in 2000. In other words, from 2.5% of the working Spanish population to 26%). Positive tax incentives and the high financial yields obtained from the stock exchange during the second half of the 1990s are the factors behind this selective privatisation of the pension system, which is at present modifying the financial and ideological base of the public pension system.

In short, the two factors doing battle in the reform of the public pension system are the rationalisation of the present pension system through political pacts and the growing privatisation in a context of ideologically (*un*)stable political consensus.

However, due to the support given by the vast majority of the public to the pension system, no government is prepared to adopt radical measures of privatisation. In all these debates is always the political pragmatism (from the government, political parties and trade unions) and the economic realism (from the bank and insurance companies) which direct reform towards mixed solutions.

In fact, the most feasible recommendations from the Pact of Toledo (which strengthens the contributory system and supports the idea of greater equality and solidarity) have been developed. However, there are other politically acceptable proposals which are constantly being postponed, such as the reform of the special regimes of social security which produce deficits, or the financing of incentives to create employment through contributions and not through taxes. On the other hand, there are others that are already under way, such as the separation of financial sources for contributory and support pensions, and the constitution of a Pension Reserve Fund (which was already foreseen in the Law of Social Security of 1963).

The political debate on the future of the public pension system: consensed reforms versus privatisation

The neoliberal proposals favouring privatisation have, for the moment, had relative success in Spain. The 90s saw the almost complete privatisation of the public business sector. At the same time, the contracting out of services or the privatisation of management has undergone a selective development that has been important in sectors such as health and personal social services. The private management of benefits for professional illness or the liberalisation of employment and professional orientation services are both examples of this tendency of selective privatisation adopted by the welfare state.

As regards the pension system, we have already seen the pragmatic process of reform that has been taking place as a result of a delicate political equilibrium and the solid institutionalisation of social security. These factors prevent any attempts at radical privatisation reform even if it seems that maintaining the *status quo* is not viable.

In Spain, the debate on the pension system has various main characters, as has already been mentioned, which have different strengths and influences. Their basic ideas shall be considered in the following:

The trade unions

The defence of the social protection system, and in particular, of the pension system, has not only given new content to trade union action in Spain, (focused until 1985 on the collective negotiation on the subject of salaries), but has also permitted the unity of trade

unions between 1988 (second general strike led by the two great trade unions, CCOO and UGT, in favour of social change) and April 2001 (UGT did not sign the 1996 agreement for the Improvement and Development of the Social Protection system).

Trade union policies have been characterised, with regard to pensions, by two features: firstly, they have assumed salary moderation as a permanent practice in exchange for the maintenance and perfecting of the social protection system. Secondly, they have agreed strategic defence of the present pension pay-as-you-go system, in exchange for strengthening its contributory aspect and tolerating the development of private complementary pension systems.

Agreements between trade unions have not always been unanimous. Between the absolute agreement on the Trade Unions Platform, which justified the resounding success of the general strike in December 1998, and the disagreement on the content of the Government-CCOO pact in 2001, there stretches a long period of time in which pensions have constituted one of the fundamental focus points in trade union actions.

Finally, the unity of the trade unions deteriorated when UGT refused to sign the Agreement of April 2001. The differences lie in the interpretation of the fulfilment of the compromises taken from the Agreement of 1996 and in the absence of deadlines for their achievement.

The employers

The attitude of employers towards the Pact of Toledo and its development has always been distrustful, calculated and strategic. It has always been 'calculated' because its priority has been almost exclusively the reduction of contributions companies have to make to social security, (under the argument that they are too expensive and they do not contribute to the creation of employment). This position has been manifested in their distancing from the Pact of Toledo and their withdrawal from the Agreement of 1996. The participation in the Agreement of 2001 together with the CCOO and the government was in response to the reduction of social contributions. It has been 'distrustful' because the Agreements could suppose an increase in social expense and a consolidation of the present pay-as-you-go system. Finally, the attitude has always been 'strategic' because it favours the transformation of the actual pay-as-you-go system into another system (the private type). All their political efforts and media campaigns have always progressed in this direction.

