IGP

# IGP Country Profile
## **Spain**

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# Customary employee benefits

## Death benefits

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 rider for permanent and total disability is frequently added in an amount equal to the death benefit.  Double indemnity in case of accidental death is now getting more common.

Complementary private pensions 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.

## Disability benefits

A rider for permanent and total disability is frequently added in an amount equal to the death benefit.

Complementary private pensions for permanent and total disability are also available, with percentages similar to those granted by Social Security, but calculated on the projected retirement pension.

## Medical benefits

Since June 1972, all employees have been covered by Social Security Health Insurance (NHS).

With relatively little regional differences in benefits and a uniform distribution of medical facilities across the nation, the benefits package provides access to a comprehensive range of healthcare services. However, there are still holes in the NHS coverage, despite its design benefits - dental care and medical supplies are the two most significant gaps. In addition, the Spanish NHS has long struggled with waiting periods for some procedures and secondary treatment.

In recent years, there has been an increase in the demand for group health insurance, and this trend is anticipated to continue. Some corporations offer these plans to their employees due to tax treatment (the premiums are not considered as taxable income up to € 500 per year).

## Retirement benefits

Pension plans that are complementary to Social Security have evolved substantially since the 1970s.*

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 are 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 must 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.

* Beginning in the 1970s, employers shifted strategies by enhancing Social Security contributions and later establishing their own reserves or contracting with insurance companies to provide pure endowment policies with low interest rates, complying with existing investment laws. Previously, most plans were unfunded, treating retired employees as part of the active payroll. The 1970 law significantly liberalized insurance company investments, leading to the first deposit administration contract authorization in Spain by CASER in 1971. In June 1972, Social Security reforms centered on real earnings for both contributions and benefits while maintaining the same pension percentages. This change reduced the need for additional Social Security support, affecting only about 10% of higher-paid employees.

# Legislative news

## Group life/pension laws

Effective January 1, 2021, the standard technical interest for insurance policies issued by the DGS (General Directorate of Insurance) is 0.54%. In addition, Insurance Companies can offer a percentage of profit sharing for the difference between real investment return and technical interest rate.

## Pension reform law

On January 1, 2023, Spain's government implemented a new law that makes numerous reforms to the country's old-age pension system, which include:

- Increasing Early Retirement Penalties
- Expanding Pension Deferral Bonus Options
- Eliminating Social Security Contributions for Certain Older Workers
- Establishing a New Sustainability Mechanism
- Adopting a New Benefit Adjustment Method
- Creating a New Social Security Agency

The law codifies many of the changes in the 2020 Toledo Pact and aims to improve the financial sustainability of Spain's pension system while bolstering the retirement security of current and future retirees. In addition, the European Commission is requiring Spain and other European Union members to enact significant economic reforms, including pension changes, for receiving a significant share of the bloc's €724 billion (US$820 billion) pandemic recovery fund established in February 2021.

The key provisions of the reform law (all effective January 1, 2023, unless otherwise noted) include:

### Increasing early retirement penalties

The contributory pension program continues to allow insured individuals to claim their old-age pensions up to 24 months early if they have at least 35 years of contributions (for voluntary retirement) or up to 48 months early if they have at least 33 years of contributions (for involuntary retirement, which occurs when older individuals become unemployed for reasons beyond their control, such as a business closure).

However, under the new law, the penalties for voluntary and involuntary retirement are now applied to the pension amount (rather than the regulatory earnings base used to calculate the pension) and on a monthly (rather than quarterly) basis.

In addition, the penalty rates for voluntary retirement have been redesigned so that they not only vary depending on the length of a pensioner's contribution record, but also the duration of early retirement (with the penalty rates progressively increasing for each month of early retirement up to the maximum 24 months).

Per January 1, 2024, the new penalty rates are also gradually phased in over a 10-year period for individuals who are currently subject to special early retirement penalty rules because they have higher lifetime earnings. Although the maximum penalties for involuntary early retirement have not changed, those retiring under this option can now choose to use the penalty rates for voluntary early retirement in the calculation of their pensions if they are more favorable.

### Expanding pension deferral bonus options

Individuals who defer claiming their contributory old-age pensions until after the normal retirement age can now choose to receive a 4% pension increase for each year of deferral, a lump-sum payment of up to €12,000 — depending on their base pension amounts — for each year of deferral, or a combination of these two bonuses. Previously, the only bonus option was a pension increase of 2% to 4% (depending on the length of a retiree's contribution record) for each year of deferral.

