THE PORTUGUESE CIVIL SERVICE PENSIONS SYSTEM

By Eugenio Ramos

Fidelidade Mundial Insurance Company
Lisbon, Portugal

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Civil Service Dept. under the Lithuanian Interior Ministry
and Sigma

INTRODUCTION

1. It is a **privilege** for me to have the opportunity to speak to such a distinguished audience. Thank you, thus, in the first place, for your invitation. I hope I can meet the challenge and be of some help by bringing to you a résumé of our experience, in the past few decades.

To speak about **pensions** is not an easy task in the present days. On one hand, there is not much good news to bring into discussion. On the other hand, there are no easy solutions for the many problems that pensions systems are facing.

While focusing on the **Portuguese** civil service pensions system I will try to justify its development and its main characteristics in the light of the political and social evolution of the country – and, more broadly, in interaction with the global European evolution.

When concluding, I will try to resume the **lessons** that, from my perspective, may be learnt from our experience, hoping that they may be of some use.

SOCIAL PROTECTION IN PORTUGUESE CIVIL SERVICE

2. The Portuguese pension system is a part of a broad spectrum of specific legislation regulatory of the **public service**, developed along many years within a concept, common to other European countries, according to which there is a distinctive nature in public employment itself.

As a result, public servants have been granted **special conditions**, generally consisting of better benefices. This is a trend that, in most OECD countries, is being challenged nowadays, as one can notice a certain number of signs of greater harmonization with the private sector.

3. Beyond the pensions system in itself, which we will look at ahead more in-depth, specific conditions and regimes apply to public service employees in different aspects. Among these, one should mention:

- a centralized **health** expenses subsidization system — convention based —, that pays allowances to civil servants in order to compensate them and their families for health expenses, whenever they seek for care outside the National Health Service — which, according to the Portuguese Law, is universal and cost free. The civil servants contribute for this specific fund, that, in the late nineties, was paying around 600 million euros of allowances, with more than 80% of this amount (corresponding to 7% of the salaries) being funded directly by the state budget.
- **family** allowances — education, maternity and other family expenses are subsidized by the state budget, according to centralized rules but through decentralized operations. This means that the central and local agencies have the adequate reserves included in their annual budgets to provide and pay for these allowances. In the late nineties, too, the expenses with such allowances, together with the financing of a net of complimentary social services existing in some ministries — providing, for instance, some leisure services and support to children care -, rose to 1.5% of the salaries paid. In the late nineties, the rules governing this set of benefices have been mostly integrated with those of the private workers.
- a specific **career system** — with differentiated sub-systems applying to different professional groups, developed to allow generous rates of progression across the active duty, and conceived with a focus on the expectations of the personnel rather than as an incentive tool for better performance.
- a specific regime for vacations, holidays and sickness and other **leaves of absence.**
- a guarantee of **employment** for a life time, even in cases of redundancies caused by service extinction.
- a specific **disciplinary regime.**

THE ORIGINS OF THE PENSIONS SYSTEM

4. The pensions system is thus one more piece of a global mechanism that has distinguished civil servants from other employees.

5. From its inception, it was conceived as a **generous** model to pay old age civil servants pensions calculated in order to avoid a significant disruption in their income after retirement — be it as a consequence of old age or disability.

Those were times when not every worker servicing in the Public Administration was **entitled** to a pension — only those who were career civil servants did so.

Those were also times when the **salaries** of the civil servants were low and considered to be, in a general way, below the average of those working in the private sector — at least in most major and medium companies.

On the other hand, there was, at the time, no rule nor practice determining yearly **updates** of the salaries or pensions, and may be that was so because inflation ran slow.

6. As their salaries were at the time **exempt** of income taxes, they were fixed considering that they corresponded to the net earnings of the civil servants, to which no major deduction was made — to the exception of their contributions to their pensions system, (7% of the salary), as well as to their health support system (1%).

The system was run on a **distribution** basis, no reserve being made for future responsibilities.

At each month, the pensions of the retired civil servants were paid by using the money of the **contributions** deducted on the salaries of the civil servants on active duty. Whenever needed, money was transferred from the state budget to Caixa Geral de Aposentações (CGA — the public agency that pays the pensions to the civil servants) to make sure that there were no current imbalances.

So, instead of a fixed contribution from the state budget, as would be normally the case in the private sector, in the Portuguese civil service there worked a **"gap filling"** approach: according to this, there would always be money enough to pay the pensions and there was no connection between the money poured into the system by the state budget and a normal contribution from an employer. The value of the amount, each year, could be much more, or much less than a so called normal contribution. This particular aspect is referred because it added to the lack of transparency on the financing of the system and made it possible to hide, for quite a few years, either its real imbalance, when it started, or the extension of its continuous growth.

From its beginning, CGA enjoyed healthy current accounts, because the number of working civil servants was fairly high compared to the figures of the retired ones. The **C/B ratio** (contributors/beneficiaries) allowed for a number of years without current imbalances — although every year the responsibilities towards the working civil servants were growing without the existence of any reserving scheme.

