Social Security Reserve Fund

Report to Parliament

Evolution, actions in 2021 and situation as of 31 december 2021

GOBIERNO DE ESPAÑA
MINISTERIO DE INCLUSIÓN, SEGURIDAD SOCIAL Y MIGRACIONES
SECRETARÍA DE ESTADO DE LA SEGURIDAD SOCIAL Y PENSIONES

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SECRETARIAT OF STATE FOR SOCIAL SECURITY AND PENSIONS

Summary

1. Introduction

In the 1990s, the establishment of stabilisation and reserve funds to meet future needs in terms of contributory benefits, caused by deviations between Social Security income and expenditure, was an institutional requirement for the Social Security system.

As a result of the initial dialogue on this issue between the different political and social forces and the government, the so-called Toledo Pact of April 1995 emerged, which established a series of recommendations aimed at ensuring the sustainability of the system. The reforms and measures that followed these recommendations constitute the path that our social security system has followed up to the present day. Meanwhile, the institutionalisation of the Reserve Fund, with the aim of protecting the system in situations of need, came with the approval of Law 24/1997, of 15 July, on the consolidation and rationalisation of the Social Security system.

Years later, Law 18/2001 of 12 December, the General Law on Budgetary Stability, established the priority application of the Social Security system's surplus to the Reserve Fund. Since that date, the priority application of the surplus to the Reserve Fund has been set out in successive budgetary stability rules. This precept is currently included in article 32 of Organic Law 2/2012 of 27 April on Budgetary Stability and Financial Sustainability.

In addition, Law 24/2001 of 27 December on fiscal, administrative and social measures established the Social Security Reserve Fund within the General Treasury of the Social Security, empowering the Government to set the Fund's allocation for each financial year.

With the approval of Law 28/2003 of 29 September, the legal regime of the Reserve Fund was established for the first time in a specific law. Currently, this regulation is contained in Royal Legislative Decree 8/2015, of 30 October, which approves the revised text of the General Social Security Act (GSSA). Pursuant to article 127 of the aforementioned consolidated text, this report is presented on the evolution and composition of the Social Security Reserve Fund in the financial year 2021.

The budget deficit situation in the Social Security between 2012 and 2019 made the Reserve Fund an essential instrument to guarantee the financial viability of the pension system.

The Toledo Pact Commission, in its new recommendations included in the Report on the Evaluation and Reform of the Toledo Pact, approved by the Plenary Session of the Spanish Parliament on 19 November 2020, proposed establishing a minimum Reserve Fund surplus subject to a stricter availability rule, considering that the Reserve Fund is not the appropriate mechanism for resolving financial imbalances of a structural nature, but that these should be addressed by means of equally structural reforms.

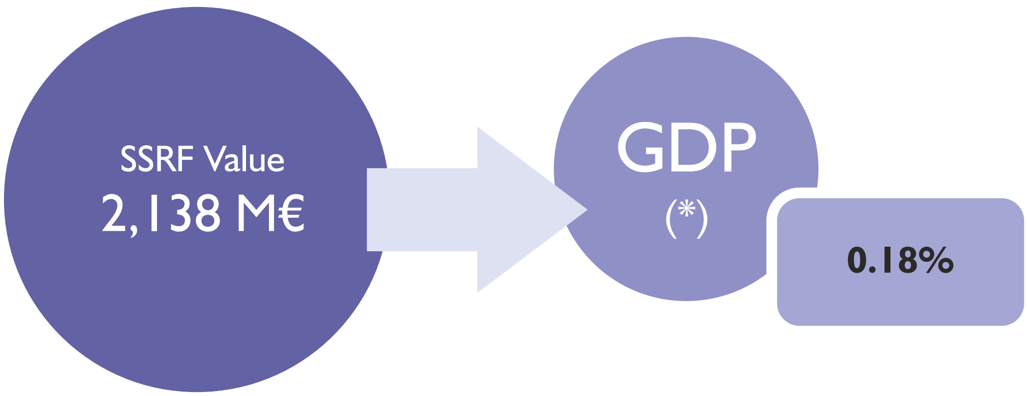
1. Introduction

Finally, Law 21/2021 of 28 December on guaranteeing the purchasing power of pensions and other measures to reinforce the financial and social sustainability of the public pension system regulates, in its fourth final provision, the Intergenerational Equity Mechanism. It aims to preserve the balance between generations and strengthen the long-term sustainability of the social security system. This mechanism provides for the Social Security Reserve Fund to be endowed with an additional contribution of 0.6% between 2023 and 2033. The development of this measure will involve changes to the current regulation of the Reserve Fund contained in articles 117 to 127 of the consolidated text of the GSSA and Royal Decree 337/2004, of 27 February, to guarantee that the use of this targeted quota and the returns it generates are used exclusively to cover deviations, where appropriate, in the level of expenditure as of 2032.

2 Fiscal year 2021 in figures

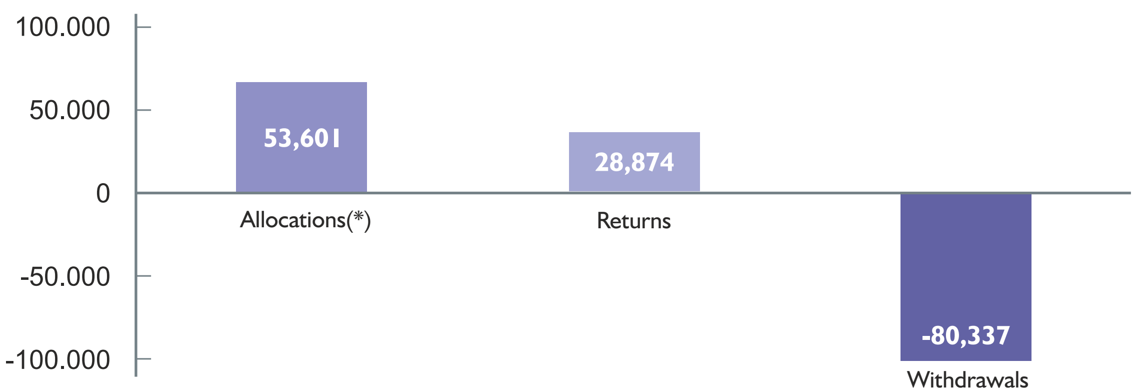
Social Security Reserve Fund

Position as at 31 December 2021



Note: M€ are million euros.
(*) The GDP for 2021, according to data from the National Statistics Institute (INE), published on 25 March 2022, based on CNE-2010, stood at 1,205,063 M€.

