

Continuing to improve the public pension system

La Voz de Galicia (Spain)

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The public pension system is a fundamental pillar of the welfare state. And for it to continue being so, it is necessary to modernise it and adapt it to the changes being undergone by Spanish society. Fortunately more and more people are reaching retirement age and are doing so with a longer life expectancy. All this means that the number of pensions will increase progressively from just over 9.5 million today to about 15 million in 2050. Just to meet this increase in the number of pensions without changing the current system, we would need the number of contributors to go from almost 18.5 million currently to just over 27 million. This is a highly unlikely increase given the expected demographic trends. In addition, the economic crisis has opened up a deficit between income and expenditure on pensions in the system that will take time to reduce, especially in the current situation in which the new pensions that enter the system do so with pensions on average wages that are among the highest in Europe.

Given this situation, what should we do? First of all, we need to acknowledge that in order to guarantee the pension system we must continue with our commitment to strengthening its financial sustainability. There is no dilemma of choice between sustainability and sufficiency. Sustainability is an absolutely necessary condition for pensions to be sufficient in the long term. Therefore, we need to maintain the reforms of 2011 and 2013, and improve them with new mechanisms.

Secondly, as in Sweden and other European countries, individual distribution accounts must be introduced as soon as possible, with a transitional period. The system continues to be public, pay-as-you-go and progressive. By providing a “virtual account” to each worker, it improves their relation to contributions and transparency, which makes it simpler and easy-to-understand, and helps perceive the contributions as savings and not as a tax. In addition, individual accounts eliminate uncertainties and help to ensure the financial equilibrium of the system if the pension is calculated by taking into account life expectancy (as the Sustainability Factor will begin to do in 2019) and the expected evolution of the resources and expenses of the system.

Thirdly, the minimum pension must be improved and reinforced according to core inflation and productivity gains, with transparency for the beneficiaries of the complements made through charges to general taxes.

Lastly, we must continue to carry out reforms that improve the functioning of the labour market and its efficiency, and the productivity of the economy. The greater the employment and the higher the salaries, as a result of productivity gains, the higher the pensions and the capacity of the system to introduce the necessary changes and to adapt itself to a world undergoing constant evolution. It is vital for the public sector to lead the process of technological and digital transformation, ensuring that the welfare state is in line with the new times.

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