The amount of the pensions paid, for a full contribution career (40 years) was equivalent to **92%** of the last salary.

7. CGA also pays **survival** pensions to the legitimate heirs of the deceased civil servants, whether they were already retired, or not, by the time they passed away. Its value is equivalent to 50% of the retirement pension that the civil servant was being paid or was entitled to, and it is divided, according to certain rules, between the surviving husband/wife and children living at the expenses of the deceased.

8. This was, in general, the situation we enjoyed by the late 1960's.

In 1972 and 1973 two major pieces of **legislation** integrated and updated dispersed rules concerning, respectively, retirement and survival pensions. From then onwards, everyone working in civil service, even on a contractual basis, was entitled to a pension under the same conditions as applied to career civil servants.

The vesting period was, for everybody, of 15 years of contributions, all previous length of time under a contract being eligible to this counting.

The number of serviced years for a full pension was reduced from 40 to 36.

People could then retire under one of the three following conditions: at 70 years old (compulsory); with a medical certification (by CGA qualified staff) of permanent disability for the service; and, by individual initiative, after having completed 60 years of age and 36 years of length of service.

Finally, the retirement pension for a 36 year length of service public employee was raised from 92% to 100% of the last salary — which meant to say that he got more money then than at the time he was working, because he ceased to contribute to CGA.

THE MID SEVENTIES

9. As we can see in **Table I**, by 1975 a workforce of 284 thousand people was able to finance two thirds of the expense with pensions paid to 52 thousand retired civil servants, as well as to 30 thousand beneficiaries of survival pensions. The average retirement pension was equivalent to slightly more than half of the average salary and the average survival pension corresponded to one third of the average retirement pension in course of payment. The needed transfer from the public budget reached only 3.45% of the salaries.

10. By that time, the economic, social and political situation in Portugal, which had been developing at a quick pace, was being speeded up as a result of the military **upheaval** that, in 1974, gave origin to a period of significant changes in the Portuguese way of life — some of them actually by means of comprehensive revolutionary disruptions.

As a result of a complex social and political evolution, the country managed to put an end to the conflicts it was fighting in three former colonies and thus granted or negotiated independence with five new African countries. On the other hand, new democratic institutions were set up and the country witnessed a movement of broadening of the economic and **social rights** of the population.

11. The **Public Administration** grew very rapidly in those days, as a consequence of the need for granting those rights. It also grew by absorption of a number of services or agencies that were not, at the time, considered as being public service. And, on top of this, the coming back of one million people from the former colonies (among which more than sixty thousand civil servants in overseas) added to the pressure on a civil service barely prepared to give an adequate answer.

By means of legislative innovation, all these new comers into the civil service were granted full rights of **membership** in the pensions system, as well as in any other relevant aspect of public service benefits.

This was naturally viewed as a **favourable** development in the current balance of CGA. The C/B ratio went up as far as reaching a figure of 5, which allowed for the easy financing of a significant number of new benefits that were gradually added up to the system: the contributions of a large number of full right civil servants kept the public budget transfers at relatively low — although growing — levels.

12. Among the main **innovations** decided upon during this period one should retain the following:

- the reduction of the vesting period from 15 to **5 years**.
- the definition of a **minimum** pension, of retirement (50% of official minimum wage) as well as of survival (25% of minimum wage), that is to say, a limit below which no one could be granted a pension. Whenever the calculation formula gave origin to a smaller figure, it had to be automatically increased up to that limit.
- the definition of the salary of a minister as the upper **limit** of pensions to be paid .
- the **enlargement** of the reference salary used to calculate the retirement pension insofar as to comprehend a number of extra specific allowances meanwhile introduced or reinforced in the payments of quite a number of professional groups within civil service.
- the **recovery**, in 1981, of all the retirement pensions in course of payment up to levels corresponding to at least 76,5% of the actual salaries.
- the beginning of the payment of a 13th allowance, every year in November — the so called **Christmas** allowance.
- the **rise** of the contribution rate from 7% to 8%.
- the introduction of improved conditions aiming at **early** retirement, with the easing of leaving active life, associated to bonus schemes.

THE MID EIGHTIES

13. By **1985** the number of public servants had more than doubled compared to ten years before, and the pace of growth of beneficiaries of both retirement and survival pensions was even higher. The average salary, as well as the average retirement pension, had lost some purchasing power, but the average contribution to the system stood close to inflation due to the abovementioned increase of the contribution rate. On the other hand, the average survival pension increased more than tenfold, owing to the accrued weight of the new — and higher — pensions coming out of the 1973 reform.

As a consequence of both the “volume effect” (numbers of beneficiaries) and the “price effect” (average value of pensions), the expense grew rapidly and the transfers from the state budget rose to the equivalent of 9.4% of the salaries, almost three times the ratio of 1975.

14. With more than one decade of intense political and social dynamics, it was now the time to stop and look at the system and its **prospects** of evolution.

Civil service and the CGA had gone a **long way** since the early seventies. The figures concerning people on active duty and beneficiaries of pensions had grown enormously, so had the benefits granted. The impact on the financial statements of CGA was thus considerable.

