

BASQUE COUNTRY

SUPPLEMENTARY
PENSION SYSTEM

Euskadi, auzolana

EUSKO JAURLARITZA



GOBIERNO VASCO



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Surface area, population and market access

SURFACE AREA

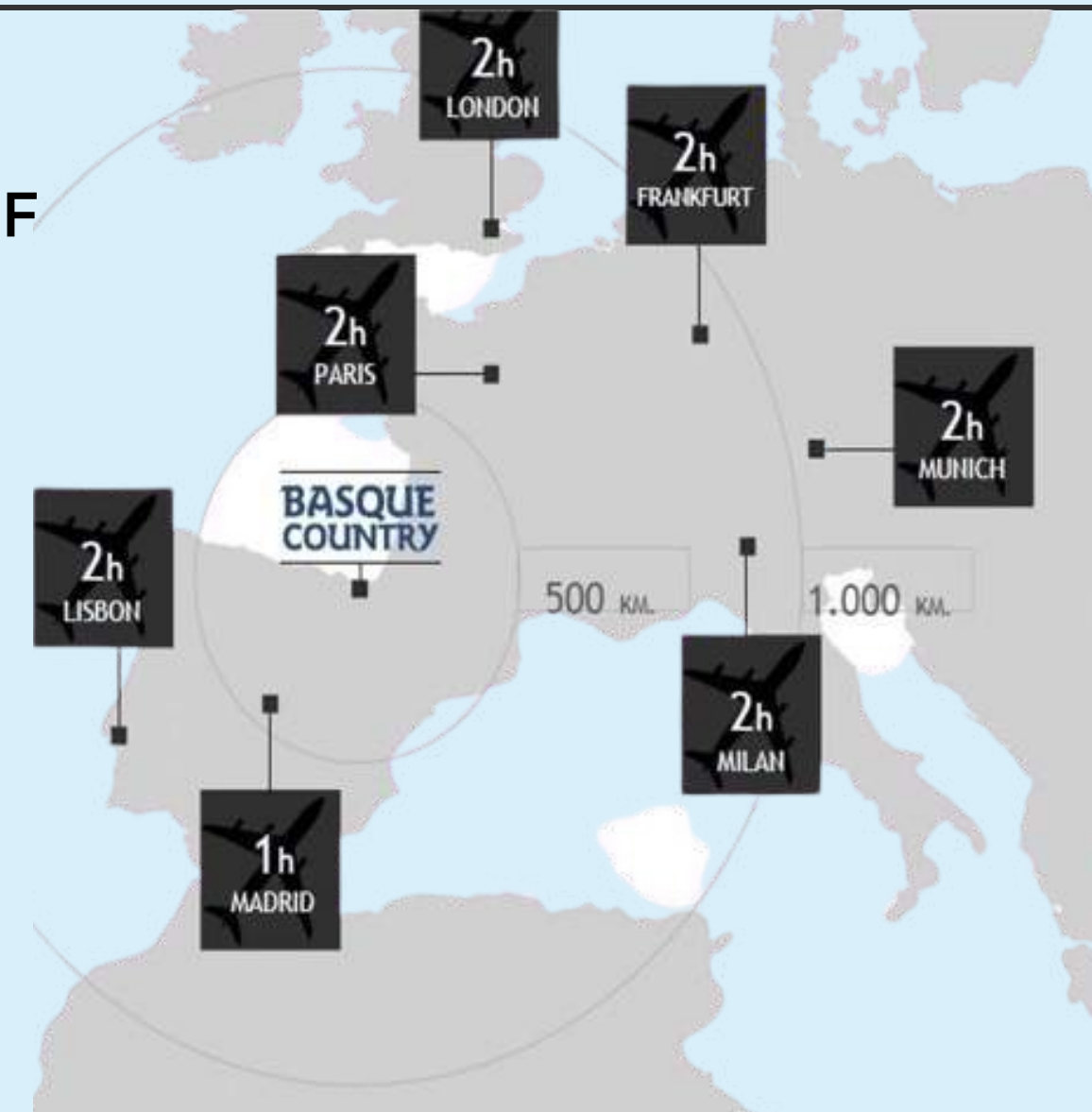
7,234 SQ. KM.

POPULATION

2,193,199

MARKET ACCESS WITHIN A RADIUS OF 1,000 KM

507,416,607 INHABS.



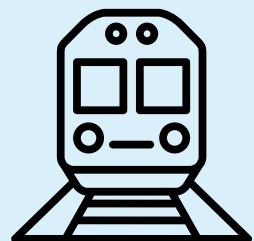
A well- connected country



Logistics



International Airports



Railway connections



Motorways

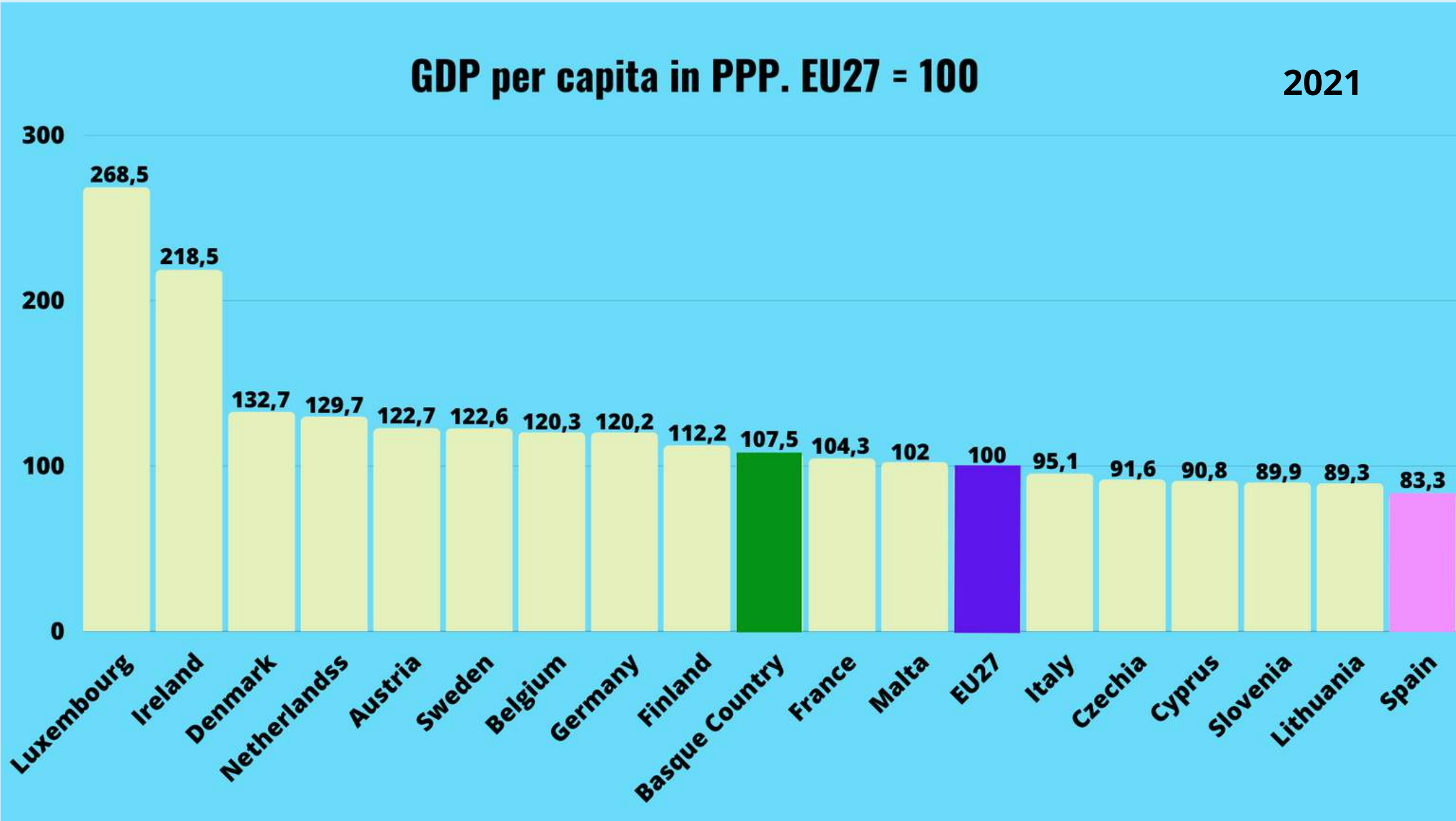
"Best European Medium-Sized Region in Connectivity"

