2027 is nearing. Will retirement change significantly?

It has been more than fifteen years since we learned that the pension age would be raised from sixty-five to sixty-seven in 2027. During this time, a number of transitional rules have been applied regarding the pension age and amount, whilst the possibility of work and pension compatibility has also been broadened.

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1. For many years now, specifically since 2011 (Act 27/2011 of 1 August), we have known that in 2027 the State pension age will be sixty-seven. This is a historic change, given that the age of sixty-five has remained unchanged since its introduction with mandatory retirement in 1919, almost a century ago.

   And it is possibly a necessary change, judging by the reasons given by the legislator and the trend towards raising the pension age in practically all the countries around us. The birth rate is falling, life expectancy is increasing, the number of pensioners in relation to the working population is rising, and even though we must accept the need to bring in migrant workers to maintain productive organisation, ensure competitiveness and strengthen the social protection system, other measures are needed. This is one of them, not the only one, but perhaps the most striking. And yes, it has been known since 2011, but it is now, with a closer time horizon than was then anticipated, that concern is growing about what will happen to retirement in 2027.

Well, not much, really. Because measures have been implemented gradually, in an attempt to cushion the initial impact that this decision, taken almost fifteen years ago, could have. Pensioners, already retired, know what their pension will be; workers approaching retirement have been adapting or are able to adapt to these transitional measures; and young people, who are so often invoked to demand more restrictive reforms, will be the most interested in ensuring that the system is sustainable because, according to demographic forecasts, they will live longer and therefore require the coverage of a social protection system for longer, whether they are working or not.

With regard to age, which is perhaps the most notable element of the reform, a system of progressive application of the rule has been in place since 2013, consisting of increasing the historical pension age of sixty-five from that year until 2027: from sixty-five years and one month at that time (2013) to the present (2025), when it is required to have reached sixty-six years and eight months, with the expectation that in the future (2027) the planned age of sixty-seven will be reached as the State pension age.

However, in all these cases, the pension age of sixty-five is expected to be maintained when the beneficiary has contributed for a considerable number of years. Following the same pattern as above, a total of thirty-five years and three months or more was required in 2013 to qualify for a retirement pension at the age of sixty-five; today (2025) thirty-eight years and three months or more are required to obtain retirement pension at the same age of sixty-five, and in 2027 thirty-eight years and six months or more of contributions will be necessary to retire at sixty-five.

From 2027 onwards, we will retire at 67; the age of 65 will remain for those who have been contributing for an extended period

2. There are also ways to access retirement pensions at an earlier age, even below sixty-five. The types vary, and thus situations from the past remain (members of mutual societies who can access their pensions at sixty or sixty-one, generally with a loss of up to 40% of the amount of their pension), existing schemes are updated (such as partial retirement), lower retirement ages are accepted through the application of reduction coefficients in certain professions (for some time now, flight personnel, artists, miners, bullfighters; more recently, firefighters, regional police officers and, in demand, bus drivers, hauliers, etc.), compatibility with work in certain modalities is allowed (flexible retirement) and it continues to be accepted that a disability equal to or greater than 45% or 65% can serve to reduce the pension age.

Even so, the most common formula is early retirement, which varies considerably depending on whether it is involuntary or voluntary. In the first case, when retirement does not depend on the will of the worker and occurs for reasons not attributable to them, they must be four years younger than the applicable pension age —this is the only difference between 2025 and 2027, since, as explained above, the age is different at each point in time—; the applicant must have been a job seeker for at least six months prior to applying for retirement and must prove a minimum of thirty-three years of contributions. The amount of the pension will be higher or lower depending on the length of time the retirement is brought forward and in accordance with the table set out in the Social Security legislation for this purpose. Thus, for example, if retirement is brought forward by four years (forty-eight months), the reduction could be up to 30% of the pension amount (a reduction that would remain in effect for the entire duration of the retirement pension) if the worker had less than thirty-eight years and six months of contributions, or a reduction of 24% would apply if the worker had more than forty-four years and six months of contributions. If this involuntary early retirement pension were taken only two years (twenty-four months) before the appropriate age, then the percentages would be 15% or 12%, respectively. And, if it were only brought forward by six months, a 3.75% reduction would be applied in the first case and a 3% reduction in the second.