The first comprehensive **report** and long term projections for the system were presented to the government by the CGA board in 1986.

15. Bearing in mind the recent developments in the pensions system and in compliance with the new Law on Social Security (passed in 1984), that provided for a **convergence** process between the regimes of social protection of both private and public workers, the report suggested:

- a **revision** of the CGA regime, aiming at an integration with the private workers regime in the long term.
- a methodology for the **transition**, including a first set of harmonization measures, such as the levelling of minimum pensions and vesting periods; the equalization of increases in pensions; and the establishment of conditions for the granting of a unified pension, adding vesting periods from both regimes.
- the provision for local authorities and autonomous agencies to contribute as **employers** to CGA.
- the need for an integrated, long term **vision** of the system to be present at each and every decisional process on adding more benefits to it.

16. In particular, and having in mind the running rumours at the time and the growing demands from the unions, the report made some suggestions as to **“what not to do”** without previous research and granting of adequate funding — that is, if we were to have a system with balanced accounts then and in the years to come.

For instance, one should not establish new and higher standards of pensions recovery, beyond and over the 76.5%already applied; neither abolish the upper limits for the payment of pensions; or, last but not least, grant a new, **14th allowance** to each and every beneficiary.

17. It was also by that time, more than **twenty years** ago, that the first public draw of attention was made on the caution how the system should be dealt with. In a seminar with the unions of the local authorities (whose workers, in Portugal, are considered civil servants and entitled to the civil servants pensions system), the management of CGA called for moderation on the demands of the unions. It was then reminded that the pensions system was the “hen that lay golden eggs” of the civil servants. It should be well nourished and, if it where to keep on for many years, one should not put too much pressure on it.

Considering the comparatively generous regime their associates benefited from, the unions were then urged not to demand “everything, right now”, as they were used to; instead it was suggested that they started asking to be granted that the public workers would have “something enough, and sustainable, tomorrow”.

THE LATE EIGHTIES

18. In the late eighties two major **changes** took place with significant consequences on the financing of the pensions system.

First of all, the **tax reform** applied the whole tax system to the civil servants, by this meaning that the income tax would also be paid by the public workers. With this end, their salaries where increased in order to allow the civil servants to start paying the income tax while keeping their actual level of net income. This meant an average increase in gross salaries of 14% in a two year period.

19. The second major change was the approval of a new **pay system** in the civil service, aiming at more clarity and unity, a better equity of pay between the different professional groups and a better prospective for the career development of personnel. Implemented without the needed caution and mechanisms for growth control and without any linkage to performance appraisal and variable pay benefits, the results were disastrous for the public finances: an estimated immediate average increase of

public servant salaries, in late 1989, of 22%, and, in the medium term, the opening of a process of revision of the careers of all the main professional groups, ending with systematic additional wage increases. On top of this all, the pay system had imbedded the roots of automatic increases — on the grounds of accrued seniority —, which were responsible for an estimated increase of salaries of 1.5% a year, regardless and beyond career revisions and yearly increases on the base salaries.

Needless to say that there was no public service reform attached to this new system, that granted better service or other reduced costs as an offset for this accrued benefit.

20. So, in less than **five years**, the two main reasons that supported the existence of a specific and comparatively more generous separate pension system for the civil servants were overcome. Especially in what concerns the calculation formula (100% of salaries, because of tax exemption) and the consideration of only the last salary (on the grounds of lower pay).

In fact, the **salaries** in public service not only surpassed but went on growing faster than those in the private sector — because of the dynamics of the new pay system.

On the other hand, they were now established in **gross terms** and allowed for easier comparative analysis.

And yet, no measures where taken, specially as for starting the **convergence** of pensions systems within the country, as mandatory according to the Social Security Law — dating back more than ten years, at that time.

21. These significant **increases** in salaries, put in place on a systematic basis, year after year, through tax upgrades, a new pay system, sky rocketing careers, annual adjustments beyond inflation rates, and automatic upgrades in pay levels, resulted in a substantial and immediate rise of the **average contribution (AC)** to CGA, with positive consequences on its current balance. On the other hand, they also resulted in higher responsibilities in terms of future pensions to pay, so much more important as the system was based on the last salary and not on the whole of the contribution career.

There was some thought, then, that a window of opportunity was available, and some time was granted to prepare the needed steps to provide for the sustainability of CGA. In fact, the increase on the expense side, as a result of the growing levels of pensions would **supposedly** came up only within a few years time…were it not for two major measures taken not long afterwards, in 1990 and 1991.

22. In early 1990 the government decided to start paying to the retired civil servants (as well as to the retired workers of the private sector) a 14^{th} monthly allowance, due every June — the so called **vacation** allowance, which resulted in a real 7.5% increase in permanent expense.

The next year another a comprehensive general increase in pensions was decided, close to a general elections campaign and in response to demands of the associations of retired people — urging for an **update** in line with the recent upgrades in the new pay system for personnel in active duty.

