

## Country Profile

SPAIN

2011



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**Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (CASER)**, founded in 1942, is one of the leading underwriters of group insurance in Spain and offers group life and pension plans. A leader in the development and introduction of new products, CASER was the first Spanish insurance company to offer a Deposit Administration pension plan, as well as the first insurer in Spain to offer a group retirement policy.

CASER has historically provided high rates of return on its investment products and is one of the leading insurance companies in Spain in terms of investment return on retirement contracts. CASER has made significant investments in new technology for the efficient administration of insurance and retirement products. It is also one of the few insurance companies in Spain that is able to design products tailored to a client's specific needs.

Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (CASER) has been an IGP Network Partner since 1972 and currently manages more than EUR 4,087 billion in pension fund assets and EUR 6.133 billion in mathematical reserves (2010).

## Key Products

### Life

- Life
- Accidental Death Rider
- Permanent and Total Disability
- Widow's and Orphans' Pensions

### Disability

- Absolute Disability Pensions (as part of a Retirement Plan)
- Total Professional Disability Pensions (as part of a Retirement Plan)

### Pensions

- Managed Funds

### Other

- Critical Illness
- Death Due to Traffic Accidents
- Personal Accident

Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (CASER) is located on the internet at: <http://www.caser.es>  
(Main information is available in English, French and Spanish)

## Social Security

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### Retirement Benefits

65 years of age for both men and women, except for employment that is considered toxic or dangerous.

15 years of contributions of which at least two years must be included in the 15 years immediately before retirement.

Early retirement is possible after age 60, provided that the retiree had contributed to Social Security prior to January 1, 1967, or after age 61 if he contributed for at least 30 years, and provided that unemployment of more than 6 months is involuntary. A linear reduction of 8% is applied for each year prior to age 65. For employees with more than 30 years of contributions, there is a lower annual reduction as follows:

- Between 30 and 34 years of contributions: 7.5%
- Between 35 and 37 years of contributions: 7%
- Between 38 and 39 years of contributions: 6.5%
- 40 or more years of contributions: 6%

There is no compulsory age for retirement.

A pension equal to 100% of the Regulating Base\* after 35 years of contributions, following a scale that starts with 50% after 10 years of contributions and increases at an annual rate of 2%. For retirement after 65 the Regulating Base increases at an annual rate of 2% per year more of contribution and after 40 years of contribution this % increases at an annual 3% per year more of contribution.

A minimum annual pension has been established for 2011 that is equal to € 10,388.00 for retirees with a dependent spouse, and € 7,985.00 for retirees without a dependent spouse.

A maximum pension equal to € 34,526.80 per year has also been established.

#### *Flexible Retirement:*

The situation of flexible retirement is considered as the possibility of making the retirement pension compatible, once in effect, with a part contract, within the limits of the working day (a minimum of 25% and a maximum of 75%) which is referred to in art. 12.6 of the law on the workers Statute, with the consequent reduction of the day by the inverse proportion to the reduction applicable to the pensioner's working day, in relation to that of a comparable full time worker.

#### *Special Retirement at the Age of 64:*

This is the type of retirement which reduces the minimum retirement age from 65 to 64 in order to encourage employment, without applying the age reduction coefficients, allowing the employee to obtain the retirement pension with the same economics rights as if he or she had reached the age of 65.

#### *Partial Retirement:*

Partial retirement may begin upon reaching the age of 60, while maintaining a part-time contract, whether linked or not to a relief contract with an unemployed worker or with a limited time contract with the company.

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\* The Regulating Base is the annualized average of Social Security Contributions of several months (depending on the contingency) that is used to calculate the public benefit/pension.

## Death Benefits

**Widow's Pension:** 52% of deceased employee's Regulating Base.  
70% if there are family dependents and this pension is the main or only source of income.

Minimum annual pension is:

- If age > 65: € 8,419.60
- If 60 < age < 64: € 7,875.00
- If age < 60: € 6,374.20
- If age < 60 & in charge of family: € 9,735.60

**Orphans' pension:** up to age 22 or disabled: 20% of employee's Regulating Base up to 100% combined with widow's pension.

Minimum annual pension is:

- By orphan: € 2,571.80
- By absolute orphan (no father & no mother): € 6,374.20

The base is obtained by calculating the average of the Assessment Base\*\* during a 24-month period, selected from the last seven years.

## Disability Benefits

**Temporary Incapacity:** Employees are entitled to the incapacity benefit while they are under medical care for a period of 18 months (with a possible 12 months extension, if approved by the social security medical court).

**Temporary Disability:** The qualifying criteria are the same as those for temporary incapacity. The benefit payable is a pension equal to 75% of the Regulating Base.

**Permanent Disability:** Once the employee is declared permanently disabled, the benefit depends upon the degree of disability.

**Partial Disability:** A degree of disablement of at least 33%; the benefit payable is a lump-sum equal to 24 times the Regulating Base.

**Total Disability:** An inability to perform one's own work constitutes Total Disability Status. The benefit payable is a pension equal to 55% of the Regulating Base. The percentage increases to 75% whenever disability occurs after age 55.

**Absolute Disability:** This disability is defined as an inability to perform any work. The benefit is a pension equal to 100% of the Regulating Base.

**Great Disability:** A person suffering such a disability would require constant attendance. The benefit is a pension equal to 100% of the Regulating Base + 45% actual minimum base of contribution + 30% last regulating base, with a minimum of 45% of the pension without the complement.

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\*\* The Assessment Base is the Social Security Contribution Base. This base depends on the salary capped by the Social Security at a Maximum Social Security Contribution Ceiling (MSSCC).

### Medical Benefits

All employees, their families, and Social Security pensioners are covered for hospital and medical assistance. Those who are eligible must use clinics, medical personnel, and other facilities affiliated with the Social Security Administration.

Benefits include full medical services, emergency treatment, and hospital care. Prescribed medicines are free if dispensed by Social Security. Otherwise, they are subject to a 40% co-payment.

### Supplementary Pensions

CASER is a pioneer in the Spanish market in offering Individual supplementary Pensions.

In order to supplement the retirement pension provided by social security, individuals can purchase complementary pension insurance.

These supplementary pensions are linked to social security and have a target retirement benefit. They are comparable to savings plans. The benefit, which is paid as an annuity, can be built either through regular premium payments or via a single premium. Employers do not contribute to the premium.

Even though the law has been approved, currently, there are no tax incentives for these pensions, although there is expected to be favorable tax treatment in the future. IGP's Network Partner, CASER, offers an individual supplementary pension product.