(fDi- European Cities and Regions of the Future - Ranking 2016-2017)



A dynamic economy that stands out in Europe

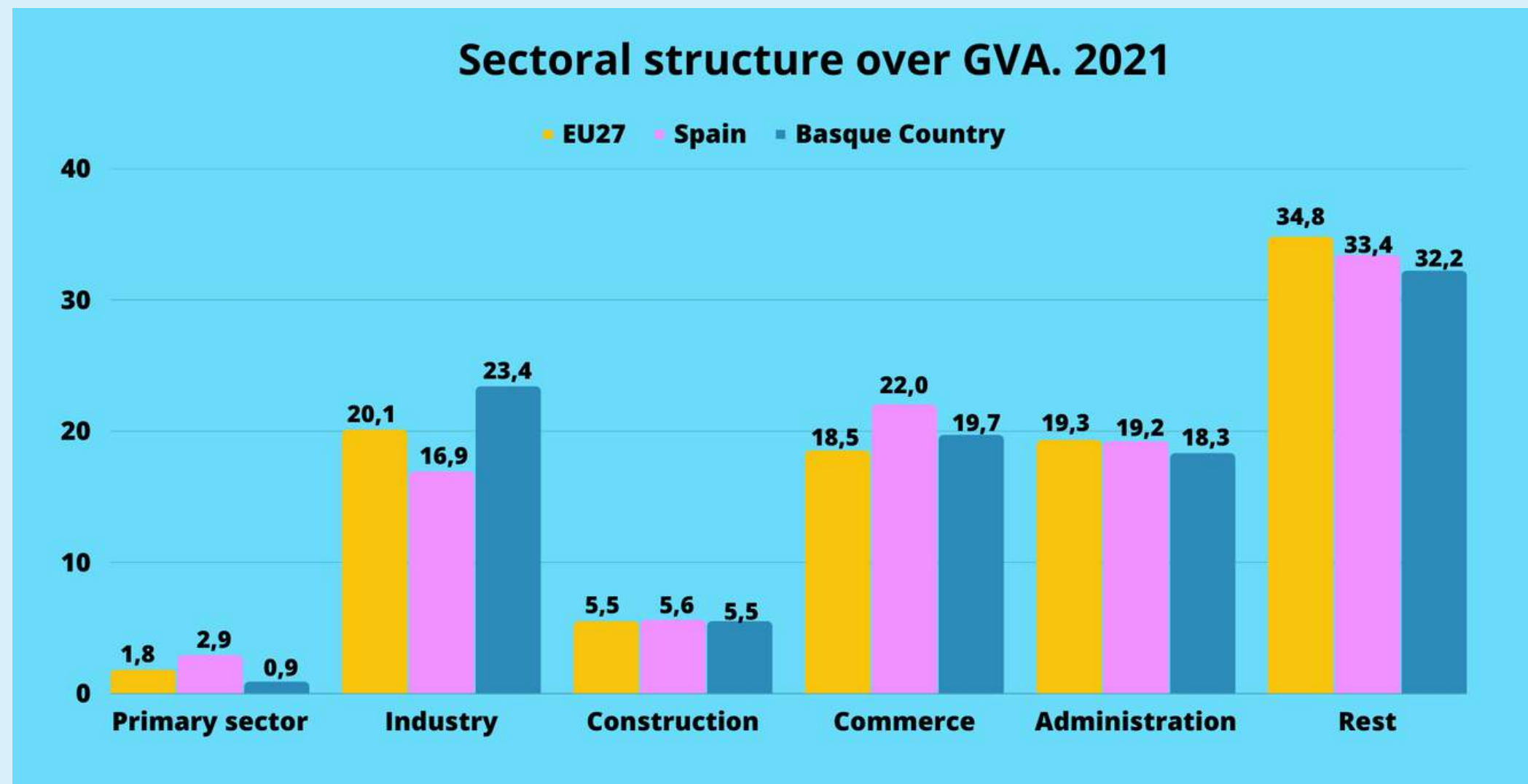
The Basque Country is currently 7.5% above of the European average in GDP per capita.



Source: Prepared by the Directorate of Economy and Planning with Eurostat data

Significant importance in the industrial sector

- It can be seen that the Basque Country has, in proportion, more industry than Spain and the European Union.
- On the contrary, we have fewer services. Among these, it stands out that the public administration (comprising education, health and social services) accounts for a relatively low percentage.
- The adjustment in the construction sector is striking, which came to weigh 10.3% of the value added in the times of the bubble (2007) and which is now practically at the level of Europe (5,5%)



Source: Eustat, Eurostat and INE

Beyond the GDP: Human Development Index

- The human development index, prepared by the United Nations, takes into account, in addition to GDP, life expectancy, years of schooling and literacy rates.
- The Basque Country is among the top 14 countries in the world in this indicator. Particularly noteworthy is the high life expectancy at birth.