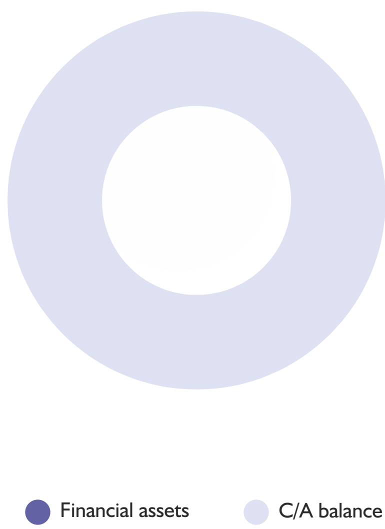
Allocations, returns and withdrawals up to 2021 (M€)



(*) From the surplus of managing entities and common services and partnering mutual societies.

Distribution of the Reserve Fund

Financial assets - C/A balance



Annualised average returns (*)

15 years	10 years	5 years	3 years	1 year
3.40%	2.58%	-0.23%	-0.23%	0%

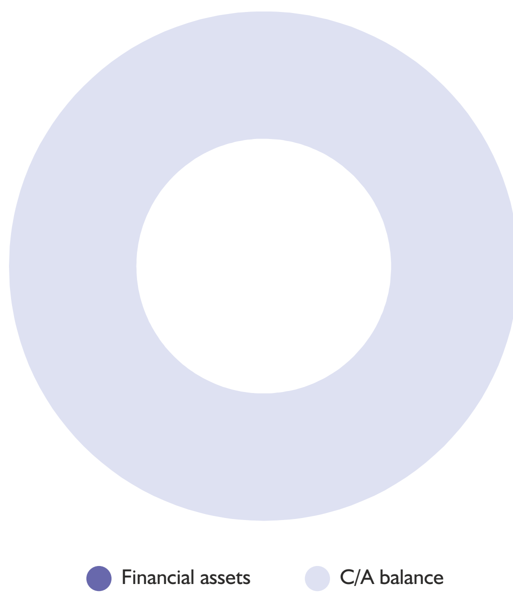
(*) See page 31 for a comparison of the average annualised returns of the Reserve Fund with private pension plans (individual system).

3 Position of the Reserve Fund as at 31 December 2021

At 31 December 2021, the Reserve Fund is fully deposited in the account opened at the Bank of Spain, with no investments in financial assets. The distribution of the Reserve Fund by type of asset is therefore as follows:

1-Financial assets	€ 0
2-Current account balance (C/A)	€ 2,137,923,025.06
TOTAL RESERVE FUND	**€ 2,137,923,025.06**

Distribution of the Reserve Fund



The amount of the Reserve Fund is 0.18% of Gross Domestic Product (GDP for 2021, according to data from the Spanish National Statistics Institute based on CNE-2010, published on 25 March 2022, stood at 1,205,063 million euros).

4 Evolution of the Reserve Fund

Since its creation, the Reserve Fund has developed as follows, in terms of allocations, returns earned and withdrawals made.

Cumulative data (M€)	2000 to 2013	2014	2015	2016	2017	2018	2019	2020	2021
1. ALLOCATIONS	**53,205**	**53,484**	**53,587**	**53,598**	**53,600**	**53,601**	**53,601**	**53,601**	**53,601**
1.a Council of Ministers´Agreement (*)	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113
1.b Mutual companies´surplus (**)	1,092	1,371	1,474	1,485	1,487	1,488	1,488	1,488	1,488
2. NET RETURNS GENERATED	**19,190**	**22,101**	**26,095**	**28,759**	**28,932**	**28,879**	**28,889**	**28,874**	**28,874**
2.a. Returns generated (***)	20,233	23,377	27,584	30,510	30,802	30,793	30,818	30,811	30,811
2.b. Adjustments due to amortisation/disposal of assets	-1,043	-1,276	-1,489	-1,751	-1,870	-1,914	-1,929	-1,937	-1,937
3. WITHDRAWALS (****)	**-18,651**	**-33,951**	**-47,201**	**-67,337**	**-74,437**	**-77,437**	**-80,337**	**-80,337**	**-80,337**
Total	**53,744**	**41,634**	**32,481**	**15,020**	**8,095**	**5,043**	**2,153**	**2,138**	**2,138**

Position as at 31 December of each financial year.

(*) Charged against the budget surpluses of the managing bodies and common services of the Social Security.

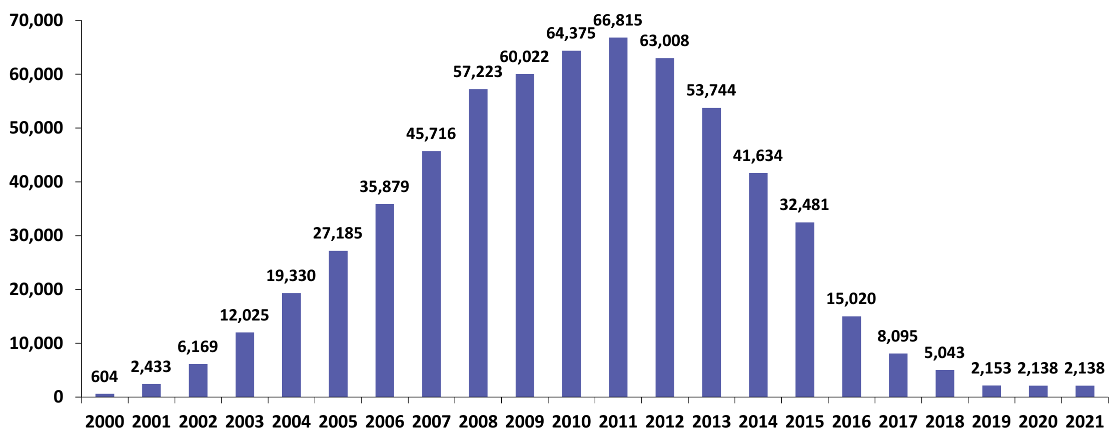
(**) Derived from the management by the mutual insurance companies partnering with the Social Security of the temporary incapacity benefit for common contingencies.