## Private Benefits

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### Retirement Benefits

Complementary private pension plans usually have a target retirement benefit (inclusive of Social Security) that is equal to 70% - 80% of final annual salary, or of the final two years' average salary after a full career. Complementary private pensions for permanent and total disability and for widow's and orphans' pensions are also available, with percentages similar to those granted by Social Security but calculated on the projected retirement pension.

### Group Life Insurance

Social Security does not provide death benefit.

Such benefits are consequently offered through private insurance. The insured volumes are directly related to the business collective agreement or wages.

A frequent rider offered to the death benefit is coverage for permanent and total disability. The benefits are identical for both coverage.

### Group Health Insurance

Due to the fact that Social Security has historically provided a high level of services, the development of this benefit only started a few years ago.

Since June 1972 all employees have been covered by Social Security Health care. Nevertheless, some insurance companies do offer privately insured medical plans that may be underwritten individually or on a group basis.

These policies are attractive to those who consider Social Security's facilities inadequate and who have sufficient purchasing power to pay for this coverage. Some corporations offer these plans to their employees due to tax treatment (the premiums are not considered as tax income up to € 500 per year). The demand for group health insurance is growing in the last few years and expected to continue its growth in the future.

## Basic Data 2011

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	<b>Value</b>	<b>%</b>
CPI Consumer Price Index	110.2	3.3
IPRI Industrial Price Index	121.3	6.8
IPI Industrial Production Index	81.3	6.6
GDP. Gross National Product (millions €)	267,858	0.6
QLCS Wage cost per worker/month €	2,441.49	0.3
Activity Rate (%)	59.99	0.24
Unemployment Rate (%)	20.33	1.49
Mortgages created Average amount €	115.07	-4.0
Total Population (thousands)	47,021,0	0.6
Foreign Population (thousands)	5,747,7	1.8

## Interest Rates

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EURIBOR 12 months: 1.72% (February 2011)

## Currency Rate

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Spain was in the first group of countries that entered the European Monetary Union (Euro zone) on January 1, 1999.

Directive 80/987 of the European Union required that Member States take measures to protect the interest of the workers in meeting the pension commitments assumed by employers in case of their possible insolvency. A pension agreement is defined as any commitment, derived from legal or contractual obligations of a company with its personnel, linked to any contingencies for payment of retirement pensions, death, or disability benefits.

This procedure was developed in Spain in the possible strictest form: Legal rules established that pension commitments assumed by companies should be financed through insurance contracts, pension plans or both. Any other financial system, and especially “book reserves” plans (also known as “internal reserves”), maintaining ownership of the funds by the employer is prohibited.

This law was officially implemented by Royal Decree 1588/99 on October 15, 1999, making non-funded pension obligations illegal after November 16, 2002. Under this law, all pension promises, including book reserve plans, must be funded under either a life insurance contract or under a tax-qualified pension fund. Employers, who do not comply with the law by the deadline, are subject to significant penalties. However, an exceptional compliance deadline until December 31, 2006, applies to all those retirement bonuses (lump-sum) that are included in external company agreements (sectarian, provincial, etc.).

The standard technical interest for insurance policies remains 2.60% effective January 1, 2010. In addition, Insurance Companies can offer a % profit sharing for the difference between real investment return and technical interest rate (2.60%).

As a result of the May 19, 1994 Law of Labor Reform and the May 16, 1997 Regulations, several significant changes have appeared in the workers' legislation. Among them are the following:

- a) Easier conditions are available for employers to move workers geographically.
- b) Substantial modification of individual or group working conditions (hours of work, shifts, retribution system, performance and efficiency systems, duties) can be established by the management whenever proven economical, technical, organizational, or for reasons of production.
- c) Suspension of the working contract due to economical, technical, organizational, or productive causes, or as a result of compelling reasons, is possible at the employer's initiative. Dismissal indemnity in those cases will be 20 days of salary per service year, instead of the standard 45.
- d) Regulation of Practical and Apprenticeship Contracts and part-time work contracts.

- Practical Work Contract:

This group is for qualified individuals or those having a certain degree as determined by the Sectorial Collective Agreement. In the four years following graduation, they can apply for this type of contract according to several requirements:

- The job must provide opportunities for acquiring professional experience related to the studies attended.
- Duration: Between six months and two years.
- Remuneration according to the Sectorial Working Agreement amounting to at least 60% of the normal salary for a similar position and 75% during the second year.

- Apprenticeship Contract:

- This type of contract is for unemployed workers who require specific training to reach a particular level of qualification.
- Eligibility: Individuals over 16 years old and under 21 years old who are not entitled to apply for a Practical Work Contract, and handicapped persons.
- Duration: In general, over six months and under two years.
- Remuneration according to the Sectorial Working Agreement and never under the minimum inter-professional salary.

- Part-Time Work Contracts:

- Whenever the worker's job is lower in number of working hours in a day, week, month or year to what is considered normal in whatever activity during those periods of time.
- Duration: For an indefinite time or determined time.

- Employment Promotion Contracts:

- Provides for a special involuntary termination indemnity of 33 days pay per year of service (maximum 24 months' pay).
- Eligibility: Individuals between 18 and 29, those over 45 years old, long-term unemployed or handicapped workers.
- Duration: For an indefinite time.

e) Conversion of fixed or temporary contracts to indefinite contracts: Social Security credits, equal to 40% of company contributions, will be granted for employers that hire new workers with work contracts of an indefinite time period. Credit is provided for a period of up to 24 months.

If a fixed or temporary contract is converted to an indefinite contract, or if the contract is for a handicapped person, the credit will be increased to 50% for up to 24 months.

If a contract covers a long-term unemployed woman, who works in an under-represented field for women, the credit will be 60%. For any unemployed person over 45 years of age, the credit will be 60% for the first 24 months, and 50% thereafter.

f) Any individual, who is within three years of normal retirement and who meets the requirements for the Social Security pension, can reduce the work time and salary by 50% and begin receiving Social Security benefits.

A part-time employee must be hired as a replacement for the reduced work hours.

## Introduction

Spanish Social Security has developed rapidly since 1963, giving health protection at present to the entire population and covering for pensions nearly 100% of all private company employees. The total number of persons contributing to the system is 17,7 million.

In 1972, Social Security initiated some important change. Up to that time, both contributions and benefits were calculated from a Tariff Base that included 12 professional categories. In 1972, Social Security resolved that real salaries would be the basis for contributions and benefits, and created the Complementary Base as an instrument that would aid the transition from one system to the other. The real salary goal should have been reached in 1975, but economic difficulties made it unachievable.