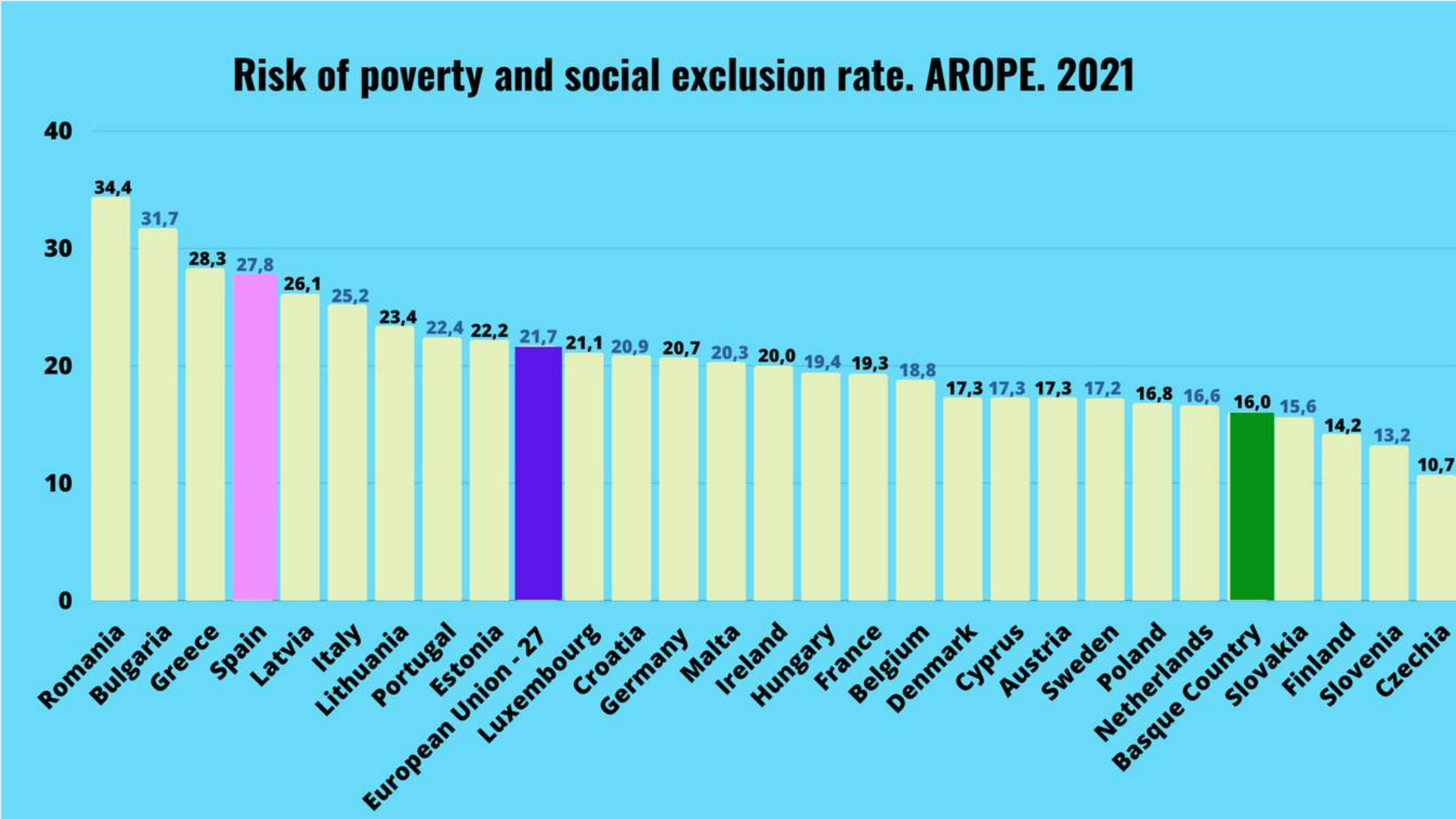
Very high human development index

POSITION			%	POSITION			%
01	Switzerland		0,962	11	Finland		0,940
02	Norway		0,961	12	Singapore		0,939
03	Iceland		0,959	13	Belgium		0,937
04	Hong Kong, China (SAR)		0,952	13	New Zealand		0,937
05	Australia		0,951	14	Basque Country		0,936
06	Denmark		0,948	15	Canada		0,936
07	Sweden		0,947	16	Liechtenstein		0,935
08	Ireland		0,945	17	Luxembourg		0,930
09	Germany		0,942	18	United Kingdom		0,929
10	Netherlands		0,941	19	Japan		0,925

Source: Eustat Social indicators.
Data for 2021, obtained from the 2022 Human Development Report of the United Nations Development Program (UNDP).
The data for Basque Country is provisional

Beyond the GDP: Risk of Poverty or Social Exclusion

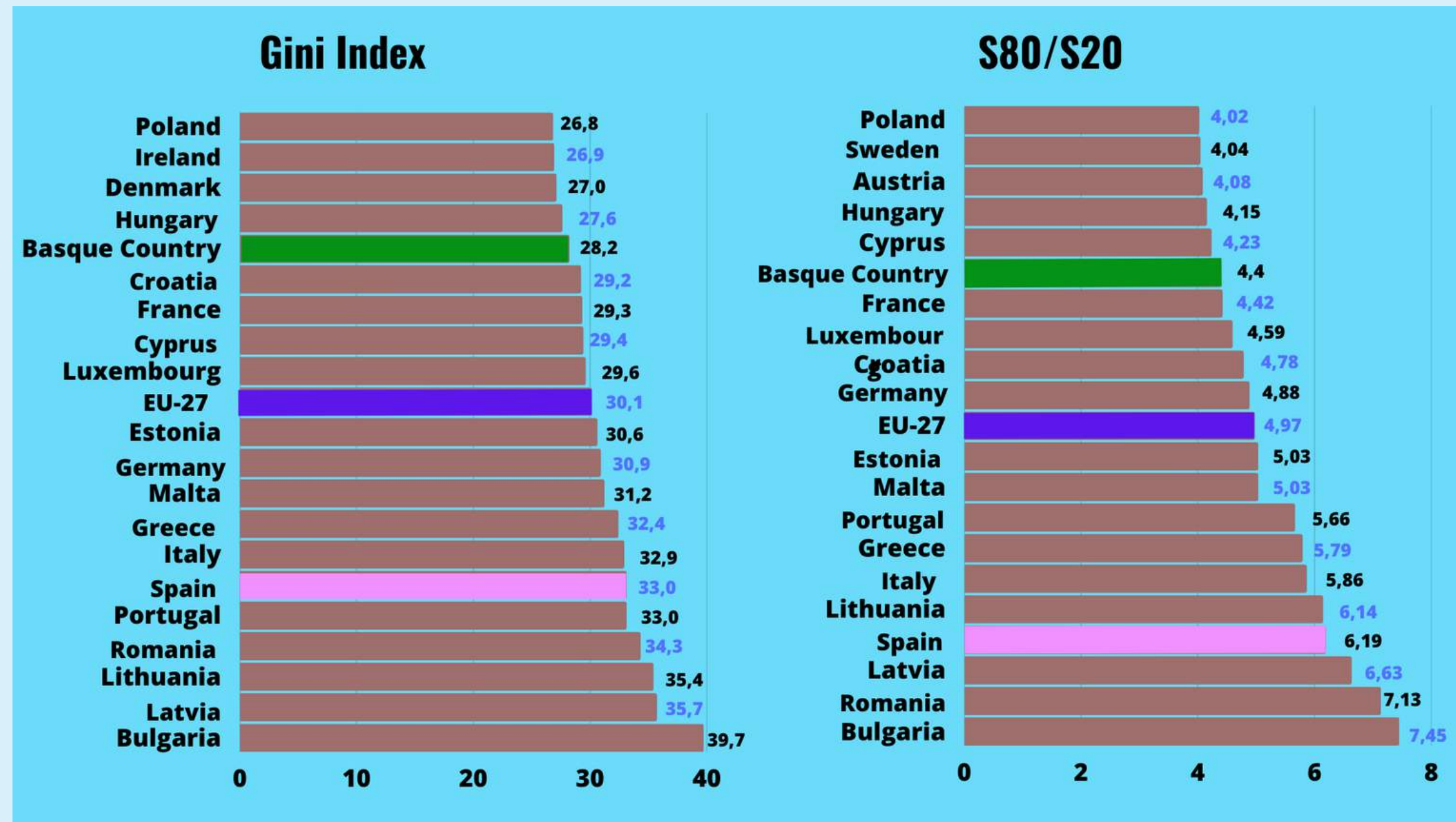
Also with Eurostat data, the Basque Country appears as one of the European territories with the lowest risk of poverty and social exclusion.