### Eliminating social security contributions for certain older workers

Workers and their employers are now exempt from paying most social security contributions if the workers have reached the normal retirement age and continue to be employed.

### Establishing a new sustainability mechanism

The law has established an Intergenerational Equity Mechanism (MEI) to replace the Sustainability Factor to maintain the financial balance of the pension system. (The Sustainability Factor was

was created in 2013 but was later discontinued.) Under the MEI, a social security reserve fund will be used to increase the income of the pension system from 2023 to 2032 consisting of 0.6% of the contribution for common contingencies, 0.5% company and 0.1% worker.

This item will serve as a reserve in the event that a diversion of pension spending is foreseen for 2050.

If (up to 0.2% of GDP per year) as of 2033, the European Commission's aging reports (Ageing Report) reveal a deviation from the expenditure forecast in 2050, the aforementioned Fund will be used, with an annual limit of 0.2% of the Gross Domestic Product (GDP).

## Adopting a new benefit adjustment method

Contributory old-age pensions will now be adjusted each January based on the annual change in Spain's consumer price index (CPI) registered in November of the previous year. However, if the previous year's CPI change was negative, no benefit adjustment will be made. This method replaces one based on a revaluation index, which linked benefit adjustments to several factors, including the pension system's revenues and expenditures. As a result of the new method, the government increased contributory pensions by 2.5% at the beginning of 2022.

## Creating a new social security agency

By July 1, 2022, the government approved additional legislation creating a State Agency for Social Security Administration that will centralize and modernize social security administration in Spain. Currently, the country's social security system is administered by several public entities, including the National Institute of Social Security (contributory pensions) and the Institute of Elderly and Social Services (non-contributory pensions and in-kind complementary benefits).

Spain's old-age pension system consists of contributory and non-contributory programs. To qualify for a contributory old-age pension, an individual must have reached age 66 and 2 months (gradually rising to age 67 by 2027) and have at least 15 years of contributions, including 2 years within the last 15 years before retirement. (The normal retirement age is reduced to age 65 for individuals with at least 37 years and 6 months of contributions.)

The non-contributory old-age pension is paid to individuals who have reached age 65, have resided in Spain for at least 10 years since age 16 (including the last 2 years before retirement), and have household income below certain limits.

# New contribution limits to qualified pension funds 2023

Limit for tax base deduction in plans

- Individual: 1,500 euros
- Employment plans: 10,000 euros = 1,500 + 8,500 (With the company's contribution equal to that of the worker, as minimum)
- For self-employed: a maximum of 4,250 euros or 5,750 euros per year if the contribution limit to individual pension plans of 1,500 euros is added. The 1,500 euros may come from the contribution from self-employed workers or self-employed to PPES (Simplified Employment Pension Plan).

# Typical employee benefits plans and benchmarking

## Company retirement benefits

- 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

- 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 depends 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 accidental death insurance but limited to managerial employees (lump sum equal to double the life coverage).
- Standard contracts administration
  - Annual premium payment in advance
  - Renewal Date: 1st January
  - 1 report per year highlighting contract composition for following year
  - Modifications based on contract additions, leavers, made annually
  - Mandatory that contracts be signed in Spanish
  - Mandatory to provide a provisional notice to current insurer (there is a 1-month notice period), in order to switch the contract

## Medical insurance benefits

- 63% of the companies provide medical benefits.
- 63% of the companies pay the premium for the employee only, and nothing or only partially for the partner and dependents.
- 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
- Cover includes:
  - Reimbursement of 100% of services within the network of contracted doctors and hospitals.
  - Reimbursement of 90% of services outside the network up to certain limits.

# Useful links

**Demographic information and macro-economic indicators**
CIA World Factbook (please select the country to review)
World Bank Group (please select the country to review)

**ICEA Statistics from the insurance market**
www.icea.es

**Unespa Spanish Management of Insurances companies**
www.unespa.es

**INVERCO Association of Investment Institutions**
www.inverco.es

**Social security**
www.seg-social.es

## More information on Caser Grupo Helvetia

**Your Local Link to IGP in Spain**
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