During 1978 both bases continued to exist. In practice, the real salary objective had been reached for a large percentage of the population. This fact, together with the existence of one general contribution rate (except for contingencies such as labor accidents, work-related illness, and unemployment) allowed for the establishment in 1979 of minimum and maximum bases that were substituted for the previous Tariff and Complementary Bases.

Excluding unemployment, labor accidents and work related illness, the Social Security budget for 2011 is € 124 billion. This budget is allocated in the following manner: 91,16% for pension payments; 1.31% for health care (the largest part is paid by the local governments), and the remaining 7,53% divided between family allowances, sickness, and other social services.

Contributions to Social Security represent approximately 28.3% of the total labor cost, which is higher than in other EU countries. The ever-increasing requirements of Social Security have produced a situation, whereby a revision of Social Security has become an urgent matter actively being discussed.

On August 1, 1985, the first announced Reform of Social Security took place, affecting essentially old-age and permanent disability pensions. The law introduced a revaluation guarantee of pensions according to the Consumer Price Index; applications for pensions were possible even if the applicant was not contributing to Social Security at that moment; the minimum contribution period to qualify for pensions was fixed at 15 years; and the calculation of the Regulating Base for old-age and permanent disability pensions was extended to cover the last eight years of contributions.

### Assessment Base:

The annual minimum and maximum assessment bases in effect for 2011 are shown in Appendix A. The maximum annual base for all categories now reaches €3,230.10 (monthly) and €38,761.20 (annually).

In the past, the maximum base increased at rates that surpassed those of salary increases, although recently this tendency has slowed.

### Contribution Rates:

<u>Year</u>	<u>Basic Social Security Contribution Rate</u>
1995-2010	28.3%

The 28.3% basic contribution rate is broken down as follows: 23.6% paid by the employer and 4.7% paid by the employee.

For labor accidents and work-related illness, special contributions are established depending on the professional activity and are paid exclusively by the employer. Contributions for labor accidents, work-related illness, and unemployment are based on real salaries up to an annual ceiling of €36,889.20.

Additional contributions are applied whenever the use of overtime exists. If overtime is beyond the control of the employer or is paid for reasons defined in the respective Collective Agreement, the overtime contribution rate is 12% paid by the employer and 2% by the employee. Mentioned reasons may be unforeseen orders, seasonal production requirements, and other reasons that may not be substituted by the hiring of new employees. If overtime is not in response to one of the above reasons, the contribution rate is 28.3%. These contributions have the sole effect of penalizing work hours above established hours that do not have any benefit counterpart.

There is an additional Guarantee Salary Fund contribution that was first established in 1977 to guarantee payment of overdue salaries and Social Security contributions for companies that become insolvent or which are in serious financial difficulties.

	<u>Rate</u>	<u>Employer</u>	<u>Employee</u>
Social Security	28.30%	23.60%	4.70%
Unemployment	7.05%	5.50%	1.55%
Guarantee Salary Fund	0.20%	0.20%	0.00%
Professional Development	0.70%	0.60%	0.10%
<b>Total</b>	<b>36.25%</b>	<b>29.90%</b>	<b>6.35%</b>

Employers pay additional contributions for overtime and labor accident risk.

The evolution of contributions can be found in Appendix B.

### Retirement Benefits

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The normal retirement age is 65 for both men and women, except for employments that are considered toxic or dangerous.

Beneficiaries must have 15 years of contributions of which at least two years must be included in the 15 years immediately before retirement.

Early retirement is possible after age 60, provided that the retiree had contributed to Social Security prior to January 1, 1967, or after age 61 if he contributed for at least 30 years, and proved that unemployment of more than 6 months is involuntary. A linear reduction of 8% is applied for each year prior to age 65. For employees with more than 30 years of contributions, there is a lower annual reduction as follows:

- Between 30 and 34 years of contributions: 7.5%
- Between 35 and 37 years of contributions: 7%
- Between 38 and 39 years of contributions: 6.5%
- If 40 or more years of contributions: 6%

There is no compulsory age for retirement.

A pension equal to 100% of the Regulating Base\* after 35 years of contributions, following a scale that starts with 50% after 10 years of contributions and increases at an annual rate of 2%. For retirement after 65 the Regulating Base increases at an annual rate of 2% per year more of contribution and after 40 years of contribution this % increases at an annual 3% per year more of contribution.

A minimum annual pension has been established for 2011 that is equal to € 10,388.00 for retirees with a dependent spouse, and € 7,985.60 for retirees without a dependent spouse.

A maximum pension equal to € 34,526.80 per year has also been established.

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\* The Regulating Base is the annualized average of Social Security Contributions of several months (depending on the contingency) that is used to calculate the public benefit/pension.

## Regulating Base

In 2000, the Regulating Base is obtained by calculating the average of the Assessment Base during a 12-year (144 months) period immediately prior to retirement. In 2001, the average of the Assessment Base during the previous 13 years (156 months) was used, and in 2002, the average of the previous 15 years (180 months).

The Assessment Base during the 24 months immediately before retirement will be calculated at their nominal values. The remaining Assessment Base will be updated in accordance with the change in the Consumer Price Index from the corresponding months up to the month before the period of Assessment Base (month 25).

## Benefits

Pension equals to 100% of the Regulating Base\* after 35 years of contributions, following a scale that starts with 50% after 10 years of contributions and increases at an annual rate of 2%. For retirement after 65 the Regulating Base increases at an annual rate of 2% per year more of contribution and after 40 years of contribution this % increases at an annual 3% per year more of contribution.

A minimum annual pension has been established for 2011 that is equal to € 10,388.00 for retirees with a dependent spouse, and € 7,985.60 for retirees without a dependent spouse.

A maximum pension equal to € 34,526.80 per year has also been established.

All employees enrolled in Social Security on or before January 1, 1967, have a right to an early retirement pension commencing from age 60. These pensions will have the following reduced percentages:

<u>Age</u>	<u>Percentage</u>
60	60%
61	68%
62	76%
63	84%
64	92%

For employees with more than 30 years of contributions, there is a lower annual reduction as follows:

- Between 30 and 34 years of contributions: 7.5%
- Between 35 and 37 years of contributions: 7%
- Between 38 and 39 years of contributions: 6.5%
- If 40 or more years of contributions: 6%

## Death Benefits

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### Qualifying Criteria

500 contribution days within the last five years before death or if already retired.

### Regulating Base

The base is obtained by calculating the average of the Assessment Base during a 24-month period, selected from the last 15 years.

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\* The Regulating Base is the annualized average of Social Security Contributions of several months (depending on the contingency) that is used to calculate the public benefit/pension.