Income for the year prior to the interview. New definition.
Source: Basque Government. Ministry of Equality, Justice and Social Policies. EPDS (2020) and Eurostat. 2030 Agenda

Beyond the GDP: Inequality Indicators

- The most used equality indicators, the Gini index and the S80 / S20 index, place the Basque Country among the most egalitarian territories in Europe.
- Here, too, it contrasts with the position of Spain, at the other end of the ranking.



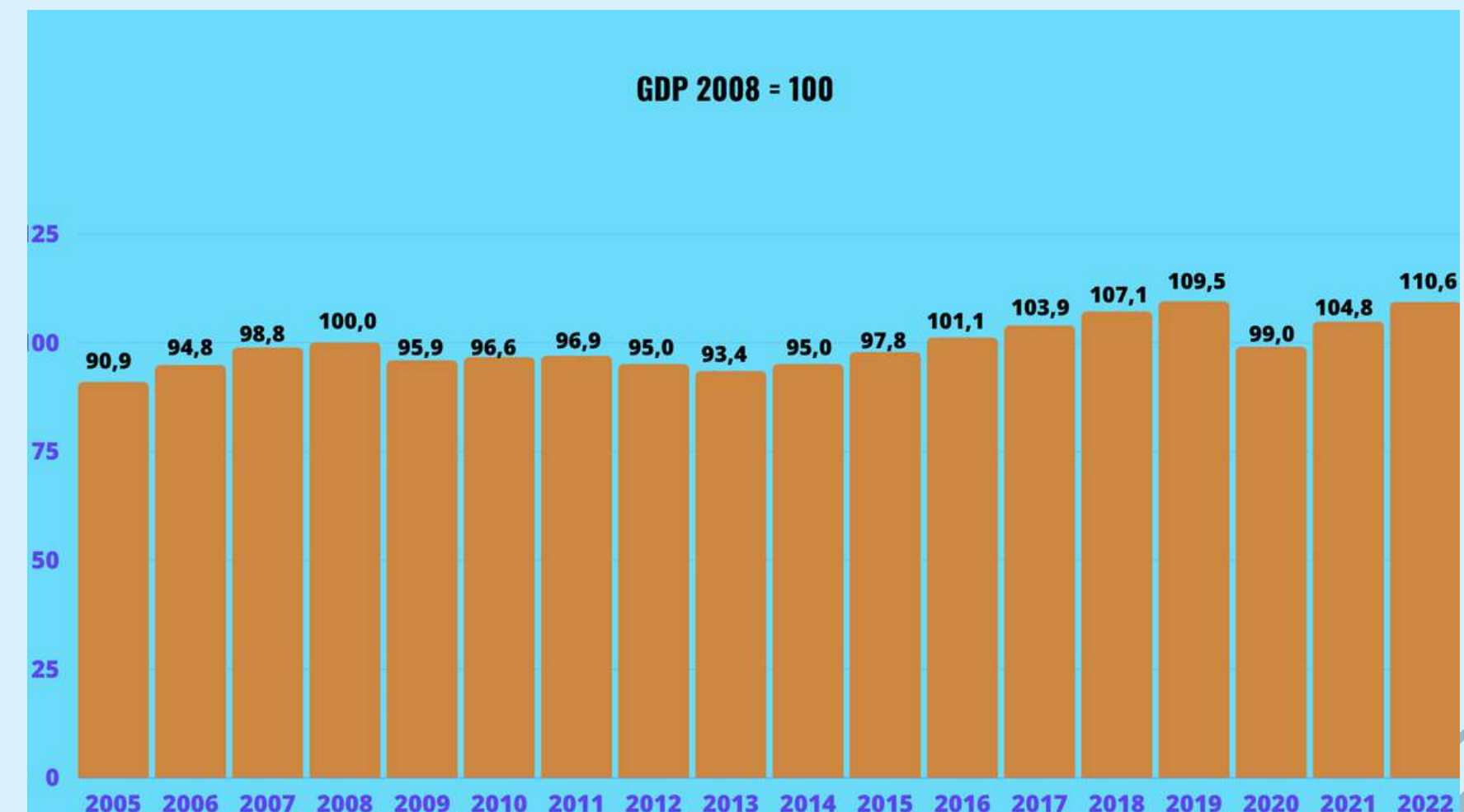
Data for 2021 except for Euskadi, which are 2020.

Source: Basque Government. Ministry of Equality, Justice and Social Policies. EPDS (2020) and Eurostat

GDP recovers strongly in the Basque Country

- Like the rest of the countries, the Basque Country suffered a severe blow in 2020, with a sharp deterioration in GDP, which put an end to a six-year period of growth.
- As expected, the Basque Country has experienced a V-shaped recovery, which has allowed it to grow by 5.9% in 2021 and 5.4% in 2022.
- We are about to recover to the pre-crisis level.