Meanwhile the **C/B rate** was declining as a result of a slower entry of new civil servants and a high number of new retirees — who had been holding their retirement moment waiting for the benefits of the new pay system.

23. As a result, and once again both by means of the “number effect” and the “price effect”, the **imbalance** in CGA of was growing rapidly every year.

By 1990, and considering the last five years, the pace of growth of the number of civil servants was less than **half** the increase of retired public workers and less than one third that of beneficiaries of survival pensions — in this last case because of the integration in CGA of a group of pensioners that was previously depending directly on the Finance Ministry.

The average salaries and **contributions** increased at a rate approximately the double of inflation, as the pay rises were immediately effective on every civil servant. As for the average retirement pension, only the new ones benefited directly from the pay reform, so the consequences of this would come up gradually in the next five to ten years.

The average survival pension rose only marginally above inflation because of the referred entrance of a **new group** of beneficiaries, which perceived at the time undervalued pensions.

As a consequence of the huge increases in salaries deriving from the new pay system and the tax reform, and of the transition from 12 to 14 months of contributions per year (additional 17% increase in contributions), the CGA current balance reached a **peak** of financial autonomy (0.65) and the transfer from the public budget fell down to 5% of salaries.

THE MID NINETIES

24. By mid nineties a new **report** was prepared, including an analysis of recent years, projections of the situation if no corrective measures were taken and a set of mild proposals that would start reversing the imbalance and hold the system for a number of years enough to eventually confirm the need for much more caution in the future if we were to keep it without major disruptions.

25. The first conclusion was that all the measures that the rapporteurs in the first document, seven years before, urged the legislator not to take, because things could only get worse… had in fact been **taken**! The vacation allowance was granted; a new process of upgrading the retirement pensions in course of payment was decided and processed; and the limits on upper values of pensions were abolished!

26. As a consequence, the financial **buffer** disappeared in one shot and the difference between private and public regimes widened: average retirement pensions, that used to be 3 times higher in CGA, were now four times those of the private workers, as an average.

The benefits granted were **unnecessarily** and unrealistically increased and all the structural parameters that one can control were used in the wrong direction: be it the calculation formula; the reference salary; or the number of allowances per year.

27. Even worse, the first years of the nineties proved, to the full extent, the seldom recognised social and economic **uselessness** of some of these measures. For instance, the 14^{th} allowance, a real gain of 7.5%, was lost during the next three years, when budget constrains led to pensions updates below inflation in an accumulate loss of 7%! As a result, from then onwards, the retired civil servants kept receiving the same real pensions as before 1990 — only in 14 instalments instead of 13, each year. And, if this was not generally noticed at the time, it was because it went along with the significant recovery of pensions levels above mentioned.

It ended up, as often happens, being a kind of a game of " give it and take it", as the structural parameters that define the financial balance of the system were not tackled at all — and when they were, it was not to make things better.

28. After projections on a "no-reform scenario" basis, the report suggested a set of **measures** to start balancing the situation in CGA.

According to the proposals, in a 4 years transition period, the measures related to the **"volume effect"** included:

- rising the vesting period to ten years.
- closing down the possibilities of early retirement.
- closing down the possibility of retirement at the age of 60 with a contribution career of 36 years.

These measures would reduce the number of new retired public workers in as much as **30 thousand** and would bring, in 8 years, the transfer from the state budget down in 5 percentage points of the salaries of public workers, compared to the situation projected in a "no reform scenario".

29. As for the **"price effect"**, it was suggested:

- that the contribution effort of the civil servants should gradually rise 2 percentage points, from 10% to 12% (this extra income being used for the funding of individual accounts managed on a capitalization basis).
- that the replacement rate of salaries by the new pensions would fall from the suicidal figure of 100% to 88%.
- and that the needed number of vesting years to get the right to a full pension would rise to 40, from the actual 36.

This would save an additional **8 percentage** points of salaries to the transfer from the state budget, at the end of the 8 year projection period.

30. Moreover, these measures would in fact mean an intermediate regime, in a **convergence** mood with the general system of the workers of the private sector, much more balanced and moderate in the benefits granted.

(In fact, in 1993, one of the few realistic and far-reaching decisions ever taken by a government in this area established that every newcomer into the civil service would have a pension calculated and updated according to the system applied in the **private** sector. Of course, the bulk of the financial consequences of this measure would be felt only beyond 2030, and CGA wouldn't stand up to a growing deficit of such proportions until then.)

31. It was then that something peculiar happened: after a **leak** of information from a ministerial cabinet, even before they could be analysed for further discussion, the main proposals were granted full first page in a weekly newspaper. That very same day, the unions shouted angrily…and the report was put aside.

(Today, all these recommendations are being implemented, with the sole difference that:

- twelve years have passed since then.
- the CGA deficit rose the equivalent to 18 percentage points of the salaries.
- the eventual increase in civil servants contributions will not go to individual accounts. And
- the taxpayers have had to pay an extra bill of ten billion euros — the accumulated CGA deficit in this lapse of time).