## Benefits

### a) Spouse's / domestic partner's Pension:

- 52% of the deceased employee's Regulating Base if he or she was still employed at the time of death.
- 70% if there are family dependents and this pension is the main or only source of income.

If the deceased was a pensioner, the spouse will receive 52% of the Regulating Base used to calculate the insured's pension, plus all the pension revaluations from the moment the insured became a pensioner until his or her death. The maximum limit of 60% of the original Regulating Base is used for the calculation of the retirement benefit.

**Both types of spouse's pensions have a minimum depending on age: €8,419.60 if the widow/er is aged 65 or older, €7,875.00 if the widow/er is aged 60-64, €6,374.20 if the widow/er is below 60 years of age and has no family dependents, €9,735.60 if the widow/er is below 60 years of age and has family dependents.**

### b) Orphan's Pension:

#### Eligibility:

The children of the deceased, whatever the legal nature of their relationship.

The children of the surviving spouse brought to the marriage, as long as this took place two years before the death of the insured, had lived at his expense and also do not have the right to another Social Security pension, nor are there family members with the obligation and possibility of providing them with food, according to the civil legislation.

On the date of the insured's death, the children stated in the two paragraphs above must be:

Under 18 years of age or over 18 with a reduced work capacity at a percentage valued at a degree of absolute permanent disability or outstanding disability.

Under 22 years of age, or 24 years of age if none of the parents survive, in cases in which the children are not carrying out lucrative work as self-employed or employed by another person, or when, doing so, the income they obtain in the annual calculation, is less than 75% of the minimum inter-professional salary which is fixed at any time, also in the annual calculation.

#### Benefit:

The orphan's pension is equal to 20% of the Regulating Base for each orphan, up to a maximum of 100%, including the widow's pension with a minimum of €2,571.80 per year. If the child has lost both parents there is a minimum of €6,374.20 per year.

### c) Relative's Pension:

20% of the Regulating Base whenever parents, brothers, grandsons, and grandfathers fulfill certain requirements, such as living with or are dependent on the deceased, etc. A minimum amount of €2,571.80 per year is payable for one relative.

## Disability Benefits

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### Temporary Incapacity

#### Qualifying Criteria

All employees suffering from injury or illness are eligible for benefits. A temporary incapacity situation is when an employee has a health problem and is unable to work. This situation can be maintained for a maximum of 18 months.

The employee must have completed 180 days of contributions during the 5 years preceding the onset of the disability or illness. No minimum period of contributions is required in case of work related accident or illness.

#### Regulating Base

Final month's Assessment Base.

#### Benefit

Employees are entitled to the incapacity benefit while they are under medical care, for a period of 12 months (with a possible 6 months extension). If the employee is still unable to work at the end of the 6 month extension period, but is still receiving medical care and recovery is possible, then benefits will continue but will be classified as provisional disability.

This benefit amounts to 60% of the Regulating Base and is paid from the 4th to the 20th day. From the 21st day of sickness, the benefit increases to 75% of the Regulating Base.

### Temporary Disability

#### Qualifying Criteria

Same as Temporary Incapacity; if the health problem continues and a recovery is expected, this situation can be extended for a maximum of 6 years by a Temporary disability. After that maximum period the employee will have to start working or be qualified as permanently disabled.

#### Regulating Base

(Same as Temporary Incapacity)

#### Benefit

The benefit payable is a pension equal to 75% of the Regulating Base. This benefit is paid until the insured is able to return to work or until declared permanently disabled, for a maximum of six years.

### Permanent Disability

#### Qualifying Criteria

If the person is under age 26 at the time of disability, the minimum period of contributions required is equivalent to one-half the time between his or her 16th birthday and the date of disability.

If the person is 26 years or older at the time of disability, the minimum period of contributions required is equivalent to one-quarter of the time between his or her 20th birthday and the date of disability. A minimum period of five years of contributions is required.

#### Regulating Base

Same as old-age pension, except in the case of partial disability, where the base for this contingency is the same as

that used to determine the benefit for temporary disability.

### Benefit

Once the employee is declared permanently disabled, the benefit depends upon the degree of disability.

#### a) Partial Disability

A degree of disablement of at least 33.3%.

The benefit payable is a lump-sum equal to 24 times the Regulating Base.

#### b) Total Disability

Inability to perform one's normal work.

The benefit payable is a pension equal to 55% of the Regulating Base. This percentage increases to 75% whenever disability occurs after age 55.

If disablement occurs before age 60, the employee has the option of receiving either a lump-sum equivalent or a pension when he or she attains age 60.

When the disabled is over age 65 and with a dependent spouse, a minimum annual pension of € 9,735.60 is granted. If there is no dependent spouse, the minimum annual pension is € 7,875.00.

#### c) Absolute Disability

Inability to perform any work.

The benefit is a pension equal to 100% of the Regulating Base with a minimum annual pension of € 10,398.00 to be granted. If there is no dependent spouse, the minimum annual pension is € 8,419.60.

#### d) Severe Disability

Disability that requires constant attendance.

The benefit is a pension equal to 100% of the Regulating Base + 45% actual minimum base of contribution + 30% last regulating base, with a minimum of 45% of the pension without the complement.

## Medical Benefits

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### Qualifying Criteria

All employees and their families and Social Security pensioners are covered for hospital and medical assistance. There is no minimum contribution requirement.

### Benefits

Benefits consist of full medical services, including general medicine, specialist care, surgery, emergency treatment, and hospital care. All of these services are provided in clinics and hospitals controlled by the Social Security Administration, and by doctors who are employees of the system. Home medical treatment, when necessary, is also available.

Generally, prescribed medicines are free if dispensed in a Social Security clinic or hospital but otherwise they are subject to a co-payment of 40% of the cost by the patient. For chronic or serious illnesses, patients pay 10%.

## **Family Allowance**

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### **Qualifying Criteria**

This benefit is payable when an unemployed worker has used up all unemployment benefits and has family liabilities (spouse and/or children under age 26) and when the total family income is less than 75% of the minimum inter-professional salary (€641.40 per month in year 2011)

### **Benefits**

75% (€ 641.40 per month in year 2011) of the minimum inter-professional salary, payable for six months, with a possible extension of up to 18 months.

## **Maternity**

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### **Qualifying Criteria**

Pregnant employees are eligible for benefits, if they have completed at least 180 days of contributions during the 5 years preceding childbirth or legal adoption date.

Effective as of January 2003, mothers who work away from home and who have children younger than age 3, are entitled to a special mother's allowance of € 100 per month per child (€ 1,200 annually).