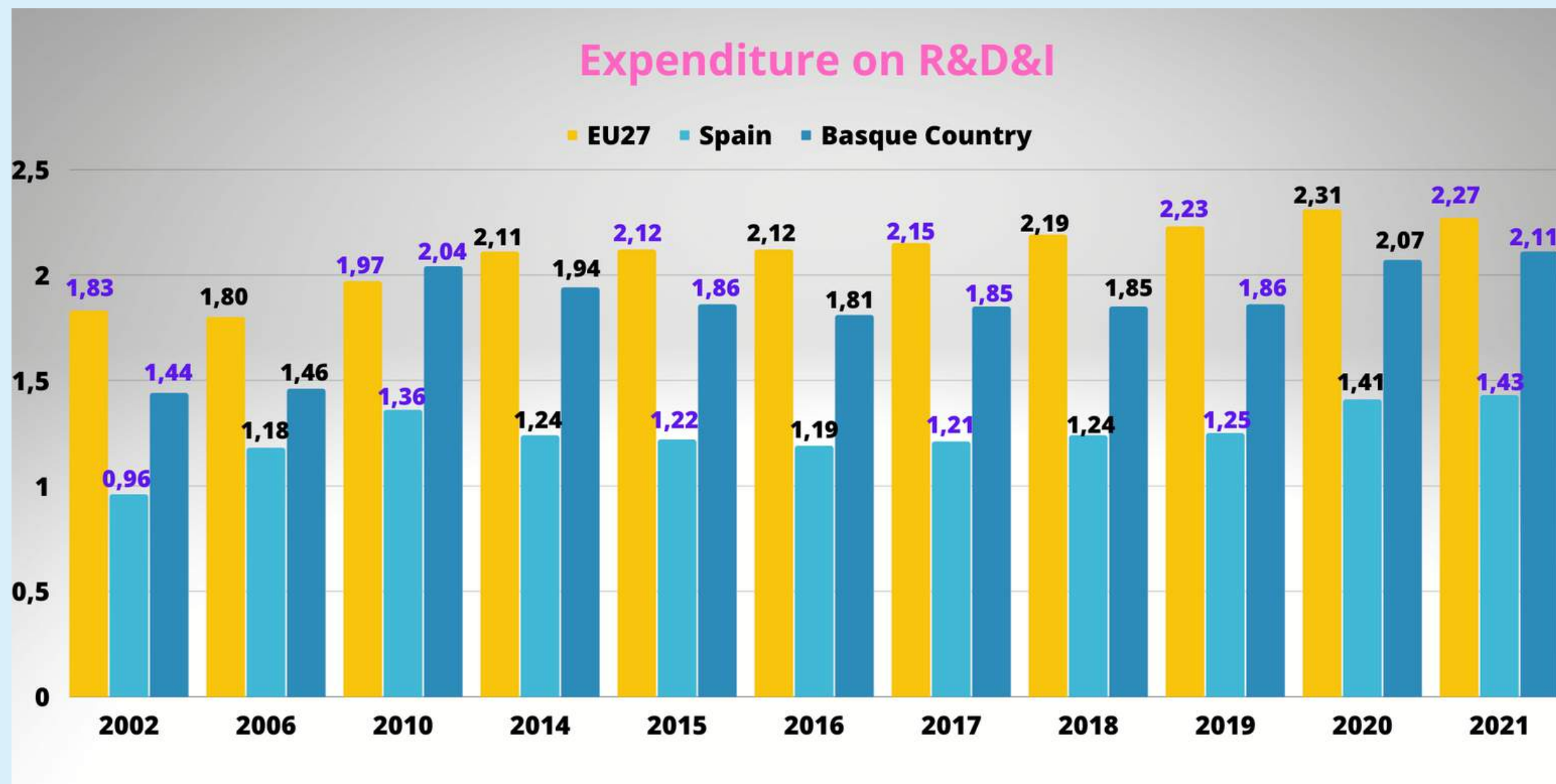
Evolution of the Gross Domestic Product



Source: Prepared by the Directorate of Economy and Planning using Eustat data

Competitiveness: R&D&I expenditure (% of GDP)

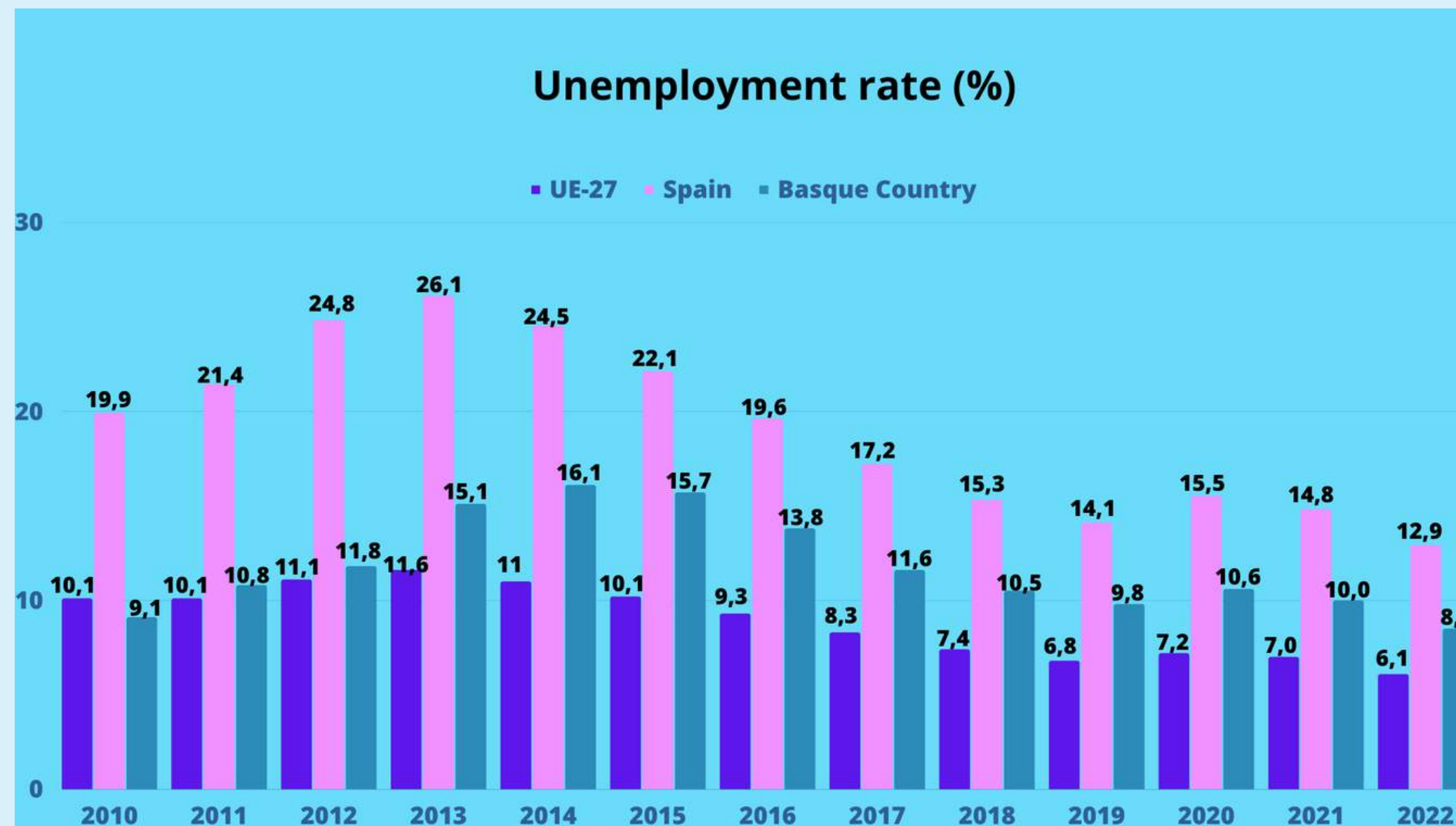
- After six years in which R&D&I expenditure as a percentage of GDP remained at a level of 1.85%, an upward trend began in 2020, surpassing the 2.1% barrier in 2021.
- This has allowed the differential with the European Union-27 to narrow.



Source: Eustat, Eurostat and INE

The unemployment rate fell in 2022

- The comparison with the Spanish average indicates that the unemployment rate in the Basque Country continues well below that of Spain, despite the reduction in the Spanish average.
- The differential with respect to the European average has narrowed again.