(***) Interest on current account, asset returns, results of disposal transactions and other income.

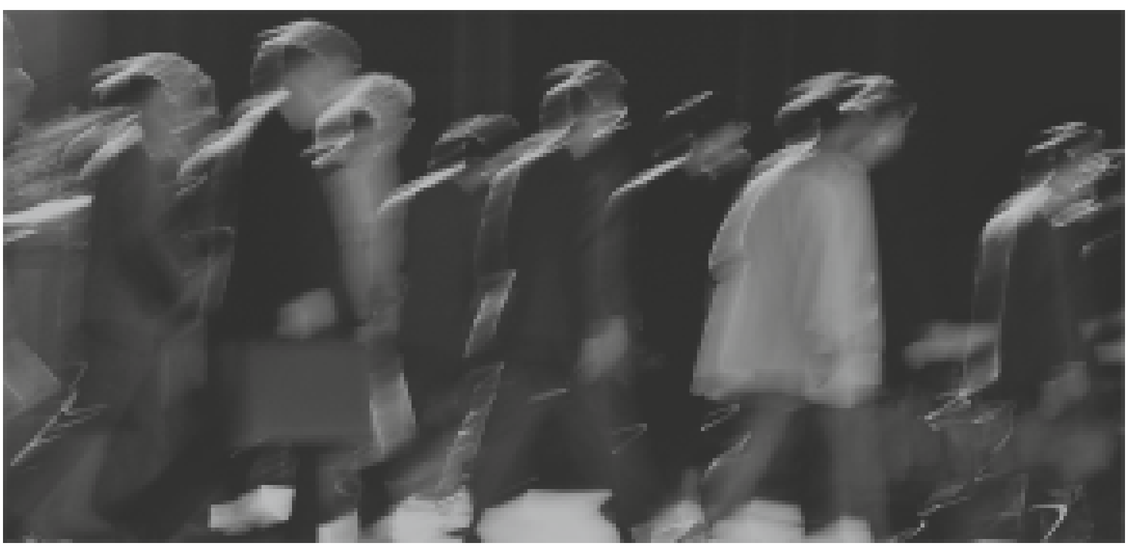
(****) By Agreement of the Council of Ministers of 27/09/2012, additional provision one of Royal Decree-Law 28/2012 of 30 November, additional provision ten of Law 36/2014 of 26 December, additional provision one hundred and twelve of Law 3/2017 of 27 June and Agreement of the Council of Ministers of 15/11/2019.

The evolution of the Reserve Fund by financial year is shown in the graph below:

General evolution of the Reserve fund (M€)
(At full acquisition price)



Position as at 31 December of each financial year.



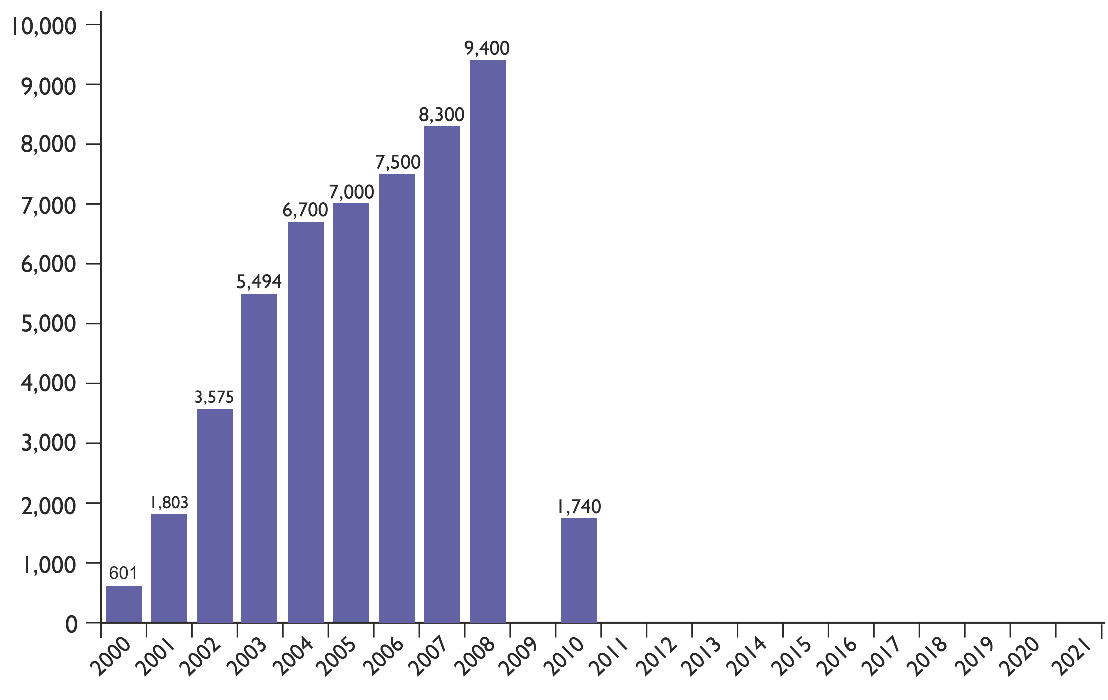
4.1. Allocations to the Reserve Fund

The allocations to the Reserve Fund from the first allocation approved in 2000 to 31 December 2021 amount to €53,601 million. Depending on their origin, the allocations are classified as allocations from the surplus of managing entities and common services and allocations from the surplus of mutual societies partnering with the Social Security, with the following distribution:

(*) Approved by Council of Ministers Agreement (ACM).