### **Regulating Base**

Final month's Assessment Base.

### **Benefit**

The employee receives a benefit equal to 100% of the applicable Regulating Base. The six-week period prior to confinement is voluntary, but during the eight weeks following confinement she is required to cease any form of work. The voluntary period may be added to the mandatory eight weeks after confinement if not used beforehand.

## **Workmen's Compensation**

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In cases of death, incapacity, or disability caused by a labor accident or occupational disease, Social Security benefits become payable whether or not the employee has fulfilled the contribution requirements. The rates and benefits are based on real monthly earnings up to a ceiling regardless of the employee's occupational group.

In addition to the survivors' benefits, a lump-sum equivalent to six times the last monthly earnings is paid to the widow. This amount is increased by the last monthly earnings for each orphan up to a maximum limit.

### Permanent Injury without Disablement

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This category includes labor accidents that produce permanent injury but not disablement.

The lump-sum benefit varies according to type of injury, for example:

	€
Loss of an ear	1,510
Loss of index finger	1,870
Incapacity to move an elbow	1,600
Difficulty in moving right wrist	1,510

### Unemployment

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#### Introduction

Unemployment benefits are not included in Social Security and are, therefore, not included in the budget. They are financed 60% by employer/employee contributions, and the State contributes for the remaining 40%.

#### Qualifying Criteria

All persons, who are unemployed for any reason beyond their control, or who are only partially employed (i.e., those whose working hours and earnings have been reduced by at least 1/3) are eligible, provided they have completed six months' work and have made contributions to Social Security before the official declaration of unemployment.

#### Assessment Base

The average real salary of the last six months up to the annual Social Security ceiling.

#### Term of Benefit Payment

Unemployment benefits vary according to the length of time the employee has been contributing to Social Security, as shown in the following table:

<u>Contribution Period</u>	<u>Maximum Period During which the Benefit is Paid</u>
From 360 to 539 days	120 days
From 540 to 719 days	180 days
From 720 to 899 days	240 days
From 900 to 1,079 days	300 days
From 1,080 to 1,259 days	360 days
From 1,260 to 1,439 days	420 days
From 1,440 to 1,619 days	480 days
From 1,620 to 1,799 days	540 days
From 1,800 to 1,979 days	600 days
From 1,980 to 2,159 days	660 days
From 2,160	720 days

These maximum periods of benefit payments may be increased to 24 months for those cases in which this extension will enable the beneficiary to attain an old-age retirement pension. Likewise, the authorities have established exceptional measures that concern unemployed persons that have reached the maximum period during which the normal benefits are paid.

### Level of Benefits

During the first six months, the benefit will be 70% of the Assessment Base and the benefit will be reduced to 60% thereafter.

Minimum annuities are referred to the IPREM index. (Public indicator of revenue of multiples effects, it is the indicator in Spain for the calculation of the threshold of income to many effects such as help for housing, scholarship, subside of unemployment). The 2011 IPREM is equal to €532.51 per month: It is updated every year by law of budgets

- Minimum annuities without children under 26 years of age:  $80\% \text{ IPREM} * (1+1/6)$
- Minimum annuities with children under 26 years of age:  $107\% \text{ IPREM} * (1+1/6)$

Maximum annuities are referred to the IPREM index. (Public indicator of revenue of multiples effects, it is the indicator in Spain for the calculation of the threshold of income to many effects such as help for housing, scholarship, subside of unemployment). The 2011 IPREM is equal to €532.51 per month: It is updated every year by law of budgets.

- Maximum annuities without children under 26 years of age:  $170\% \text{ IPREM} * (1+1/6)$
- Maximum annuities with one child under 26 years of age:  $200\% \text{ IPREM} * (1+1/6)$
- Maximum annuities with more than one child under 26 years of age:  $225\% \text{ IPREM} * (1+1/6)$

## Retirement Benefits

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Pension plans that are complementary to Social Security have developed in a most irregular way.

Prior to 1972 Spanish Social Security benefits were alarmingly low. It would have been logical, at that moment, for a rapid expansion of private plans to take place, but this did not occur, primarily due to a lack of proper avenues for investment. Employers could only react one way—by improving Social Security contributions and, after that, by creating their own reserves or contracting with insurance companies who would offer pure endowment policies with very low interest rates in conformity with the investment laws in force at that time.

This meant that most of the existing plans were not funded, but simply considered retired employees as an addition to the active employees' payroll.

This situation was altered by the law of 1970 that liberalized, to a substantial degree, the investments of insurance companies. One year later, this measure enabled Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (CASER) to become the first insurance company in Spain to obtain authorization for a deposit administration contract.

Social Security itself changed in June 1972, making real earnings the center of the system, not only for contributory aspects, but also for benefits, while maintaining the same pension percentages as before the reform. This removed the need to complement Social Security for the majority of employees, retaining this necessity for only a small fraction (approximately 10%) of better than average paid employees.

Deposit administration plans have continued to grow in popularity. Additionally, the appearance of the Corporate Tax Law of 1979, together with the Pension Fund Law of 1987 and its accompanying regulations (issued in November of 1988) governing Trust Pension Funds, have had an important impact on the development of private plans funded outside the company.

The Royal Decree 1588/99 implemented the provisions of the insurance law of 1995, which requires all pension plans to be funded under either a group life insurance contract or a tax-qualified pension plan. Thus, non-funded pensions, including pay-as-you-go plans or book reserves, are illegal after November 16, 2002. Significant penalties will be levied against employers who do not comply.

The Pension Fund Law and its regulations represent the first comprehensive pension legislation in Spain. This Law provides for favorable tax treatment to be afforded to retirement plans that meet specified funding, nondiscrimination, filing, disclosure, and other requirements. Additionally, in order to have a qualified plan, a control committee has to be set up with a majority of employee representation.

Complementary private pension plans usually have a target retirement benefit (inclusive of Social Security) that is equal to 70% - 80% of final annual salary or of the final two years' average salary, after a full career. Complementary private pensions for permanent and total disability, as well as for widow's and orphans' pensions are also available, with percentages similar to those granted by Social Security, but calculated on the projected retirement pension.

## Group Life Insurance Plans

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Social Security does not provide a lump sum death benefit. For many years, this has made it possible for group term life insurance to be included in private benefit plans.

Insured volumes are typically related directly to wages and may range from one and a half to three years' salary.

A frequent rider provides coverage for permanent and total disability, in an amount equal to the death benefit. Double indemnity in case of accidental death is now getting more common.

## Group Health Insurance Plans

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Since June 1972 all employees have been covered by Social Security Health Insurance.

