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Royal Decree-Law 2/2023, of March 16, on urgent steps to extend the rights of pensioners, reduce the gender gap and establish a new sustainability framework for the public pension system

Main modifications

Social Security contribution ceiling (SSCC)

Previous legislation	Changes in RDL 2/2023
• The General State Budgets establishes each year the increase in the SSCC, not being linked to any parameter • The average annual increase of the last 20 years has been 2.4% (period 2003-2022)	• SSCC continues to be established in the General State Budget, but from now on, it will be increased annually at the same percentage that the percentage set for the increase of public pensions (average of the interannual variation rates of the CPI for the 12 months prior to December of the previous year). • 1,2% will be add to the previous percentage, from the year 2024 to the year 2050

Contributions to Social Security

Changes in RDL 2/2023

Two new contributions are established (but not compute for the purposes of benefits):

Additional contribution of solidarity

- For those remunerations that exceed the amount of the SSCC, an additional contribution percentage will be added as follows:
  - 5.5% for remunerations between the SSCC and 1,1 times the SSCC
  - 6% for remunerations between 1,1 times the SSCC and up to 1,5 times the SSCC
  - 7% para la retribución que exceda de 1,5 veces la BMCSS
- Financing between company and employee will be the same (83% - 17%)
- This will apply from January 1, 2025, with a transitional period until 2045.

Intergenerational Equity Mechanism (IEM)

- Additional contribution percentage of 1,2% (1% company; 0,2% employee) destined to finance the Reserve Fund.
- Take effect from January 1, 2023 with a transitional period until 2029

Complement for the gender gap

Previous legislation	Changes in RDL 2/2023
• The General State Budgets fixes the increase each year	• Apply the same criteria as pensions (average value of the interannual variation rates of the CPI for the 12 months prior to December of the previous year). • Additional increase of 10% for years 2024 and 2025, established in the General State Budget.

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Social Security retirement pension

Previous legislation	Changes in RDL 2/2023
Calculation of the regulatory base	
• The last 300 monthly contribution bases are considered (25 years)	• The last 348 monthly contribution bases (29 years) are considered, of which the 324 highest (27 years) will be chosen. • It will be applied from 2026, with a transitory period until 2036. From 2037, 348 bases will be considered. • Additionally, from 2026 to 2040 the previous legislation will be applied when it is most beneficial. From 2041 to 2043 the election regime will be progressively eliminated, with the new legislation fully applicable in 2044
Annual increase of the pension ceilling	
• Average value of the interannual variation rates of the CPI for the 12 months prior to December of the previous year	• The previous legislation is in force and, additionally, from 2025 to 2050 an additional annual increase of 0.115% is established • From 2051 to 2065, the additional annual increase is fixed on a scale until reaching an additional cumulative increase to the annual variation of the CPI of 20% • If the year in which the pension is incurred is capped by the pension ceiling, this will always be increased in the future with the average value of the interannual variation rates of the CPI for the 12 months prior to December of the previous year.

Main implications

- **The existing gap between the maximum Social Security pension and the maximum Social Security contribution ceiling (SSCC) will grow exponentially. This gap increases from approximately 21% in 2023 to 30% in 2035.**

This increases the problem of coverage in retirement and limits the ability of companies to provide their employees with complementary systems.
The cost of the companies will increase but this do not suppose an increase in public benefits.

- **It is necessary to redesign those complementary retirement systems with defined contribution or benefit schemes based on the SSCC parameter.**

As the difference between salary growth and SSCC increase, the contributions / benefits of the complementary retirement systems will be reduced.

From Aon we help our clients to evaluate the impact of the reform on the complementary pension systems, we advise on their redesign and on the implementation of alternative systems that facilitate final savings for employees

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