The allocations to the Reserve Fund agreed by the Council of Ministers, charged against the budget surpluses of the Social Security management entities and common services, from the first allocation approved in 2000 to 31 December 2021, amount to €52,113 million, and are shown in the following graph, with no such allocations to the Reserve Fund since 2010:

Surplus allocations to Social Security managing bodies and common services (M€)



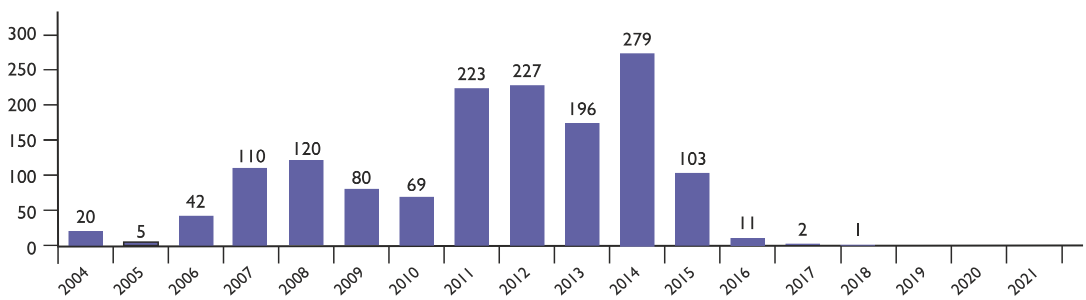
The following table shows, by date, the total allocations charged against the budget surpluses of the Social Security managing bodies and common services.

Surplus allocations to Social Security managing bodies and common services

Year	Quarter	Date	Amount (M€)	Subtotal (M€)	Cumulative total (M€)
2000	4º	16/10/2000	240		
		12/12/2000	361		
				601	601
2001	2º	11/05/2001	240		
	4º	23/11/2001	1,563		
				1,803	2,404
2002	2º	25/04/2002	1,052		
		25/06/2002	840		
	3º	27/08/2002	840		
		27/09/2002	843		
				3,575	5,979
2003	1º	26/02/2003	1,202		
		28/02/2003	0		
	3º	08/07/2003	1,200		
		11/09/2003	1,092		
	4º	19/12/2003	2,000		
				5,494	11,473
2004	1º	04/03/2004	3,000		
	2º	17/06/2004	3,700		
				6,700	18,173
2005	1º	18/02/2005	3,500		
	3º	12/07/2005	3,500		
				7,000	25,173
2006	2º	15/02/2006	3,700		
	3º	18/07/2006	3,800		
				7,500	32,673
2007	1º	21/02/2007	4,000		
	3º	17/07/2007	4,300		
				8,300	40,973
2008	1º	12/02/2008	4,700		
	3º	01/07/2008	4,700		
				9,400	50,373
2009					
				0	50,373
2010	1º	02/03/2010	1,740		
				1,740	52,113

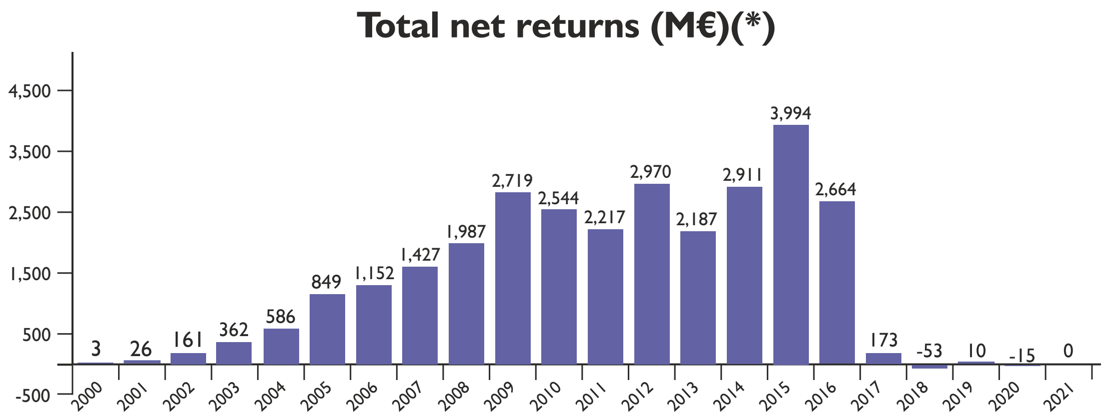
The amounts allocated by way of surplus derived from the management by the mutual societies partnering with the Social Security of the temporary incapacity benefit for common contingencies amounted to €1,488 million at 31 December 2021 and were paid into the account exclusively allocated to the Reserve Fund. They are presented in the following graph, according to the year of entry, the latest of which took place in 2018:

Mutual Social Security partnering societies' surplus allocations (M€)



4.2. Reserve Fund Returns

The net returns since the first allocation to the Reserve Fund, approved in 2000, to 31 December 2021 amount to €28,874 million. Their breakdown by year is presented in the following graph:

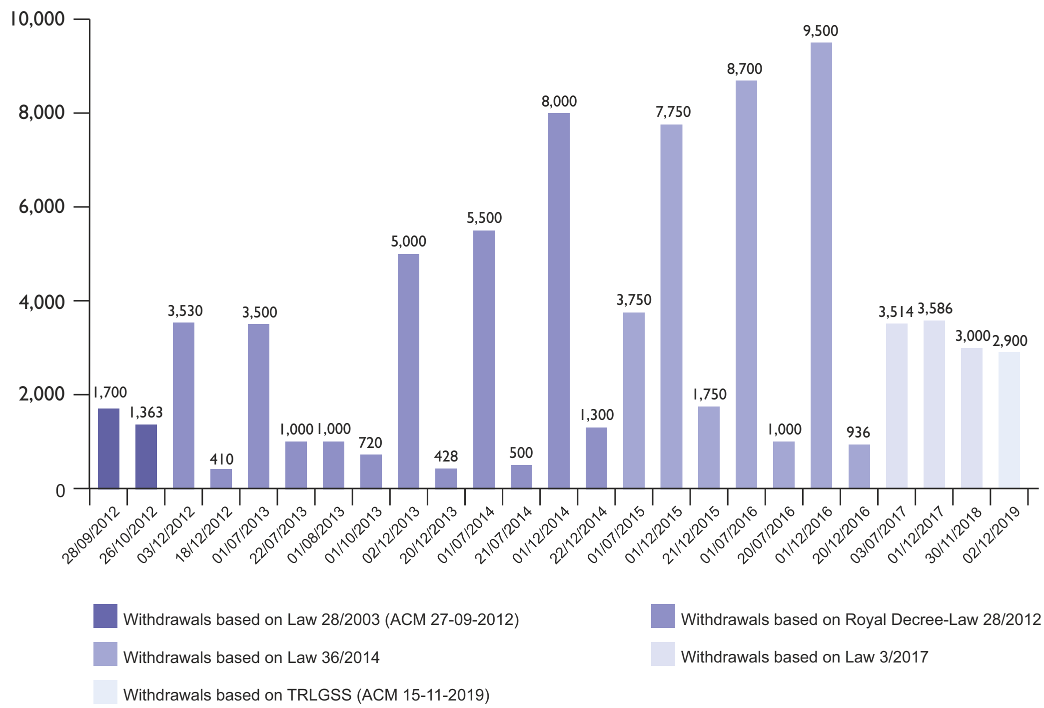


(*) The amounts shown in the graph include the accounting adjustments made in each financial year for the amortisation and disposal of assets (implied returns and accrued interest).

4.3. Withdrawals from the Reserve Fund

Withdrawals from the Reserve Fund in 2012 to 2021 amounted to €80,337 million and are shown in the graph below:

Withdrawals from the Reserve Fund (M€)



As of 2012, the Social Security's financial shortfalls made it necessary to use the Reserve Fund to enable the Social Security General Treasury to meet its payment obligations in a timely manner. Successive withdrawals from the Reserve Fund have been made under the following rules:

- **Agreement of the Council of Ministers of 27 September 2012**, in application of article 4 of Law 28/2003, of 29 September, regulating the Social Security Reserve Fund, which established the ordinary limit for withdrawal of the Fund at 3% of the budget credit for contributory pensions and other expenses necessary for its management.

4. Evolution of the Reserve Fund

- **Royal Decree-Law 28/2012, of 30 November, on measures to consolidate and guarantee the Social Security system**, which renders ineffective the limit of three per cent established on a general basis in article 4 of the aforementioned Law 28/2003, of 29 September, for the financial years 2012, 2013 and 2014, being able to make available in the aforementioned financial years, as needs arise, up to a maximum amount equivalent to the amount of the deficit for non-financial operations showing the settlement forecasts of the budgets of the managing bodies and common services of the Social Security.
- **Law 36/2014 of 26 December 2014, on the General State Budget for 2015**, which in its tenth additional provision, extends the validity of the extraordinary regime of withdrawals to the financial years 2015 and 2016.
- **Law 3/2017 of 27 June 2017 on the General State Budget for the year 2017**, which, in its additional one hundred and twelfth provision, renders the general limit of three percent void for the financial years 2017 and 2018.
- **Agreement of the Council of Ministers of 15 November 2019**, in application of article 121 of Royal Legislative Decree 8/2015, of 30 October, approving the revised text of the General Social Security Act, which establishes the ordinary limit and authorises the withdrawal of the Social Security Reserve Fund in the financial year 2019 for a maximum amount equivalent to 3% of the budget credit for contributory pensions and other expenses necessary for its management.

No withdrawals from the Reserve Fund have been made in 2020 and 2021.

The total withdrawals up to 31 December 2021 are presented in the table below:

Total Reserve Fund Withdrawals

Regulation	Year	Quarter	Date	Amount (M€)	Subtotal (M€)	Cumulative total (M€)
ACM 27-09-2012	2012	3°	28/09/2012	1,700		
		4°	26/10/2012	1,363		
					3,063	3,063
Royal Decree-Law 28/2012, of 30 November		4°	03/12/2012	3,530		
			18/12/2012	410		
					3,940	7,003
	2013	3°	01/07/2013	3,500		
			22/07/2013	1,000		
			01/08/2013	1,000		
		4°	01/10/2013	720		
			02/12/2013	5,000		
			20/12/2013	428		
					11,648	18,651
	2014	3°	01/07/2014	5,500		
			21/07/2014	500		
		4°	01/12/2014	8,000		
			22/12/2014	1,300		
					15,300	33,951
Law 36/2014, of 26 December	2015	3°	01/07/2015	3,750		
		4°	01/12/2015	7,750		
			21/12/2015	1,750		
					13,250	47,201
	2016	3°	01/07/2016	8,700		
			20/07/2016	1,000		
		4°	01/12/2016	9,500		
			20/12/2016	936		
					20,136	67,337
Law 3/2017, of 27 June	2017	3°	03/07/2017	3,514		
		4°	01/12/2017	3,586		
					7,100	74,437
	2018	4°	30/11/2018	3,000		
					3,000	77,437
ACM 15-11-2019	2019	4°	02/12/2019	2,900		
					2,900	80,337
	2020					
					0	80,337
	2021					
					0	80,337

5. Latest actions

5.1. Actions in 2020

In 2020, the assets in which the Reserve Fund was invested matured and the management decisions of the Social Security Reserve Fund were mainly conditioned by the uncertainty generated by the health crisis caused by COVID-19. In addition, the market scenario for Spanish government bonds in 2020 presented historically minimum returns in most of the time periods of the interest rate curve. Assets with negative returns that exceeded the deposit facility rate set by the European Central Bank (-0.50%) had medium-term maturities (5-year tranche), assets with positive returns were in tranches from 10 years onwards, and returns on assets with longer maturities were very low.

In this context, the Reserve Fund Management Committee, at its meeting on 27 November 2020, agreed, within the framework of the criteria approved for 2020 and the financial environment described above, to maintain on current account the balance of the Reserve Fund as at that meeting (€2,137.92 million), thus following a criterion of maximum prudence.