Nevertheless, some insurance companies do offer privately insured medical plans that may be underwritten individually or on a group basis.

These policies are attractive to those who consider Social Security's facilities inadequate and who have sufficient purchasing power to pay for this coverage. Some corporations offer these plans to their employees due to tax treatment (the premiums are not considered as tax income up to € 500 per year). The demand for group health insurance has been growing in the last few years and is expected to continue growing in the future.

## Company Retirement Benefits

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- 59% of the companies provide retirement benefits;
- 70% of the companies have all the employees eligible to join the plan;
- 57% of the companies define benefits on the base salary only;
- 74% of the companies provide a defined contribution plan, 17% a defined benefit plan;
- The defined contribution is typically between 4% and 8% of average base salary;
- The defined benefits cover 1.5 to 2% of earnings per year of service, with maximum pensions of 60% to 70% of final base salary after a full career;
- Normal retirement age in the plan is age 65;
- Typically the employee does not contribute for the pension plan.

## Life and Disability Insurance Benefits

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- 81% of the companies provide life insurance benefits;
- 70% of the companies have all the employees eligible to join the plan;
- Life insurance plans cover from one to three year's annual base salary (increase is depending on managerial level);
- In principle the life insurance benefits are paid as a lump sum;
- 81% of the companies provide disability insurance, mainly for salaried employees;
- The typical coverage for permanent and total disability is an amount equal to the life insurance benefit;
- 81% of the companies also provide an accidental death insurance, but limited to managerial employees (lump sum to double the life coverage).

## Medical Insurance Benefits

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- 63% of the companies provide medical benefits;
- 63% of the companies pay the premium for the employee only, and not or only partially for the partner and dependants
- 76% of the companies pay the premium for the employee and family members of senior executives;
- The monthly premiums for the employee range from €45 to €55;
- 65% of the plans have a maximum coverage per year;
- 53% of the companies separately cover dental benefits.

## Pharmaceutical Company (700 employees)

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### Pension Plan

Basis for Calculation of Benefits:	Average salary of last 60 months.
Eligibility Requirements:	Must be at least 25 years old and have a minimum of one year of service.
Level of Pension Benefits:	
<i>Old-Age Pension:</i>	1.5% per year of service of the positive difference between the average salary of the last 60 months and the Social Security pension of the last 60 months.
<i>Widow's Pension:</i>	Post-retirement is equal to 60% of old-age pension.
<i>Orphans' Pension:</i>	None
Financing Method:	Insurance Policy
Employee Contribution:	None

### Group Life Insurance

Life Plan:	A lump-sum equal to one time annual earnings for employees under age 30 and not belonging to the sales force. Otherwise, insured amount will be two times annual earnings.
Permanent and Total Disability:	A lump-sum equal to the life plan.
Employee Contribution:	None

## Metallurgical Company (40 employees)

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### Pension Plan

Basis for Calculation of Benefits:	Average salary of the last 24 months.
Eligibility Requirements:	<ul style="list-style-type: none"> <li>a) Over 21 years old</li> <li>b) Entered the company before reaching age 55</li> <li>c) Two years of service</li> </ul>
Level of Pension Benefits:	
<i>Old-Age Pension:</i>	2% of average salary of last 24 months per year of service, with a maximum of 35 years, less the Social Security pension.
<i>Widow's Pension:</i>	Post-retirement is equal to 60% of old-age pension.
<i>Orphans' Pension:</i>	None
Financing Method:	Insurance Policy
Employee Contribution:	None

### Group Life Insurance

Life Plan:	An amount equal to two times annual salary, according to a schedule.
Accidental Death:	Double Indemnity in case of accidental death.
Permanent and Total Disability:	A lump-sum equal to the life plan.
Employee Contribution:	None

### Chemical Company

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#### Pension Plan (25 Managers)

Basis for Calculation of Benefits:	Average salary of the last 24 months.
Eligibility Requirements:	Minimum one year of service.
Level of Pension Benefits: <i>Old-Age Pension:</i>	2.5% per service year, maximum 30 years, less Social Security pension.
<i>Widow's Pension:</i>	Post-retirement is equal to 60% of retirement pension.
<i>Orphans' Pension:</i>	None
<i>Permanent and Total Disability Pension:</i>	Equal to old-age pension.
Financing Method:	Deposit Administration Contract
Employee Contribution:	None

#### Group Life Insurance (300 Employees)

Life Plan:	A lump-sum equal to two times annual earnings, according to a schedule.
Accidental Death:	None
Permanent and Total Disability:	None
Employee Contribution:	None

**Electronics Company (60 employees)**

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**Pension Plan**

Basis for Calculation of Benefits:	Average salary of last two years.
Level of Pension Benefits:	
<i>Old-Age Pension:</i>	80% of average final earnings reduced by 1% of average final earnings for each year of credited service less than 40 years, and reduced by an additional 0.5% for each year of credited service less than 30 years, less Social Security pension.
<i>Widow's Pension:</i>	60% projected old-age pension less Social Security pension.
<i>Orphans' Pension:</i>	15% of the projected old-age pension less Social Security pension; 25% for full orphans.
<i>Permanent and Total Disability Pension:</i>	Waiting period of five years of service. Equal to old-age pension except the percentage increases to 100%.
Financing Method:	Insurance Policy
Employee Contribution:	None

**Group Life Insurance**

Life Plan:	A lump-sum equivalent to one times annual earnings, according to a schedule.
Accidental Death:	Double Indemnity in case of accidental death.
Permanent and Total Disability:	A lump-sum equal to the life plan.
Contributions:	Employer 67% and employee 33% of annual premium.

**Electronics Company (100 employees)**

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**Pension Plan**

Basis for Calculation of Benefits:	Average salary of the last 12 months.
Eligibility Requirements:	None
Level of Pension Benefits:	
<i>Old-Age Pension:</i>	With 25 or more years of service, 70% of the average salary of the last 12 months less Social Security pension. If service years are less than 25, the resulting old-age pension will be reduced by 4% for each year below 25.
<i>Widow's Pension:</i>	None
<i>Orphans' Pension:</i>	None
Financing Method:	Insurance Policy
Employee Contribution:	None

### Group Life Insurance

Life Plan:	An amount equal to one times annual salary, according to a schedule; management has coverage of two times annual earnings.
Accidental Death:	None
Permanent and Total Disability:	A lump-sum payment equivalent to the life plan.
Contributions:	Employer 19% and employee 81% of annual premium.

### Endowment Plan

This plan grants, as a lump-sum, 50% of the employee's insured amount in the life plan at age 65 with the condition that the employee retires. This plan is paid entirely by the employer.