The situation changes when early retirement is voluntary. In this case, the law stipulates that the person must be two years younger than the applicable age in each case (remember the difference between the age required in 2025 and the age that will be required in 2027, the only difference for these purposes), thirty-five years of contributions must be proven, and the amount of the pension will also be reduced in proportion to the time by which access to the pension is brought forward. Another example here is that if retirement is brought forward by two years (twenty-four months), the reduction could be up to 21% of the pension amount (a reduction that will also remain in effect for the entire duration of the retirement pension) if the worker has less than thirty-eight years and six months of contributions, or a 13% reduction would apply if the applicant has more than forty-four years and six months of contributions. If this voluntary early retirement pension is taken only one year (twelve months) before the relevant age, then the above percentages would be 5.5% or 4.75%, respectively. And, if it is only brought forward by six months, a 4% reduction would be applied in the first case and a 3.45% reduction in the second.

This does not prevent the continuation of work after reaching the State pension age, except in the case of mandatory retirement. In fact, remaining in employment after reaching the pension age is encouraged with a 4% increase in the amount of the pension for each year that the worker continues to contribute to the system or, alternatively, a lump sum, with a combination of both formulas being accepted if more than two full years of contributions can be proven between the date on which the State pension age was reached and the date on which the retirement pension was applied for.

Likewise, work and pension compatibility options are constantly expanding, also in line with European labour trends. In addition to the situations already mentioned, i.e. partial retirement (which involves reducing working hours and making such compatible with a pension by reducing the pension in proportion to the reduction in working hours) or flexible retirement (which involves continuing to work as a pensioner and accepting the same effects, i.e. the amount of the pension being reduced in proportion to the hours worked), other cases are also envisaged. Thus, compatibility with self-employment or freelance work that does not exceed the national minimum wage per annum is permitted; retirement pensions are also compatible with self-employment by professionals who are members of a professional association registered with an alternative mutual insurance company or exempt from registration with the special scheme for self-employed workers (RETA), or with the maintenance of business ownership and the exercise of the functions inherent in such ownership.

However, perhaps the most innovative regulation in this regard is that of so-called *working retirement*, reformed last April, which provides for the compatibility of retirement pensions with any employed or self-employed work. Access to the retirement pension must have taken place at least one year after reaching the applicable pension age in each case. The work may be employed (either full-time or part-time) or self-employed. The amount of the retirement pension that will be compatible in this modality will be a higher or lower percentage depending on the number of years that access to the retirement pension has been delayed. As in other cases, there is a scale ranging from one to five years of delay. Thus, if retirement is delayed by one year, 45% of the pension will be paid; if it is delayed by two years, 55% of the pension will be paid; if it is delayed by three years, 65%; if it is delayed by four years, 80% of the pension; and finally, 100% of the retirement pension compatible with employed or self-employed work will be obtained when retirement has been delayed by five or more years. These percentages may be increased if the work is carried out on a self-employed basis and at least one employee is hired. Once the pensioner's employed or self-employed work has ended, the full pension will be paid. However, contributions made during this period will not generate any increase in the percentage applicable to the pension calculation basis already recognised for the pensioner. It is true that, during this period of pension/work compatibility, contributions will only be made for temporary disability and occupational contingencies, with the addition of a special solidarity quota of 9% (7% paid by the employer and 2% by the employee).

3. Along with age, changes are expected in the calculation of pensions: firstly, in the calculation basis (contributions taken into account to calculate the pension), and, as with age, a different formula will gradually be applied. Thus, from 2022 (and therefore now, in 2025), the calculation basis means adding the bases of the last twenty-five years (three hundred months; that is, 25 × 12) and dividing the total by three hundred and fifty (an amount that involves multiplying those twenty-five years by fourteen when adding the thirteenth and fourteenth month pay each year, i.e. 25 × 14).