32. By **1995**, as a result of a serious effort to halt the growth of public service, together with significant numbers of new retirees, public employment fell for the first time. Again, the number of retired people more than doubled in ten years time and the C/B ratio (2.17) turned to be less than half of what it was twenty years before.

Average salaries almost doubled inflation during the period and average contribution and average survival pension more than tripled it. And, last but not least, average retirement pension grew **four** times as much as the increase in prices.

The financial autonomy of CGA (0.33) fell down to half of what it was five years before and, notwithstanding the significant increase in income (derived from increases in salaries, contribution rates, and net contributions from public employers such as local authorities), the state budget transfer needed to balance CGA current account more than tripled as a percentage of salaries, reaching **15 percentage points**.

THE LATE NINETIES

33. Considering this situation and the likelihood of its constant aggravation — now that there was not much left to do to raise the income of the system and the expenses showed an irresistible trend upwards — one might think that the time had finally come when a **realistic** approach to this issue of well balancing CGA would be put in place.

Unfortunately, that was not the case. The last half of the nineties turned to be the last **lost** opportunity for a mild intervention.

The improvement of the economic and financial situation in the country could and should have been used to take the adequate steps to **reinforce** the CGA prospects, while not demanding sacrifices or significantly diminishing expectations to public servants and retirees. Instead, the fall of the interest rates, the money from privatizations and the gains in the economic side were mainly driven to boost consumption up to a level were we now are, with families, private and public companies and the state budget highly indebted.

34. During this period, a set of **new benefits** were granted, both for actual and for retired civil servants.

The new pay system proved to be a cause for enormous growth in salaries, most of these automatically granted.

The **career system** ended up in a chaotic situation, as a result of scattered and non coordinated decisions to please each and every single professional group that went on strike and demonstrated in the streets. And even the retired civil servants were granted accrued benefits (all the pensions set before 1989 were recalculated based on 100% of the actual salary of reference), in a system showing a current deficit going beyond 20% of the whole expense.

35. There is injustice and incoherence about this situation, when one considers the behaviour of the main decision makers.. Knowing our fiscal and our social security systems, one easily understands that most of this deficit is paid by the 4.5 million taxpayers that work in the private sector (be it under the form of income tax or consumption tax). This group of people earn, as average, salaries that amount to **50%** of the average salary of civil servants. On the other hand, their average pension is equivalent to **25%** of the average pension in civil service.

The incoherence about this situation is that the unions are the same — at least, their federations — for both sectors, and that their leaders, who speak constantly in terms of **solidarity** between generations, very seldom forget solidarity within the same generation of workers. About the meaning of the funding of CGA deficit, nothing clear and straight is to be heard from the top leaders of the Portuguese unions.

36. In **2000**, as a result of wrong recruiting policies, the number of civil servants grew by more than one hundred thousand, although during this period 90 thousand civil servants retired! Again, the increases of their salaries almost doubled total inflation in the period.

As for average pensions, retirement and survival, their increase was more than three times the one of the price index. The relevant ratios of sustainability went **down** once more.

The expense grew four times the accumulated inflation and the needed transfer from the state budget did so five times: it reached, by then, 615 million euros, the equivalent to **18%** of the salaries of public servants.

THE TURN OF THE CENTURY

37. At the beginning of this decade some major changes occurred that made the Portuguese economy and society start a move back to **reality**.

For several years we had been ignoring the signs and the needs for a set of deep reforms in areas such as Education, Health, Justice, Public Administration, Social Security, and Regional and Local management, just to mention a few.

Among other factors, the introduction of the European currency, the need to comply with the Maastricht criteria, and the agreements within the World Trade Organization finally made us understand and (hardly) accept that there are no free lunches and that a **new** perspective and a new attitude has to be the rule among us.

38. We are, of course, not alone, in Europe. The nature of problems is very similar within many countries. But the **degree**, i.e., the extent to which the problems affect us is perhaps greater that in elsewhere.

So:

- facing a public deficit that went far beyond the 3% agreed.
- witnessing the systematic closing of businesses (either because they are no longer competitive, once the devaluation of the Portuguese currency is not available and the euro is stronger than anticipated; or because international companies look for other locations with more qualified and cheaper labour).
- tackled by the dismal functioning and lack of response of the Public Administration as a whole,

the actual government has had to start (or continue some previous shy initiatives of) an impressive set of **reforms.**

These are **intended** to control public expenditure, bring the deficit down, stimulate economic regeneration, bring efficiency to both Central, Regional and Local Administration and the various subsystems — and, if possible, combine all this aims with the improvement of social protection for marginalised groups while keeping, for the rest of the population, the essential of social rights.

39. Bearing in mind the extension of the problems and the figures included it is going to be a very **tough** task and it will take quite a few years to accomplish it. It is, nevertheless, needed. There is no way around.

It is not, it has to be said, a matter of political courage or the result of an enlightened capacity of vision and resolve. Many of the actual people in charge were the same that ruled us in the late nineties, and had or let things get to where they are now. The new fact is that we have meanwhile reached the **limits**. There is no money and there is no credit, now: 6% of public deficit was the double the amount agreed to in Maastricht.