## Telecommunications Industry (200 employees)

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### Group Life Insurance

Life Plan:	A lump-sum equal to 1.5 times annual earnings; those employees whose earnings are above Social Security's top maximum ceiling will have an additional lump-sum equal to 50% of the difference.
Accidental Death:	None
Permanent and Total Disability:	A lump-sum payment equal to the life plan.
Contributions:	Employer 68% and employee 32% of annual premium.

## Corporate Tax

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Update on the 2010 Corporate Tax

Among the new features we can highlight:

- the establishment of a reduced tax rate for businesses that maintain or create employment; i.e. 20% for the portion of taxable income up to € 120,202.41 and 25% for the remainder of the taxable income, provided that certain fundamental requirements are met.
- the rise in general withholding tax from 18% to 19%
- a new special regime for SOCIMI (the Spanish real estate trusts)
- special arrangements for financial leases.

The standard tax rate on corporate income is 30%. An important revision in Corporate Tax Law was announced on December 27, 1978 and became effective January 1, 1979. The new law, among other things, established in Article 13, Item d-3, states that assignments or allocations made by the employer on behalf of employee benefit plans, would be considered tax-deductible, as long as these plans were not self-administered.

In October 1982, the Regulations on the Corporate Tax Law appeared and clearly confirmed that in order to obtain a tax deduction, the disposition and administration of the funds had to be handled outside the corporation.

The Pension Fund Law of June 1987 and its accompanying regulations of November 1988 establish the requirement that, for a plan to be a tax-deductible expense for the company, it must be externally funded, and the cost must be allocated to the participants. This condition applies to both qualified and non-qualified plans.

## Tax Deductibility of Pension Plans

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Since 1979 all pensions have been integrated into the concept of taxable income by the General Income Tax Authority with regard to private persons. Corporations, as well as Social Security will withhold tax that will be returned to pensioners or employees in case the final tax settlement is lower than the amounts retained.

Retention percentages for salaries take into account the level of earnings, the marital status, and the number of children. The same retention scale as that applied to salaries applies to all types of pensions, but the withholding percentage corresponds to a taxpayer with one child.

New tax regulations effective January 1, 2008 including changes in contribution limits and benefits taxation are a new instrument for saving (PPSE). From January 1, 2008, this deduction is equal to the contributions made to any qualified plan, ( individual, Qualified Plan, PPSE) with the limit of those contributions: Personal and employer contributions may not exceed € 10,000 or 30% of annual tax income; for participants over age 50 the contribution limit is € 12,500 or 50% of annual tax income.

The employer is only allowed to contract one of these products: Qualified Plan or PPSE.

### Qualified Plans

Employer contributions to a qualified pension plan are tax-deductible. From January 1, 2002, an additional 10% deduction of contributions is applied to the final corporate income tax.

Contributions are considered allocated income to the employee, but the employee has a tax deduction for his or her own contributions and for the allocated income from employer contributions.

From January 1, 2008, this deduction is equal to the contributions made to any qualified plan with the limit of those contributions: Personal and employer contributions may not exceed € 10,000 or 30% of annual tax income; for participants over age 50 the contribution limit is € 12,500 or 50% of annual tax income.

Pension benefits paid under a qualified plan are taxable.

On January 1, 1999, a new Individual Income Tax law was enacted. From the point of view of group insurance, the main changes were as follows:

Group Life, Health Insurance: Premiums paid by the employer are not taxable up to € 500 per year for employee and dependants.

Worker's Compensation: Not taxable for the employee and deductible for the employer.

### Qualified Plans: (New Saving Insurance Product PPSE)

(Company saving plans) have exactly the same tax treatment, and advantages and drawback than Qualified Pension Plans. The difference between both instruments is the following:

**PPSE** have a legal obligatory guarantee for the contributions of the employer and employees. There are two main kinds:

- Traditional guaranteed interest plus profit sharing
- Long-term guaranteed interest based on matching assets and the liabilities cash flow.

**PPSE** works like an insurance contract so it's much easier to implement than a Pension Plan where you need a Control Board (Implementation entirely negotiated by employees' representatives and the company, Supervises the Plan, Number of votes on 50/50 basis, etc.)

So we think that PPSE would be a good instrument for small companies were there is not a strong trade or labor union that will prefer Qualified Pension Plans.

Employer contributions to PPSE are tax-deductible. From January 1, 2002, an additional 10% deduction of contributions is applied to the final corporate income tax.

Contributions are considered allocated income to the employee, but the employee has a tax deduction for his or her own contributions and for the allocated income from employer contributions.

This deduction is equal to the contributions made to any qualified plan with the limit of those contributions: Personal and employer contributions may not exceed € 10,000 or 30% of annual tax income; for participants over age 50 the contribution limit is € 12,500 or 50% of annual tax income.

### Non-Qualified Plans (Insurance Contracts)

If the retirement plan is not conform to the qualified pension plan law, employer can impute the premiums as income to the employee and tax at the marginal tax rate. If the employer imputes the premiums to the employee, the contributions are tax-deductible for the Company.

If the premiums are not imputed as personal income, the premiums are not tax deductible for the company when they are paid. Tax rebate is deferred to the moment the participants receive the benefit. At this moment, the benefits are considered as tax income for the employee.

Common practice is not to impute the premiums to the employee and wait for the deduction.

More information is available at the following official websites:

[www.seg-social.es](http://www.seg-social.es) Spanish Social Security – Information Available in Spanish, English, and French.

[www.ine.es](http://www.ine.es) Spanish National Statistics Institute – Information Available in Spanish and English.

### Appendix A: Social Security Monthly Contribution Assessment Base 2011

<http://www.seg-social.es>

<u>Professional Category</u>	<u>Minimum Base (per month)</u>	<u>Maximum Base (per month)</u>
1. Profession Requiring a University Degree Directors and Engineers	€ 1,045.20	€ 3,230.10
2. Experts and Assistants Holding a Degree	€ 867.00	€ 3,230.10
3. Office Heads and Department Managers	€ 754.20	€ 3,230.10
4. Technicians and Assistants not Holding a Degree	€ 748.20	€ 3,230.10
5. Administrative Staff	€ 748.20	€ 3,230.10
6. Subordinate Staff	€ 748.20	€ 3,230.10
7. Auxiliary Staff	€ 748.20	€ 3,230.10
8. Skilled Employee, First and Second Category	€ 24.94 (Daily)	€ 107.67 (Daily)
9. Skilled Employees, Third Class	€ 24.94 (Daily)	€ 107.67 (Daily)
10. Laborers	€ 24.94 (Daily)	€ 107.67 (Daily)
11. Apprentices (third and fourth year) and young people between the ages of 16 and 17	€ 24.94 (Daily)	€ 107.67 (Daily)