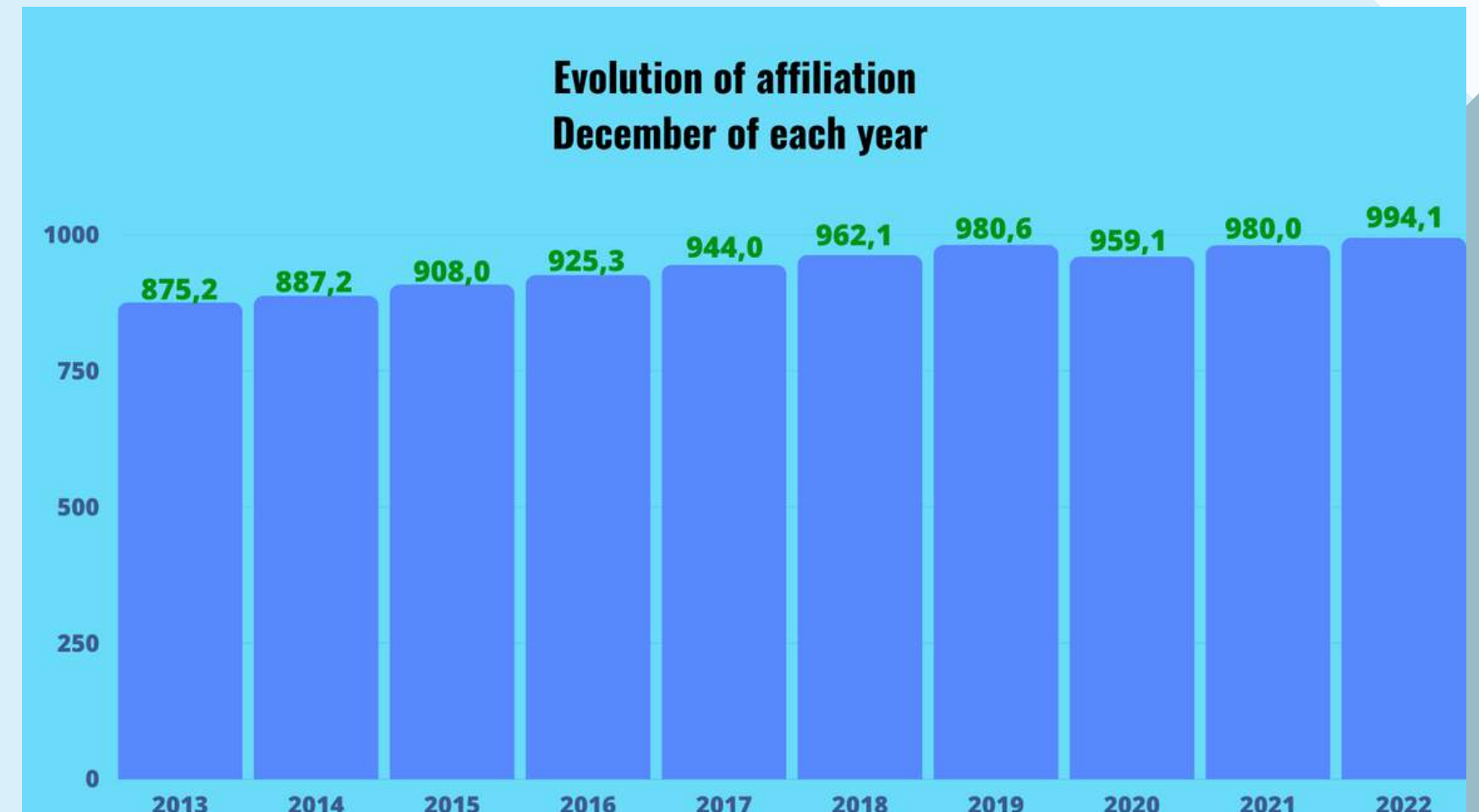
(*) For Spain and the EU, the 2022 figure is the average from January to November.

Source: Eustat for the Basque Country and Eurostat for Spain and EU-27.

Situation in the Basque Country: affiliations

- Social Security affiliation continues to rise, although its growth has slowed down. Specifically, in December 2022 the year-on-year rate of change was 1.4%.

In addition, the number of affiliations in December 2022 (994,100) is the highest ever recorded in a month of December, even above the figure for 2008.



Source: Social Security.

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Some characteristics of our financial system

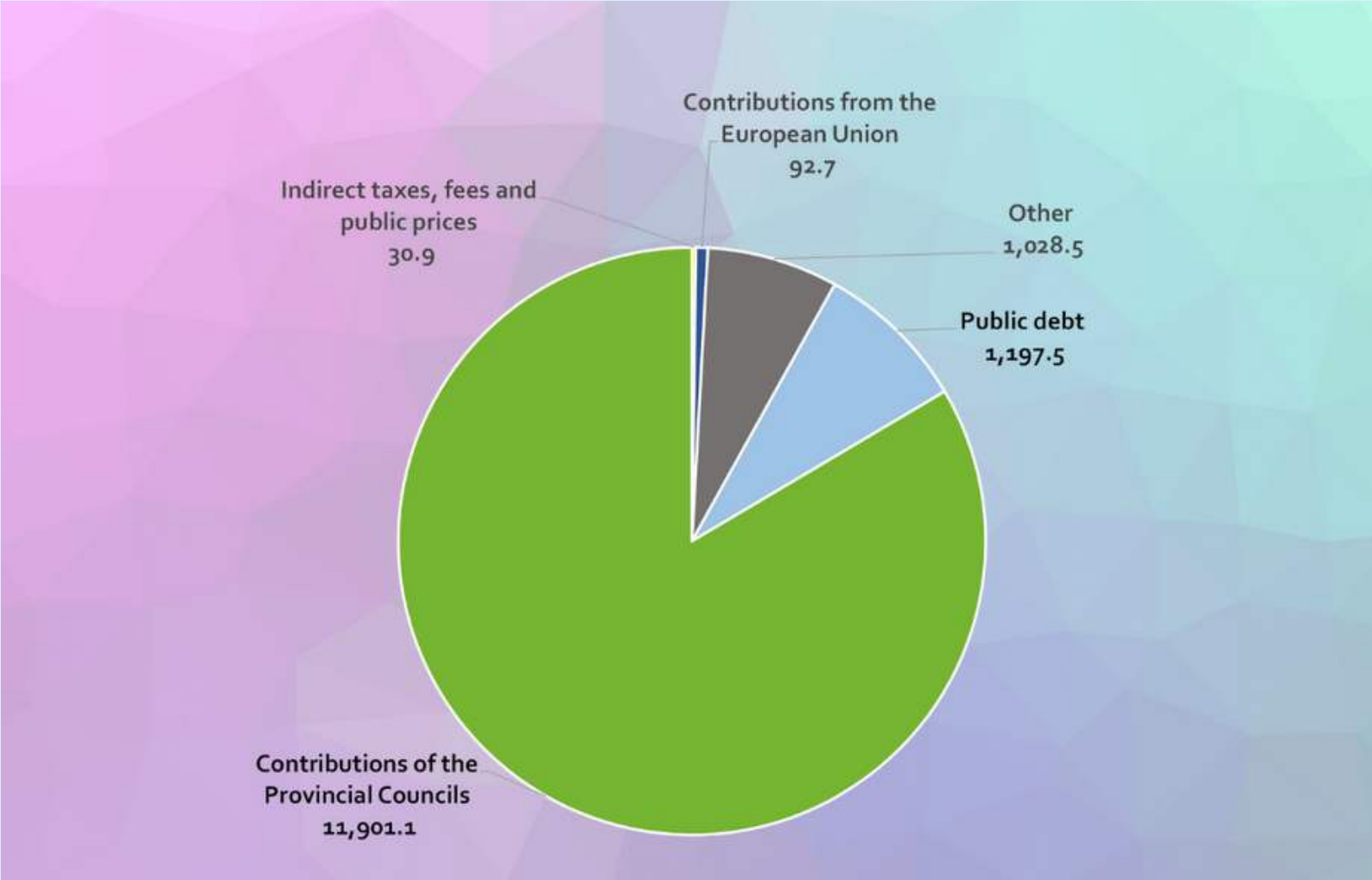
- **The Basque Country's financing system is different** to the other autonomous communities in Spain, and it has its own tax system.
- Full authority to **manage, levy and collect practically all taxes.**
- Relations between the Basque Country and the Spanish State are governed by the **Economic Agreement.**
- **The Basque Country collects and contributes** with the relevant quota to the services that the Spanish State continues to provide in this area.