40. The high **cost** of functioning of Public Administration as a whole, and, in particular:

- the skyrocketing deficits of the national health service.
- the appalling inefficiency of the educational system.
- the obscene deficit of CGA. and
- the anticipation of the current deficits of the social security of private workers, due to rising unemployment,

led to an unsustainable situation that let no margin but to a **brutal** adjustment in many areas.

41. By 2005, a slight reduction occurred in the number of civil servants, as a result of both higher constrains to recruitment and a large movement of going into retreat, anticipating measures that were being announced or applied in order to (finally) stop early retirement and reduce the value of new pensions. The C/A ratio for the first time came **below 2**.

Average salary again increased over inflation (10 p.p, notwithstanding control measures taken since 2002), and average retirement pension followed close. As for **survival** pensions, their major increases are yet to come in the next years as they normally follow increases in new retirement pensions with a delay of 14 years — the average duration of a retirement pension.

The sustainability ratio of CGA reached its lowest point so far (0.24), with its deficit climbing to **1.5 billion** of euros, as a result on an expense with pensions that grew three times as much as inflation.

The transfer from the state budget was equivalent to **23%** of the salaries, 5 p.p. more than five years before, and despite the significant increase in contributions from local authorities and autonomous agencies.

42. The recently increased efficiency of fiscal administration, together with the already heavy burden upon the taxpayers, makes it difficult to rely on accrued income to meet the bulk of the budget deficit. Moreover, the prospects for real increases on GDP are not so bright as to make us forget the only real alternative, i.e., the need to **cut** public current expenses.

43. National health service aside, the two main items under concern are the current budget of Public Administration, which means mostly salaries; and the ever rising deficit of CGA. No wonder that the tackling of the situation has so much to do with wages, careers and pensions — needless to say, with civil servants, either **on duty or retired,** not surprisingly the same groups that, along the last twenty years, continuously benefited from disproportionate and unsustainable gains and income. Again, there is no way around.

The essential measures that have been taken or publicised meet these concerns and seem to go on the right direction.

44. The same cannot be said as to their **justification**. In fact, the most important arguments about the measures aiming at expenses containment (such as freezing of automatic increases in salaries or career progression and changes in the pensions system) have been about the unjustified privileges of civil servants.

There is, of course, a great deal of truth about it, but we shouldn’t forget that these arguments are being used by the same people who, for many years, have been granting such privileges to the civil servants. They knew what they were doing and they couldn’t ignore the results of such behaviour. Let’s not make, now, the civil servants the first **accountable** for responsibility.

Second to the taxpayers, the civil servants are the main **victims** of the dismal functioning of Public Administration, as reality daily reminds them of a critical situation that is beyond their capacities to overcome. They also have their reasons to be frustrated: feeling ruled, without vision nor resolve; represented by irresponsible and autistic corporations; under a little motivated and powerless leadership; limited by a system that castrates innovation and rigueur.

The reason for these measures, let's not forget it, is only one: there is no money. And that needs to be explained, even at the cost of recognition of the mistakes made in the past, instead of blaming on the civil servants.

45. The future of the pensions system of civil servants is thus at the forefront of this inevitable tackling of the public deficit. Let us see now how this has been dealt with in these last few years.

There can be identified **three** different types of measures:

- those relating to the convergence of public and private pensions regimes.
- those aiming at improving the income of CGA. And
- those related to the control of the expense.

46. As of the 1st January 2006 no more admissions in CGA are allowed, the newly recruited civil servants having to apply for admission in the general social security regime — so far known as the private sector social security. This means that CGA is now a **closed group**.

Of course, all these new civil servants will benefit of the protection granted by the general regime. One should remember that that was already the case for those recruited after 31st August 1993, as far as pensions were concerned.

47. The extra income derived from the increase in two percentage points in VAT (from 19% to 21%, one of the highest in Europe), the so called **"social VAT",** is being divided in equal parts between the two regimes of social security, the private sector and CGA. In 2005, it accounted for 129 million euros in CGA current budget.

Local authorities and autonomous agencies are now paying **13%** of the salaries, as employers, to CGA, instead of the previous 10%).

48. As for the control of the expenses, most measures are in line with **convergence** of regimes, dealing either with the "number effect" or with the "price effect".

As far as the **"number effect"** is concerned, one should notice:

- the increase of the vesting period to the same level of the private sector regime, this is 15 years, effective, the latest, in 2015.
- the rising of retirement age from 60 to 65, in a ten year period, with an increase of 6 months per year. And
- the closing down of each and every measure allowing for early retirement.

49. As far as the **"price effect"** is concerned:

- the reference salary used to calculate the pension was fixed in 2004 at 90% of gross salary, down from 100%.
- the number of years of service to get a full pension will increase from 36 to 40 until 2013, again 6 months per year.
- the transition in the calculation of the new pensions, for those recruited for civil service before September 1993, will be based on the use of the two formulas weighted by the years of service after and before 2005.
- the pensions and subsidies allowed to people in political cargoes in central government, in the parliament, and in regional and local authorities was revised becoming more demanding and less generous. And
- about three dozens of special pensions regimes within civil service were reviewed or even abolished.