### Appendix B: Evolution of Social Security Contribution Rates

	<u>1990 - 1992</u>	<u>1993</u>	<u>1994</u>	<u>1995-2005</u>	<u>2006-2011</u>
<b>Employer</b>					
Social Security	24.00	24.40	24.40	23.60	23.6
Unemployment	5.20	6.20	6.20	6.20	5.5
Guarantee Salary Fund	0.40	0.40	0.40	0.40	0.20
Professional Development	<u>0.60</u>	<u>0.60</u>	<u>0.60</u>	<u>0.60</u>	<u>0.60</u>
<b>Total</b>	<b>30.20</b>	<b>31.60</b>	<b>31.60</b>	<b>30.80</b>	<b>29.90</b>
<b>Employee</b>					
Social Security	4.80	4.90	4.90	4.70	4.70
Unemployment	1.10	1.10	1.60	1.60	1.55
Guarantee Salary Fund	0.00	0.00	0.00	0.00	0.00
Professional Development	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>
<b>Total</b>	<b>6.00</b>	<b>6.10</b>	<b>6.60</b>	<b>6.40</b>	<b>6.35</b>
<b>Total Combined Contributions</b>					
Social Security	28.80	29.30	29.30	28.3	26.30
Unemployment	6.30	7.30	7.80	7.80	7.05
Guarantee Salary Fund	0.40	0.40	0.40	0.40	0.20
Professional Development	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>	<u>0.70</u>
<b>Grand Total</b>	<b>36.20</b>	<b>37.70</b>	<b>38.20</b>	<b>37.20</b>	<b>34.25</b>

### Appendix C: Old-Age Pension Scale

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Years of Contribution After	Percentage to be applied on Regulating Base
" 15 "	50%
" 16 "	53%
" 17 "	56%
" 18 "	59%
" 19 "	62%
" 20 "	65%
" 21 "	68%
" 22 "	71%
" 23 "	74%
" 24 "	77%
" 25 "	80%
" 26 "	82%
" 27 "	84%
" 28 "	86%
" 29 "	88%
" 30 "	90%
" 31 "	92%
" 32 "	94%
" 33 "	96%
" 34 "	98%
" 35 "	100%

For retirement after 65 the Regulating Base increases at an annual rate of 2% per year more of contribution and after 40 years of contribution this % increases at an annual 3% per year more of contribution.

### Appendix D: Retaining of employment and protection of the unemployed

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In the last cabinet of March 6, 2009 six social measures were approved due to the world financial crisis.

The royal decree law for maintaining and encouraging employment and the protection of the unemployed has been approved.

There are six measures, agreed by the government and social interlocutor, which are directed to provide coverage adapted to the unemployed workers, to stop the destruction of employment, favouring the maintenance of current employments and to stimulate the process of generating new working places:

#### Process of regulation of Employment (ERE)

The recently passed Law 27/2009, of December 30, on urgent measures for maintaining and encouraging employment and protection of unemployed people sets out that the part of the compensation that does not exceed the statutory severance payment for unfair dismissal (i.e. 45 days per year worked, with a maximum of 42 monthly payments) is tax free when an employee is dismissed following a collective dismissal procedure, with the prior approval of the relevant Labour Authority or for objective reasons, and provided that in both cases the dismissal is motivated by economic, technical, organizational, production, or major force reasons.

Thus, the tax treatment of compensation is comparable in both cases of unfair dismissal.

The workers affected by an ERE will be able to make compatible this situation with the accomplishment of activities that contribute to Social Security.

#### Postponement of payments to Social Security

No solvent and viable Company will have to close due to non-payment of Social Security contributions during 2009. The companies in crisis will be granted a postponement following the commitment on the part of the Company to maintain the existing employments.

### Rebate of Social Security Contribution

The Company that contracts a person receiving unemployment benefits with a minimum of three months in situation of unemployment, will be able to get a rebate of 100% of the employer's contributions to Social Security for this worker with a maximum duration of three years.

### Part-time contract

This measure will allow increasing the opportunities to get access to employment, and the quantity of the rebates will be increased for these contracts. Nowadays only who are in absolute unemployment can be included in it, a worker with a work-day lower than 33% is excluded from the rebate, since this worker is not in absolute unemployment.

### Reinforce of public service.

Increase of workers in the office of unemployment to guarantee the recognition and payment of the service.

### Waiting period for unemployment benefits

Elimination of the one-month waiting period for the payment of unemployment benefits.

## **The New VAT Rates, Effective Date July 1, 2010**

In Spain there are three different types:

- A standard rate of 16% which applies to the vast majority of goods & services.
- A reduced rate of 7%.
- A super-reduced rate of 4% which applies to goods and services of basic need.

From July 1, 2010 the standard rate of 16% will increase to 17%, the reduced rate of 7% will increase to 8%. The super-reduced rate will be kept at 4%.

By increasing the rates, the Government wants to collect 5,150 million euros between 2010 and 2011.

## **Anti –Crisis Measures**

1.- **Public Section:** Reduce the salaries of Public Employees an average 5% in 2010 and the salaries will be frozen for 2011 in which this reduction will be consolidated.

2.- **Pensions:** In 2011 the pensions are not revalued, except no-contributories and minimum pensions.

3.- **Retirements:** remove the transitional arrangements for partial retirement under Article 40/2007 maximum reduction of labor day to 75% at least a minimum of 6 years in the Company or minimum of 30 years of contribution to Social Security amongst others; it will come into force and there will be obliged fulfillment.

4.- **Baby-Check:** From January 1, 2011 the amount of 2,500 € has been eliminated.

5.- **Medicines:** In order to reduce furthermore the pharmacist cost, the number of units in each packaging is adapted to the duration of treatments.

6.- **Dependence:** Under the law of dependence, one of the bastions of the Spanish Government, the payment of retroactive benefits are eliminated.

7.- **Plan E for direct purchase of cars:** This plan has been eliminated.

8.- **Deduction for purchase of housing:** From January 1, 2011 the deduction for buying a house is eliminated for all persons who have a salary up €24,000.00 per year.

From those whose salary per year is less than €24,000.00 the Government has made (3) groups.

- a) Whose salary per year is less than €17,000, will continue with the tax relief (with a maximum of €9,015.00)
- b) Who has a salary per year between €17,000.00 and €24,000.00 the tax relief will decrease in linear form, until it disappears.
- c) Current mortgage maintain their rights.