5.2. Actions in 2021

5.2.1. Agreements of the Management Committee in 2021

On 28 December, Law 21/2021 on guaranteeing the purchasing power of pensions and other measures to reinforce the financial and social sustainability of the public pension system was approved. The fourth final provision of the Law regulates the Intergenerational Equity Mechanism (hereinafter, IEM), which establish the endowment of the Social Security Reserve Fund with an additional contribution of 0.6%, as of 2023, and its withdrawal as of 2032 in order to finance the deviation of expenditure with respect to the established threshold.

The Management Committee should decide on the investment criteria of the Reserve Fund and the financial assets in which to invest the balance of the Reserve Fund in the context of the negotiation of the above-mentioned law in the months prior to its adoption, also taking into account the situation of the financial markets, still marked by negative interest rates in the medium term combined with high volatility. Throughout 2021, assets with negative returns that exceeded the deposit facility rate set by the European Central Bank (-0.50%) had medium-term maturities (tranches between 2 and 4 years), assets with positive returns were located in tranches from 6 years onwards, and returns on assets with longer maturities remained at very low levels.

While the existence of new allocations and new requirements for withdrawals from the Reserve Fund would be novel factors to be taken into account in the Committee's investment decisions, the implementation of the IEM and its practical impact on management were conditional on the further regulatory development of this measure, which would imply changes to the current regulation of the Reserve Fund. In this scenario, on 14 December 2021, a proposal was submitted by e-mail to the members of the Reserve Fund Management Committee for authorisation to maintain the amount of 2,137.92 million euros of the Social Security Reserve Fund in the account opened at the Bank of Spain until a new meeting of the Management Committee was held, a proposal to which all its members agreed.

5.2.2. Investment and management criteria applied in the financial year 2021

The investment and management criteria for the Reserve Fund, approved by the Management Committee, determine the securities in which the Reserve Fund will be invested and the general investment guidelines. The criteria in force in 2021 are set out below:

- The Social Security Reserve Fund will invest in Spanish Public Debt and may invest in German, French and Dutch Public Debt and in assets issued by ICO (Instituto de Crédito Oficial). All assets must be issued in euro, be of high credit quality and traded on regulated markets or organised trading systems.
- The investment in Public Debt of non-Spanish issuers approved by the Management Committee of the Social Security Reserve Fund will be limited so that the total amount of foreign debt in the total portfolio does not exceed the limit of 55% in nominal value.
- If market conditions make it advisable, asset disposals are envisaged in accordance with criteria of security, profitability and diversification.
- The Social Security Reserve Fund will be managed taking into account the time horizon determined by the planning of future inflows and withdrawals to cover contributory pensions, which is carried out by the Secretariat of State for Social Security and Pensions.
- The maturity structure of the securities in the portfolio should be balanced, avoiding excessive concentration of maturities by period.

5. Latest actions

- The Spanish securities of the Social Security Reserve Fund will be diversified, avoiding concentrations of the same benchmark in the portfolio, the weight of which in relation to the nominal outstanding balance will not exceed, as a general rule, 16%. However, this maximum percentage of each benchmark will be increased from 16% to 35% for those benchmarks where this is strictly necessary to meet the conditions of the investment. This is without prejudice to the policy of the issuer, which shall not automatically condition the investment decisions of the Fund. In addition, this 35% limit may, exceptionally, be exceeded for certain short-term benchmarks in which it is considered appropriate to invest.
- The nominal volume of all Spanish Treasury benchmarks in the Social Security Reserve Fund portfolio in relation to total outstanding Treasury debt (bills, bonds and obligations), excluding issues in foreign currency, will not exceed 12%.
- At the time of investment, purchases in the Benchmark index will be prioritised in the portfolio.
- For the purposes of the valuation established in the Adaptation of the Spain's General Public Accounting Plan to the entities that make up the Social Security system, the Public Debt assets that make up the Social Security Reserve Fund are classified as "Available-for-sale financial assets".

6. Analysis of the Reserve Fund performance at 31 December 2021

6.1. Reserve Fund Returns

From the first allocation to the Reserve Fund approved by the Council of Ministers' Agreement in the financial year 2000 until 31 December 2021, the returns obtained by the Reserve Fund amount to €28,873.94 million. During the financial year 2021 no net returns have been generated.

The returns can be classified as coupons, net implied returns, gains on disposals, other income and interest earned on the current account of the Fund. Net returns include adjustments occurring at the time of amortisation or disposal of the assets for the accrued interest paid at the time of acquisition. The overall amounts obtained by the Reserve Fund are shown in the table below:

Total net returns

Concept	Amount (€)
Coupons	26,409,950,305.66
Net implide yields (1)	-2,037,924,814.89
Profit/(loss) on disposal transactions	6,118,911,481.05
Other income	-4,671,308.62
Adjustments due to amortisation/disposal of assets (2)	-1,936,561,803.49
Current account interest	324,233,583.84
Total net returns	**28,873,937,443.55**

(1) Difference between the nominal value and the ex-coupon acquisition price, which are recognised in full at the time of amortisation or disposal of the assets.

(2) Adjustment occurring at the time of amortisation or disposal of the asset for the accrued interest paid at the time of acquisition.