The two last measures above mentioned affect at the same time numbers and pensions, since these special regimes allowed **both** for early retirement and for percentages of increases in length of service — and, naturally, in the final pension.

50. As one can imagine, this is a set of decisions that imply very impressive changes in the **expectations** of the public workers and are therefore difficult to accept. All the proposals contained in the 1994 report are also part of this set of measures, which goes, nevertheless, far beyond, in the face of the extension of the actual CGA deficit. There is no room for a soft landing, now.

The closing of CGA could have been avoided and the convergence with the private sector regime achieved in different circumstances, had there been political courage at the proper **time**.

This unsustainable situation was a heavy burden for the tax payers and a source of injustice, both fiscal and social. That does not disappear in the short term, but the civil servants are now faced with a most dramatic **transition**.

During their lifetime, and especially during the last 10/15 years, political leaders and union representatives always granted them that their **"acquired rights"** (a never quite explained expression, whose content has been shrinking rapidly) where really acquired and therefore untouchable. And now, all of a sudden, things are not quite like that.

Just think of someone 55 years old, with 31 years of service, planning retirement normally in 2011. All of a sudden, this civil servant gets to know that he/she will have to work **ten** more years instead of five, to get a full pension and that this full pension will not be so "full" as expected.

Yet, again, in face of the extension of the imbalance in CGA, there is no way around.

51. As for CGA, the **effects** of this set of measures are still difficult to quantify. The number of retired people will continue to grow, although probably at a lower pace.

The **expense** will continue to grow, pushed by the increase in average retirement pension determined by the newcomers as well as by the increase in average survival pension. As for pensions in course of payment, it will depend on annual updates, since no more general recoveries are expected.

The **income** will not rise, on the contrary, unless there will be still more increases in the rate of contribution, (either for individuals or for local authorities), since the new recruits will start contributing to the social security regime.

As a result, the CGA **deficit** will continue to grow, probably at a slow pace compared to previous years and thus so will the transfer from the state budget.

In the end, and however the best expectations of civil servants will not be met, CGA **still** will for many years continue to be their "hen that lay golden eggs", for the pensions it will keep paying will be quite generous and above the average level the country could normally afford to.

52. Two major **conclusions** can be drawn, to our judgement, from this glimpse of thirty years of the CGA pensions system.

The first is that, despite all its radical approaches and some irresponsible behaviour from various actors, CGA managed to develop and operate an extensive set of benefices to a large part of the Portuguese population, corresponding to an average 14% of the workforce. The retired civil servants and their families could **rely** on it, year after year, month after month, to get in due time their revenues substitutive of labour income — fixed at levels that granted them a good lifetime after retirement.

The second conclusion has to do with behaviours: when managing systems whose unit of cycle is a **generation**, one cannot think and decide in terms of smaller cycles — for instance, electoral cycles. How hard it may look, people have a right to know the truth about what can be expected in the future.

It is the only way, on the other hand, that the adequate measures can be explained, accepted and put in place in due time.

53. So, looking back to these last thirty years, I would like to express my judgement as what should have **not** been done or allowed managing the CGA system:

- first of all, in the decision making process, a short term approach should have always been complemented with a longer term **vision**: the structural parameters that command evolution in this case act slowly but surely and it is therefore not easy to reverse the course of action, especially when things have been accumulating year after year.
- on the other hand, in the face of problems, one should not have been tempted to hide them from the stakeholders — in this case, the civil servants, both in active duty and retired: just because they are important to elect governments and union leaders, it does not mean that they should be kept away from these issues. Sooner or later, they will know the **truth**.
- also, one should not bend to corporative interests: all the professional groups have their place and play an important role in pursuing a Public Administration of excellence. But, while admitting

that we cannot do without them, we should always have in mind, and remind them, that they are a **means** to an end — and not the end in itself.

- finally, we should not take too long to **act**: if we keep on sweeping the dust underneath the carpet and let deficits accumulate, problems can only get worse. However difficult, one should not hesitate to take the course of reform, in order to rescue the system.

54. Acting in accordance with these guidelines does only mean, in the end, that one is seeking the **public interest** in its most genuine concept.

After all, is this not what **public servants** are supposed to do, and is this not what justifies and defines the specific nature of public employment?

Ladies and gentlemen, thank you very much for your attention.