Tax collection 2022 and forecast 2023

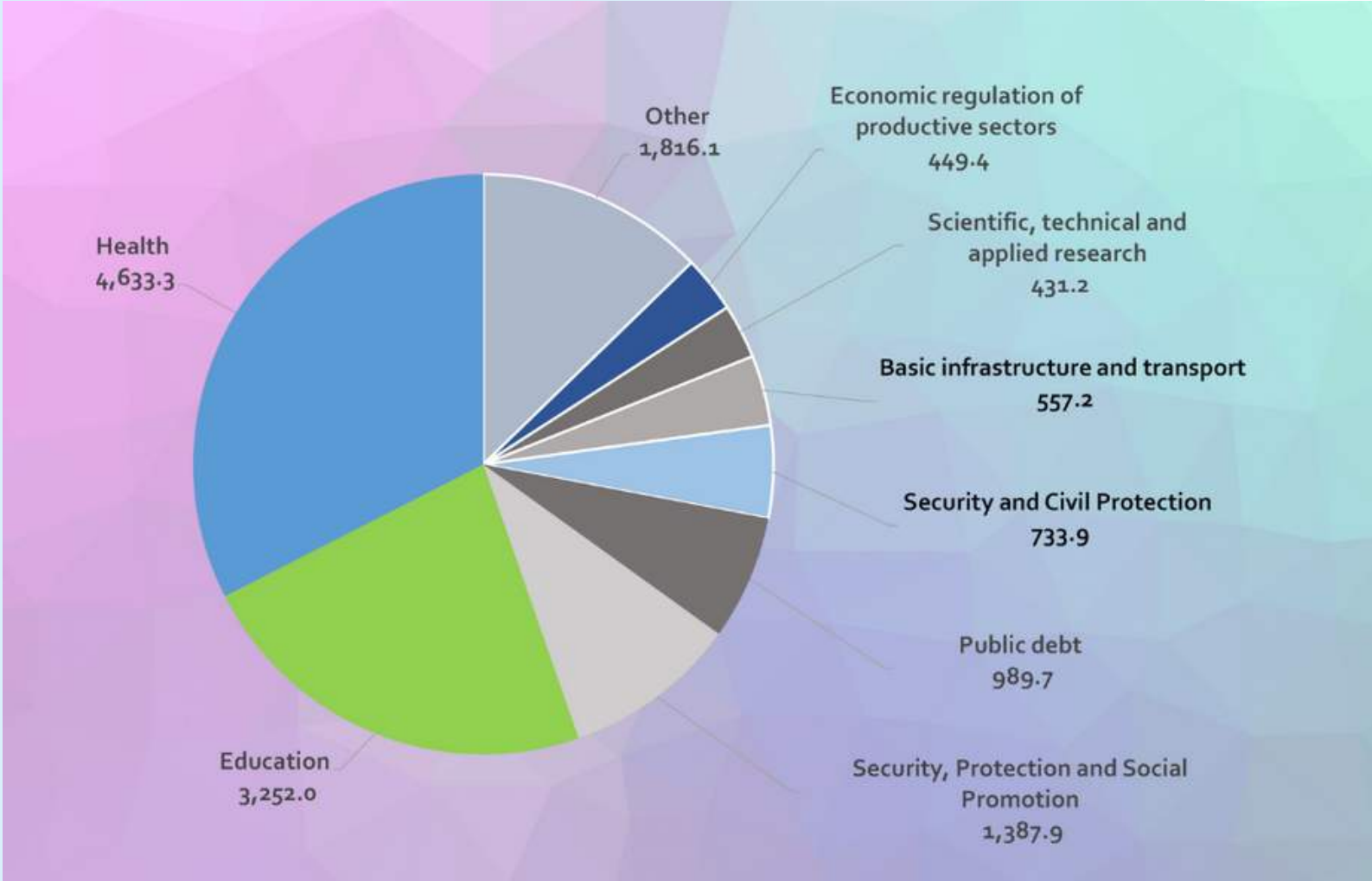
		Millions of euros
	2022	2023
DIRECT TAXES	8.309,3	8.307,6
Personal income tax	6.497,6	6.592,3
Corporation tax	1.351,2	1.248,3
Wealth tax	169,7	183,0
Inheritance and gift tax	152,7	163,1
Other direct taxes	137,9	120,9
INDIRECT TAXES	8.758,3	9.664,6
Value Added Tax	6.921,3	7.613,0
Excise duties	1.367,1	1.592,0
Hydrocarbons	--	--
Manufactured tobacco products	--	--
Alcohol, fermented beverages and intermediate products	--	--
Beer	--	--
Electricity	--	--
Property conveyance tax	178,4	196,4
Document duty	45,3	49,3
Other indirect taxes	273,0	213,8
FEES AND OTHER REVENUE	35,9	100,6
TOTAL AGREED TAXES	17.130,70	18.072,90

Basque Government 2023 Budget

Revenue EUR 14,250.7M



Expenditure EUR 14,250.7M

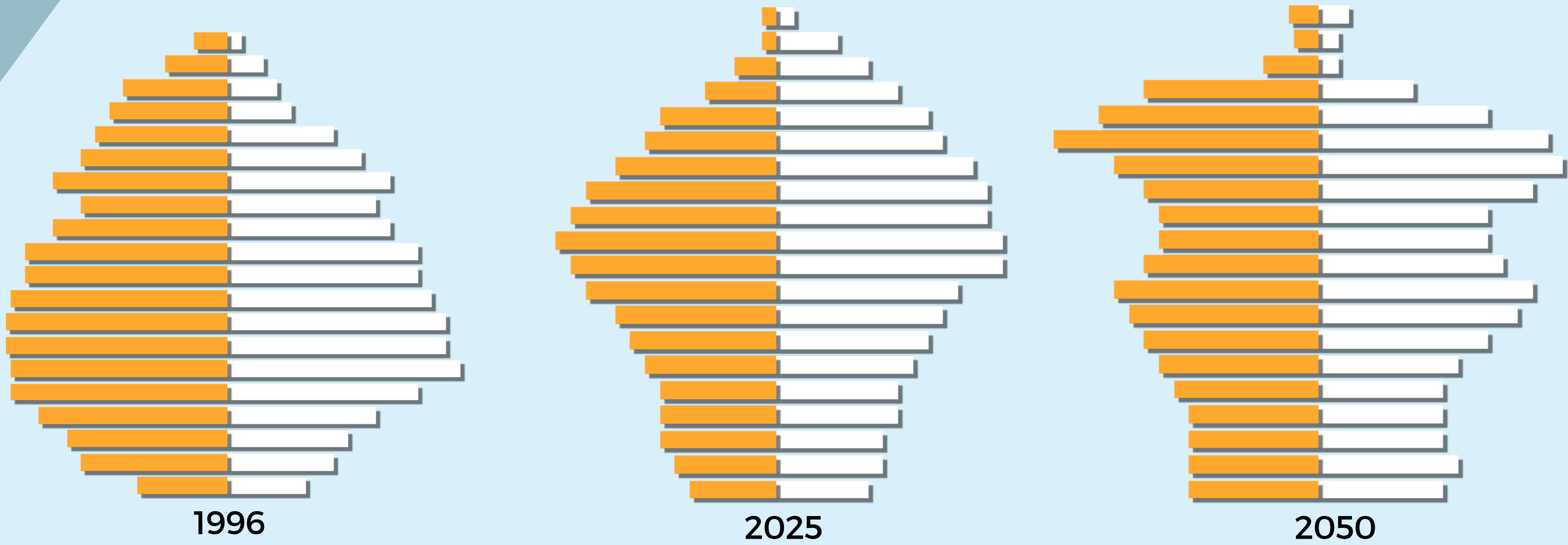


Source: Basque Government.