The government and the political parties

The strategy adopted by the political parties, in view of their experience during the period 1985-95 and the popular support for the public pension system, has been headed in order to make the subject of pensions non-electoral but the object of political consensus. The Pact of Toledo marks the starting point of the strategy. There has always existed a great sense of precaution towards the electoral consequences that could derive from a political treatment of pensions. Even though the different Agreements have committed themselves to the revaluation of pensions according to the expected inflation, as an inflation control system, the truth is that since 1996 there have been two re-assessments taking into

account past inflation. The PP government has not allowed pension matters to take away electoral support.

This does not mean to say that political parties do not hold their own positions and views on the future of the pension system. Whilst the PSOE (socialists) and the IU (left-wing coalition) defend the pay-as-you-go system, the PP and CIU (the Catalan Nationalist Party) defend a mixed system in which private or investment pensions are preferred. This usually appears in their electoral campaigns. However, political strategies are subordinated to those of the electoral type. Any reform adopted, should be implemented slowly and with respect a fair proportion of acquired rights. Any alteration of present political equilibrium with respect to pensions would break one of the most important consensus of the Spanish democracy.

The experts

By experts we refer to think tanks that depend on financial entities. In Spain there are three groups of thought that defend the necessity of a mixed system; two foundations belonging to financial entities (the BBVA and the Caixa-FEDEA) and a business institution (el Círculo de Empresarios). Basically there are three arguments which these groups of important academic and political influence sustain; firstly, the demographic perspectives of the Spanish population for 2050. This year is supposed to be experienced a radical deterioration of the relationship between taxpayers and pensioners and will subsequently cause a large increase in pension expenses (15% of the GDP) and the social security deficit (5.96% of the GDP in 2050). Secondly, the option of immediately moving on to a private system. This alternative would be politically rejected by the Spanish society and the economic expense involved in the transition would be very high (2.5 of the GDP). Thirdly, a mixed pension choice (in line with those existing in the United Kingdom, Switzerland, Holland, Ireland, Denmark and Sweden). In other words, it would imply three different types of pension: the minimum state benefit; obligatory professional pension plans of capitalisation up to at least 50% of the salary, the rest being of pay-as-you-go or voluntary; and lastly, free, individual pension plans.

Therefore, according to experts, it is necessary a (large) process of transition towards a mixed system -of capitalisation and pay-as-you-go-. The characteristics of this mixed system are the object of debate. For some of the experts, the present system should be maintained until maximum adaptation between contributions and pensions were achieved. Meanwhile, for others, it is a question of trying to establish a mixed system in which the pay-as-you-go section would be within social security but not the capitalisation system. Finally, for the representatives of insurance companies the mixed model it is only a transition which should lead to a clearly private system that would still maintain state pensions for those who have not covered the minimum contributions to receive a full pension.

In any case, it should not be forgotten that the projections made by the experts are always tentative when not wrong. For example, consider the fact that the BBVA Foundation projected the social security deficit for the year 2000 at 1.65% of the GDP and the figure for the *Fedea-Fundación* (La Caixa Foundation) would be 2.7% of the GDP. These are

forecasts that went wrong. Note that, since 1999, the social security system has been generating surpluses that are being used to constitute Pension Reserve Funds.

The debate on future pensions system between political and social actors, very briefly described, shows how financial and political constraints are playing at the same time. All actors are agreed that pension system is facing a crucial challenge. Also there is an agreement on relevance of demographic and financial factors. The latter underlies in continuous rationalization reforms which are trying to get a more actuarial and viable system. However the problem of pension reforms is not only a financial viability of present contributory system; it is also a problem of distribution of power between political actors. The strong resistance to privatization by Unions and its reluctance to the decreasing role of redistribution in pension policy indicates that in the coming years pension reforms will be in Spain a crucial political conflict.

Reform options and possible tendencies of change

Throughout this report we have analysed the problems surrounding the Spanish pension system and the different reform alternatives. It is now fitting to point out these alternatives and the possibility of their achievement.