Table 1. 30 Years of the Portuguese Civil Service Pensions System at a Glance

YEAR	CIVIL SERVANTS (1)	RETIRED (2)	SURVIVAL (3)	(4)=(1)/((2)+(3)) ADJ.RATIO	AVERAGE SALARY (5)	AVERAGE CONTRIBUTION (6)	AVERAGE PENSION (7)	AV. SURV. PENSION (8)	ACCUMULATED INFLATION	AC/AP (10)=(6)/(7)	(11)=(4)*(10)	(12)=(7)/(5)	(13)=(8)/(7)	NEW PENSIONS	
	NUMBERS + % INCREASE IN PREVIOUS 5 YEARS				EUROS EQUIVALENT + % INCREASE IN P. 5 YEARS				5/5 YEARS	SUSTAINABILITY		REPLACEMENT			
1975	**284000**	**52000**	**30000**	**4,56**	**34**	**2,4**	**18**	**6**		**0,13**	**0,59**	**0,54**	**0,40**		
1980	**455000**	**80000**	**46000**	**4,67**	**81,5**	**5,7**	**57**	**22**		**0,10**	**0,47**	**0,70**	**0,44**		
	60,21	*53,85*	*53,33*	2,35	*139,71*	*139,71*	*210,49*	*244,62*	166,00	-22,80	-20,98	29,53	10,04		
1985	**584000**	**125000**	**70000**	**3,60**	**220**	**17,6**	**119**	**63**		**0,15**	**0,53**	**0,54**	**0,61**		
	28,35	*56,25*	*52,17*	-22,85	*169,94*	208,50	*109,05*	*192,50*	184,00	47,57	13,84	-22,55	38,71		
1990	**654000**	**159000**	**95000**	**3,27**	**526**	**42,1**	**212**	**92**		**0,20**	**0,65**	**0,40**	**0,49**		
	11,99	*27,20*	*35,71*	-9,36	*139,09*	139,09	*78,15*	*46,03*	71,00	34,21	21,64	-25,49	-18,74		
1995	**638000**	**258000**	**106000**	**2,17**	**935**	**93,5**	**610**	**211**		**0,15**	**0,33**	**0,65**	**0,39**	**0,90**	**0,32**
	-2,45	62,26	11,58	-33,71	77,76	122,20	187,74	129,35	42,00	-22,78	-48,81	61,87	-20,99		
2000	**747000**	**309000**	**117000**	**2,13**	**1166**	**116,6**	**880**	**315**		**0,13**	**0,28**	**0,75**	**0,40**	**0,90**	**0,34**
	17,08	19,77	10,38	-1,67	24,71	24,71	44,26	49,29	14,00	-13,56	-15,00	15,68	2,57		
2005	**740000**	**378000**	**127000**	**1,76**	**1478**	**147,8**	**1104**	**368**		**0,13**	**0,24**	**0,75**	**0,37**	**0,86**	**0,36**
	-0,94	22,33	8,55	-17,31	26,76	26,76	25,45	16,83	17,00	1,04	-16,45	-1,03	-8,54		
CAGR	**3,24**	**6,84**	**4,93**	**-3,13**	**13,40**	**14,75**	**14,64**	**14,55**	**11,93**		**NEEDED: [0,40-0,50]**				

YEAR	PENSIONS PAID				INCOME				PUBLIC TRANSFER AS % OF SALARIES	CIVIL SERVANTS CONTRIBUTION RATE		PUBLIC CONTRIB. RATE	CURRENT BALANCE		GDP
	RETIREMENT	SURVIVAL	OTHERS	TOTAL	CIVIL SERVANTS	AUTONOM. SERVICES	PUBLIC BUDGET	TOTAL					MILLION EUROS	% OF GNP	MILLION EUROS
1975	**10**	**2**	**0**	**12**	**8**	**0**	**4**	**12**	**3,45**	**7**	**12**	**7**	**4,11**	**0,18**	**2343**
1980	**54**	**13**	**0**	**67**	**30**	**0**	**35**	**65**	**7,87**	**7**	**12**	**7**	**-3,85**	**-0,05**	**7364**
	440	502		451	261		775	428							
1985	**195**	**60**	**5**	**260**	**120**	**0**	**145**	**265**	**9,40**	**8**	**12**	**8**	**-21,66**	**-0,11**	**20605**
	261	362		288	300		314	308							
1990	**475**	**123**	**65**	**663**	**386**	**54**	**240**	**680**	**4,98**	**8**	**14**	**8**	**145,28**	**0,29**	**50239**
	144	104	1200	155	222		66	157							
1995	**2285**	**285**	**15**	**2585**	**845**	**460**	**1280**	**2585**	**15,33**	**10**	**14**	**10**	**-444,86**	**-0,56**	**79373**
	381	133	-77	290	119	752	433	280							
2000	**3735**	**440**	**30**	**4205**	**1220**	**750**	**2200**	**4170**	**18,04**	**10**	**14**	**13**	**-614,78**	**-0,52**	**117379**
	63	54	100	63	44	63	72	61							
2005	**5727**	**616**	**41**	**6384**	**1531**	**1276**	**3500**	**6307**	**22,86**	**10**	**14**	**13**	**-1509,43**	**-1,07**	**141133**
	53	40	37	52	25	70	59	51							
	MILLION € EQUIVAL. + % INCREASE IN P. 5 YEARS				MILLION € EQUIVAL. + % INCREASE IN P. 5 YEARS					(%)	MONTHS	(THEOR.)			
CAGR	**23,58**	**20,74**	**11,09**	**23,22**	**18,99**	**23,47**	**25,33**	**23,12**	**6,50**				**21,76**		**14,64**