Demographic Imbalances

- Lowers fertility rates
- High life expectancy
- Retirement among most numerous generations

Population pyramids

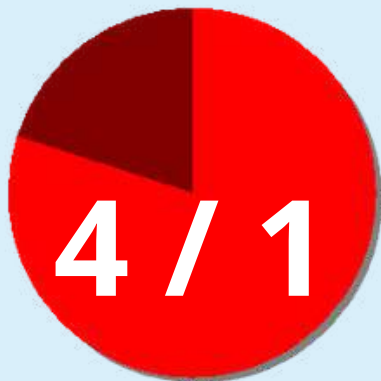


Demographic Imbalances

Ratio of people of working age to people who are retired



1980



1996



2025

- A smaller number of people contributing to the system must sustain a growing number of retirement pensions
- The increase in life expectancy means that more non working years must be financed

Physical and Socio-demographic Radiography	Basque Country figures
Life expectancy	80,84 years old (men) / 86,39 (women)
Population growth rate	-0.30%

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Basque Country Current Supplementary Pension System

Voluntary Supplementary Pension Funds (VSPF)

Background:

- Autonomy Statute
- Law 25/1983
- Decree 87/1984
- Law 5/2012
- Future Decree

Definition

- Voluntary Supplementary Pension Funds are institutions which develop voluntary social security activities, with the specific aim of protecting their members against different coverage or their property against predictable and/or unpredictable risks.

Characteristics

- Non profit making.
- Fully independent legal status.
- Patrimony separated from society or promoting institution.
- Transparent management.
- Members participate democratically in governing it.
- Satisfying economic benefits which the collective have agreed on.
- Promoting saving for all members, guaranteeing and protecting their rights.
- Headquarters in the Basque Country Autonomous Community.

Basque Country Current Supplementary Pension System

Benefits

- Retirement.
- Death.
- Temporary or permanent disability
- Serious illness.
- Long term unemployment.
- Health care.
- Burials and funerals.
- Repairing damage to member's property (housing, furniture, cattle, harvest, etc.)

Basque Country Current Supplementary Pension System

Income tax regime for the pension funds:

- The Voluntary Supplementary Pension Funds which award benefits for retirement, disability, death, serious illness and long term unemployment will pay Company Tax at a rate of 0%.

Income tax regime for member's contributions:

- Deductible from the general tax assessment base for Income Tax with the general limit of 12.000€ every year. (8.000€ occupational systems + 5.000 individual schemes)

Income tax regime for member's contributions:

- When the benefits is received as lump sum, they will receive a reduction of 40% the first time.
- If the benefit is received as annuity, 100% of it will be incorporated into the tax assessment base.

Supplementary Pension Plan in the Basque Country

Philosophy:

- From a perspective of real progress and social justice, Voluntary Supplementary Pension System must fulfil a wider social function and meet all society's needs. It must be GENERALISED, or in other words, DEMOCRATISED.
- Generalization of the Supplementary Pension System, access to it for the majority of the working population, will only come about through occupational pension systems (sector and company based) with collective negotiation as the driving force.

Strategy:

- Our social protection system combines the use of the three PILLARS in terms of pensions:
- Firstly, and most importantly, the public Social Security system, as a fundamental basis to guarantee access to a pension.
- The second pillar, or in other words, occupational systems (sector or company based)
- The third pillar, made up of individual systems.

Objectives:

- Attain 70% membership for the supplementary pension system from people receiving standard and professional incomes.
- Supplementary pension system will cover 20% of final salaries in the future

Supplementary Pension Plan in the Basque Country

1.- Promote IMPLANTATION of the occupational systems

● The requisites required from the specially protected occupational systems are as follows:

- 1.- collective membership
- 2.- no discrimination principle
- 3.- limited objectives and sufficient contributions
- 4.- liquidity
- 5.- receiving the benefits in the form of certain annuity
- 6.- limited costs

2.- Generate TRUST in sector and company-based occupational pensions

- Promoting simple, efficient, transparent and understandable systems equipped with due level of professionalisation.
- The real protagonists to develop these systems are social agents who can join this framework voluntarily if this is established in their collective negotiation.

3.- Increasing the efficiency and the adaptation of individual or third pillar systems

- Assessing their flexibility, and therefore, their capacity to respond to specific personal needs
- Regulation of commercialisation of these social provisions, of the information to provide to associated people, transparency for costs

Supplementary Pension Plan in the Basque Country

Conclusion

- The strategy therefore consists of defining a regulating framework and promotion instruments which help to create a second pillar of pensions as a generalised supplementary system which, always jointly with the Public Social Security, satisfies sufficient, efficient and secure future pensions.

Basque Country Current Supplementary Pension System

Situation in 2022

- 68 EPSVs (Voluntary Supplementary Pension Funds)
- 1.150.275 contributions, with growth of 0.57% vs. 2021.
- 26% (247.213 / 962.900) of the working population is a member of an Occupational or Professional pension plan.
- The accumulated wealth reached 26,887 million euros, 31.64% of GDP.

Situation 2022

					M€
TYPE OF EPSV	NUMBER of EPSV	MEMBERS	GLOBAL BALANCE	CONTRIBUTIONS	BENEFITS
EPSV FOR PENSIONS	68	1.150.275	26.887.502	834.647	667.448
Asociated	2	1.342	20.239	249	464
Occupattional	37	161.471	4.250.798	165.778	150.306
Occupattional Preferents	3	367.588	10.656.172	252.488	314.492
Individual	26	619.874	11.960.291	416.132	202.186

From now on

- Decree that will approve the Regulation of the EPSV Act 5/2012 and which will introduce basic aspects to the supplementary system in order to strengthen our model.

1

Aspects of Socially Responsible Investments are developed in the EPSV. Formulas for identifying and approving socially responsible policies.

2

New assets suitable for EPSV investments are defined as well as new limits.

3

The regulation for the financing of technical provisions is developed, distinguishing between financing plans (when the debt of a plan belongs to the protective partner) and rebalancing plans (when the protective partner is not obliged to face the deficit).

4

The classification of pension plans is established based on investment orientation.

5

The participation and representation of members in governing bodies is regulated. Representation formulas are facilitated and the need to seek new participation mechanisms intensifies.

6

Provident plans intended for the payment of benefits (for liabilities) are regulated in order to reduce their administration expenses.

7

Related operations are defined to avoid interference in the activities of the promoter partners' companies.

News of the decree

8

New data is added to the General Membership File.

9

Demands are raised to achieve a balanced division in the governing bodies between men and women.

10

The operation of the EPSV and Preferred Employment pension plans is developed.

11

In relation to administration expenses, there is a decrease in them for the benefit of the members who will see their pension increased.

12

The moment of attachment of the economic rights of the members is established when the request for the benefit or rescue by said persons occurs.

13

The minimum capital is established for its conversion into income for preferential employment EPSVs.

BASQUE COUNTRY
SUPPLEMENTARY PENSION SYSTEM

Thank you for your attention

EUSKO JAURLARITZA



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