   However, under the reform introduced in 2023 (RDL 2/2023 of 16 March), the determination will change between 2026 and 2037, with a different calculation being

Currently, pensions are calculated based on the last 25 years of contributions, but as of 2037 (not 2027) they will be calculated based on the 27 years with the highest contributions from the last 29 years

established for each of the years included in that period. Starting in 2026, the calculation basis for retirement pensions will involve dividing by 352.33 the sum of the three hundred and two highest contribution bases included in the period of three hundred and four months immediately preceding the month prior to the triggering event. From 1 January 2027, the regulatory base for the retirement pension will be the result of dividing by 354.67 the sum of the 304 highest contribution bases included in the period of the 308 months immediately preceding the month prior to the triggering event. This will continue, with the necessary modifications each year, until 1 January 2037, when the provisions of Article 209(1) of the Social Security Act will apply, i.e. the pension's calculation basis according to the quotient resulting from dividing by 378 the sum of the contribution bases during the 324 months (27 years) prior to the month preceding the triggering event, although the three hundred and forty-eight months prior (twenty-nine years) will be selected in order to choose the three hundred and twenty-four months (twenty-seven years) with the highest amount. This calculation was expected to be applied from 2027, but, as can be seen, it has been delayed until 2037, under the terms set out above.

Likewise, the percentage applicable to the calculation basis is modified. Currently, it is stipulated that 50% of the calculation basis will be applied to the first fifteen years, with 0.21% added for each additional month between months one and forty-nine and 0.19% from month fifty onwards, until reaching 100% of the calculation basis, which, in 2025, will be achieved, as stated, with thirty-six and a half years of contributions (and thus, with sixteen years of contributions, 52.5% will apply; with seventeen years of contributions, 55.04%; with eighteen years of contributions, 57.5%, etc.). From 2027 onwards, the first fifteen years will also account for 50% of the calculation basis, and 0.19% will be added for each additional month between months one and two hundred and forty-eight, and 0.18% when month two hundred and forty-eight is exceeded (and thus, with sixteen years of contributions, 52.2% will apply; with seventeen years of contributions, 54.5%; with eighteen years of contributions, 56.8%, etc.), reaching 100% in 2027, as indicated, with thirty-seven years of Social Security contributions.

4. For the time being, the supplement for reducing the gender gap is kept as a supplement to contributory pensions, with an amount set annually, in this case, in 2025, at €35.90 per month for each child, up to a maximum of four children. The beneficiaries, following court ruling, are both women and men who are retirement, widowhood or permanent disability pensioners. They must have become eligible for the pension from February 2021 onwards, they cannot have been recognised as receiving previous maternity or gender gap reduction supplements, they must certify

that they have had one or more children during their lifetime and they must prove that the amount of their pension is lower than that of the other parent.

It should also be noted that contributions are already in force under both the intergenerational equity mechanism (MEI) and the solidarity quota:

— The former, the *intergenerational equity mechanism*, adopted to preserve the balance between generations and strengthen the long-term sustainability of the Social Security system, involves a final contribution applicable to all schemes and in all cases where contributions are made for retirement. It will not be computable for benefit purposes and will serve to feed the Social Security Reserve Fund. In its progressive application, this mechanism means that, in 2025, an additional contribution of 0.80 percentage points will be added each month, of which 0.67 will correspond to the company and 0.13 to the worker; in 2027, it will be 1.00 percentage point, of which 0.83 will correspond to the company and 0.17 to the worker, and from 2030 to 2050, the application of a percentage of 1.2 is envisaged, of which 1.00 will correspond to the company and 0.2 to the worker.

— For its part, the *solidarity quota* applies exclusively to remuneration exceeding the maximum contribution basis for each group. Progressive application is also envisaged. Thus, by 2025, remuneration exceeding 10% of the maximum basis will have to contribute an additional 0.92%; if it exceeds the maximum basis by between 10% and 50%, an additional 1% will have to be contributed, and if it exceeds 50%, an additional 1.17% will be contributed. In 2027, the amounts will be 1.30%, 1.5% and 1.75% more, respectively, with legislation providing for this calculation until 2045, when the percentages will be 5.5%, 6% and 7%, respectively.

All these adjustments are intended to ensure the sustainability of the system, but they are inevitably subject to economic fluctuations, labour vicissitudes and political alternatives that hinder an enduring analysis over time.