Basically, there are three crucial alternatives that are available to deal with the problematic future of the pension system:

1. Reformed maintenance of the pay-as-you-go system. This is the option defended by trade unions and left wing parties, along with the government, this last by now. It involves perfecting the pay-as-you-go system, strengthening its contributory nature, its economic efficiency and its internal solidarity. This option assumes the existence of private pension systems as a complement.
2. Privatisation of the pension system. Employers have defended this option since the late 80s. Nowadays it is an alternative strategy at long term once certain transition requirements have been met. Even though it is not a politically operative option, it is a permanently active ideological choice.
3. Mixed pension system. This option has ample support from employers and think tanks. The aim is to apply a 'three-legged' system in the short-medium term: a basic state support system; an individual or joint saving or private plan system; and, which is the most important, the occupational type with two levels: the first one is a basic pension in terms of pay-as-you-go system, the second is an occupational pillar which in the long run would be the determinant tier.

The political struggle is between options A and C. The first option, the pay-as-you-go system, has the support of the vast majority of public opinion, left wing political parties and the institutional inertia of a 102 year old system. The second option, a mixed system of complete future professional capitalisation, has the support of the professional classes,

employers in general, right wing political parties, Catalan Nationalists, and of course, the flow in favour of reform that is taking place in different countries of the EU.

As, in practice, capitalisation and pay-as-you-go offer multiple institutional combinations, it is fitting to think that in the present political situation in Spain, option A will be maintained at least until the year 2010-15, if no significant economic or institutional crises take place. From this year onwards, there will be new demographic pressures so option C will come through in a firm manner. There are latent factors in the Pact of Toledo and in its development –non-specified agreements– which could force change towards the mixed system and which are related to the zero deficit policy of the government or lack of commitment towards social expenditure. We refer to decisions that could undermine the pension system and direct civic attitudes towards privatisation options. For example:

- a) The agreed contribution increase pre-supposes a reduction in average pensions in the medium term and as such a reduction in the protective intensity of pensions;
- b) Secondly, a deterioration in the financial basis of social security, given that the state is reducing its financing, as for example, unemployment benefits and active policies are financed through social contributions, not through general taxation.
- c) The deadline of twelve years (starting from 1997) for minimum quantities to be financed by the state is too long and will financially damage social security (the latter finances the State, contributing to the reduction of the public deficit). On the other hand, two agreements reached in 2001 are firm and seem to be leading inevitably towards a type of mixed system, such as the reduction of company contributions from 2002, and a study into the effects of extending the period used for regulating pension calculation to a full working life as of 2003 (remembering that this period went from two to eight years in 1985 and from eight to fifteen years in 1997).

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Table 1: Contributory and social assistance pensions. Main figures

Contributory pensions	1980	1985	1990	1995	2000
Number of Pensions	4,398,434	5,396,517	6,187,135	7,039,678	7,664,200
% Coverage / Population 65+	82	85	87	89	92
% Annual increase		22.69	14.65	13.77	8.87
Number of Social Security members (not included the unemployed people)	10,413,800	10,613,100	12,587,700	12,300,500	14,622,000
Pensions Public Spending to GDP % Millions Euro	5258.86 5.77	12,738.45 7.52	22,720.06 7.55	37,202.65 8.50	50,834.81 8.49
Revenue of Social Security to GDP % Millions Euro	9,602.97 10.53	15,034.32 8.87	27,348.45 9.07	39,369.00 8.99	55,176.52 9.10
Monthly Pension (mean): New Pensions	102.88	214.48	300.33	449.69	508.93
Monthly Pension (mean): Outcomes	78.79	153.54	236.02	334.94	409.44
Monthly Pension (mean)	91.12	171.52	267.23	382.03	468.19
Social Assistance pensions	1980	1985	1990	1995	2000
Number of Pensions	342,125	350,079	523,968	675,426	622,804
Monthly Pension	24.04	68,61			248,59
% with regard to the Minimum Wage	17.5	30.7	44.1-52.0	39.7-60.4	35.2-59.8
% Public spending in Assistance Pensions to GDP	0.13	0.18	0.35	0.40	0.33

Source: Own elaboration in base to Social Security Statistics.