As regards coupons, a total of €26,409,950,305.66 was collected, distinguishing coupons collected on the maturity date, €25,558,458,031.76, from coupons obtained at the time of the disposal of the assets, €851,492,273.90, with the following breakdown:

Coupons collected

Year	At maturity (€)	At disposal (€)	Total amount (€)
2001	18,699,000.00		18,699,000.00
2002	120,425,190.08		120,425,190.08
2003	338,265,455.84		338,265,455.84
2004	592,924,827.64		592,924,827.64
2005	857,615,313.37		857,615,313.37
2006	1,171,273,841.45		1,171,273,841.45
2007	1,535,058,217.03		1,535,058,217.03
2008	2,034,850,211.79		2,034,850,211.79
2009	2,339,694,054.23	156,913,647.84	2,496,607,702.07
2010	2,478,598,524.41	91,216,232.39	2,569,814,756.80
2011	2,709,616,791.70		2,709,616,791.70
2012	2,765,822,459.74	58,802,906.46	2,824,625,366.20
2013	2,561,622,105.56		2,561,622,105.56
2014	2,243,846,346.50	147,071,866.64	2,390,918,213.14
2015	1,790,818,506.50	239,048,434.14	2,029,866,940.64
2016	1,159,723,202.92	158,439,186.43	1,318,162,389.35
2017	573,667,848.00		573,667,848.00
2018	183,329,300.00		183,329,300.00
2019	57,828,185.00		57,828,185.00
2020	24,778,650.00		24,778,650.00
2021			
Total	**25,558,458,031.76**	**851,492,273.90**	**26,409,950,305.66**

The net implied returns (obtained as the difference between the nominal value and the ex-coupon acquisition price, which are recognised in full at the time of amortisation or disposal of the assets) are detailed below:

Net implied returns

Year	Of amortisated securities (€)	Of disposed of securities (€)	Total amount (€)
2002	6,714,260.00		6,714,260.00
2003	17,220,919.74		17,220,919.74
2004	-14,800,848.92		-14,800,848.92
2005	7,627,818.36		7,627,818.36
2006	-14,445,823.13		-14,445,823.13
2007	-100,368,613.40		-100,368,613.40
2008	-70,394,705.16		-70,394,705.16
2009	-144.330,440.02	32,526,580.28	-111.803,859.74
2010	-65,155,129.73	-32,623,033.13	-97,778,162.86
2011	-352,313,679.93		-352,313,679.93
2012	-193,164,725.87	90,528,546.56	-102,636,179.31
2013	-251,607,366.30		-251,607,366.30
2014	-199,697,478.25	-89,181,162.29	-288,878,640.54
2015	-98,723,767.46	-96,604,608.60	-195,328,376.06
2016	105,013,436.76	-35,531,397.33	69,482,039.43
2017	-281,342,264.90		-281,342,264.90
2018	-192,464,934.27		-192,464,934.27
2019	-32,096,564.27		-32,096,564.27
2020	-32,709,833.63		-32,709,833.63
2021			
Total	**-1,907,039,740.38**	**-130,885,074.51**	**-2,037,924,814.89**

The result of disposals amounted to €6,118.91 million, with the following breakdown:

Disposal transactions result

Year	Amount (€)
2009	498,913,390.60
2010	185,377,136.85
2011	
2012	478,199,906.83
2013	
2014	1,041,120,454.32
2015	2,373,983,076.82
2016	1,541,317,515.63
2017	
2018	
2019	
2020	
2021	
Total	**6,118,911,481.05**

Until 31 December 2021, other income arose from dual security swap transactions, reverse repurchase agreements (called "repo" transactions), income from the offsetting of interest forgone due to the non-payment deadline of partnering mutuals, and interest income due to the failure of the counterparty in financial asset purchase transactions. The evolution of this income is detailed below by year and concept:

Other income

Year	Dual security swap transactions (€)	Reverse repurchase agreements (repos) (€)	Offsetting for late payments by partnering mutual societies (€)	Interest due to counterparty failure (€)	Total amount (€)
2007	44,755.52				44,755.52
2008	45,023.25		78,017.23		123,040.48
2009	11,269.09				11,269.09
2010					
2011	53,087.31				53,087.31
2012	40,254.17				40,254.17
2013	27,607.08				27,607.08
2014	24,001.92	22,183.54			46,185.46
2015		-1,947,508.57			-1,947,508.57
2016		-2,799,470.39			-2,799,470.39
2017					
2018				5,168.94	5,168.94
2019		-281,196.55		5,498.84	-275,697.71
2020					
2021					
Total	**245,998.34**	**-5,005,991.97**	**78,017.23**	**10,667.78**	**-4,671,308.62**

6. Analysis of the Reserve Fund performance at 31 December 2021

The following amounts were obtained for the interest accrued and collected on the current account opened with the Bank of Spain:

Current account interests

Year	Amount (€)
2000	2,779,240.69
2001	7,500,828.26
2002	33,507,299.15
2003	16,991,616.34
2004	35,243,455.27
2005	24,341,090.96
2006	33,743,035.77
2007	38,559,185.51
2008	93,906,295.36
2009	18,618,272.71
2010	4,359,772.06
2011	9,664,584.45
2012	3,160,265.51
2013	1,404,582.21
2014 (*)	454,059.59
2015-2021(*)	
Total	**324,233,583.84**

(*) The 2014 figure refers to the period when the Eonia remuneration was in force (from 1 January to 10 June). In the financial years from 2015 to 2021, the account has no longer been remunerated at positive rates. Negative interests are not charged to the Reserve Fund but are borne by the social security system, in accordance with its specific regulations.

Finally, with regard to adjustments for amortisation and disposal of assets[1], the following amounts have been obtained:

Adjustments to amortisation/disposal of assets

Year	Adjustments due to amortisation of assets (€)	Adjustments due to disposal of assets (€)	Total amount (€)
2003	-10,127,671.24		-10,127,671.24
2004	-27,994,229.11		-27,994,229.11
2005	-40,342,926.12		-40,342,926.12
2006	-37,745,774.46		-37,745,774.46
2007	-46,818,106.24		-46,818,106.24
2008	-71,255,374.93		-71,255,374.93
2009	-86,417,563.25	-96,846,522.35	-183,264,085.60
2010	-86,764,239.58	-31,432,533.89	-118,196,773.47
2011	-149,585,272.90		-149,585,272.90
2012	-174,890,719.20	-58,398,804.46	-233,289,523.66
2013	-124,194,336.56		-124,194,336.56
2014	-110,321,460.64	-122,180,770.35	-232,502,230.99
2015	-56,834,529.01	-156,350,039.60	-213,184,568.61
2016	-125,743,980.33	-136,317,009.62	-262,060,989.95
2017	-119,418,296.60		-119,418,296.60
2018	-43,833,617.03		-43,833,617.03
2019	-15,144,819.63		-15,144,819.63
2020	-7,603,206.39		-7,603,206.39
2021			
Total	**-1,335,036,123.22**	**-601,525,680.27**	**-1,936,561,803.49**

[1] The total acquisition price is the so-called "dirty" price, i.e. it includes the amount paid for any accrued interest—accrued but not collected—which, if any, is included in the asset. The inclusion of this amount entails a reverse adjustment of the amounts received when the asset matures or is disposed of to avoid double counting.