Table 2: Demographic projections of Spanish population 1950-2050

Year	Age Groups			
	0-14	15-64	65 +	Total
1950	7,211,000	18,293,000	1,988,000	27,492,000
1970	9,459,000	21,288,000	3,292,000	34,039,000
2000	5,733,000	26,798,000	6,734,000	39,265,000
2020	5,471,000	25,470,000	8,250,000	39,191,000
2030	4,944,000	23,437,000	9,678,000	38,059,000
2050	4,610,000	18,312,000	11,027,000	33,949,000
% /Total				
1950	26.2	66.5	7.2	100
1970	27.8	62.5	9.7	100
2000	14.6	68.3	17.2	100
2020	14.0	65.0	21.1	100
2030	13.0	61.6	25.4	100
2050	13.6	53.9	32.5	100

Source: INE

Table 3: Projection of social contributory pension spending 2000-2030

Year	Number of pensions	Average annual growth (%) in pensions	Social spending on pensions / % of the GDP (in base to average GDP growth of 2%)	Social spending on pensions / % of the GDP (in base to average GDP growth of 2.5%)
2000	7,664,000	1.9	8.49	8.49
2005	8,047,000	1.9	8.80	8.59
2010	8,508,000	1.9	9.13	8.69
2015	9,026,000	1.9	9.50	8.83
2020	9,534,000	1.9	9.83	8.91
2025	10,080,000	1.9	10.24	9.06
2030	10,694,000	1.9	10.78	9.31

Source: Ministerio de Trabajo y Seguridad Social (1995).

Table 4: Legal reforms on pensions system and main political agreements

Reforms	Origin	Political and institutional outcomes
1. Law No. 26/1985 of Social Security Rationalization	Decision of Socialist Government. It gives rise to the first general strike in June 1985. The reform tries to moderate the increasing pension spending and to control invalidity pensions.	Minimum period of contribution to access to a contributory pension: 15 years (before, 10 years); calculation of pension according to the last 8 years worked (before, 2 years); control to access to invalidity pensions; increase in value of pensions, in terms of future inflation rates.
2. Law on Private Pension System (1987)	This law develops new private pension system, free and complementary.	Growing number of private pension schemes.
3. Law No. 26/1990 Non Contributory Pensions	Second general strike in December 1988. New agreement between Unions and Government for increasing social spending in pensions and social benefits in general.	Increase in value of assistance benefit pensions, minimum contributory pensions and unemployment benefits.
4. Pact of Toledo, April 1995. 1.1 1 st Phase: Parliamentary Phase	All political parties, except IU, agree to leave out pensions reform of the partisan debate. All pension reforms will be in an State issue under consensus.	Agreement on division between contributory and assistance revenues; reduction in the number of special regimes of Social Security; flexibility in retirement; increase in value of pensions; support to private complementary pension system.
1.2 2 nd Phase: October 9, 1996 Agreement between government and Unions (Employers' representatives auto excluded). Agreement developed in:	Development of the Pact of Toledo: clear division between contributory and social assistance pensions.	Law No. 24/1997 reinforcing the contributory pension system; improvement of pensions in terms of past inflation.

<p>Law No 24/1997 on Consolidation and Rationalization of Social Security</p>		
<p>4.3 3rd Phase: April 2001 Agreement between Government, Employers' representatives (CEOE-CEPYME) and the Union CC.OO on social protection reform.</p>	<p>Development of the Pact of Toledo reinforcing the contributory nature of the pension system.</p>	<p>Definitive division in the revenues between assistance and contributory systems; reserve fund of Social Security; new legislation on flexible retirement; increase in value of pensions for orphans, widows and minimum pensions; convergence in financing between general and special regimens of Social Security; a new commission to study a long-term care insurance system; new legal support to private pension system.</p>