6.2. Performance of the Reserve Fund

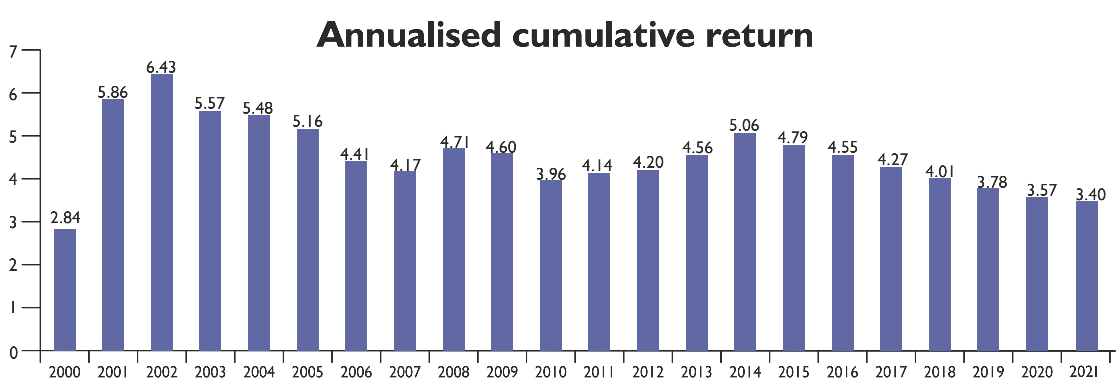
The cumulative performance of the Reserve Fund (securities portfolio plus Reserve Fund current account balance) is calculated using the method approved by the Social Security Reserve Fund Management Committee at its meeting on 11 November 2005, which technically adjusts the method previously applied, standardising it with that used by other investment and private pension funds. Its main feature is that it takes into account the market value of the Fund at the time of each allocation or withdrawal, allowing for an appropriate weighting of the contribution of each flow to the Fund's total return.

The cumulative performance of the Fund is obtained by comparing the net asset value of shares at the present time with the value at the time the Fund was established and then annualising the cumulative performance. The net asset value of the share unit is adjusted each time a new allocation or withdrawal takes place in order to discriminate the return contributed by each flow to the Fund's total by sub-periods.

For the purpose of the calculation, given that the Reserve Fund is held entirely on current account as at 31 December 2021, the so-called net asset value of the Reserve Fund at that date amounts to €2,137.92 million.

Based on this method, the cumulative return on the Reserve Fund from its creation in 2000 to 31 December 2021 is 103.35%, or 3.40% in annualised terms.

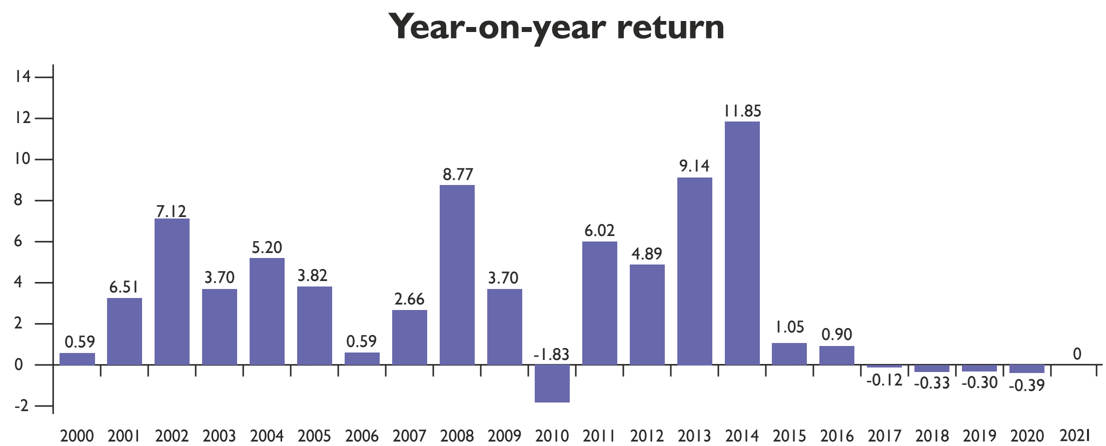
The evolution of the annualised accumulated return at the end of each year since the first allocation to the Reserve Fund approved by the Council of Ministers in 2000 is shown in the following graph:



Data in percentage.

The year-on-year return on the Reserve Fund for the year 2021 is 0%.

The year-on-year return on the Reserve Fund is shown in the graph below:



Data in percentage.

By way of summary, the following table shows the average annualised returns of the Reserve Fund as at 31 December 2021, as well as a comparison with private pension plans (individual system):

Average annualised returns on pension plans		15 years	10 years	5 years	3 years	1 year
	SSRF	3.40	2.58	-0.23	-0.23	0.00
INVERCO	SHORT-TERM FIXED INCOME	0.82	0.63	-0.35	-0.07	-0.64
INVERCO	LONG-TERM FIXED INCOME	1.85	1.85	0.06	0.84	-1.59
INVERCO	TOTAL PENSIONS PLANS	2.33	4.51	3.48	6.50	8.67

Data in percentage.

Annualised cumulative return as at 31-12-2021 over a period of 1, 3, 5, 10 years.

The 15-year return is deemed equivalent to the return from the start of the Reserve Fund.

Total pension plans refers to the total number of pension plans in the individual system including short term fixed income, long term fixed income, mixed fixed income, mixed variable income, variable income and guaranteed pension funds.

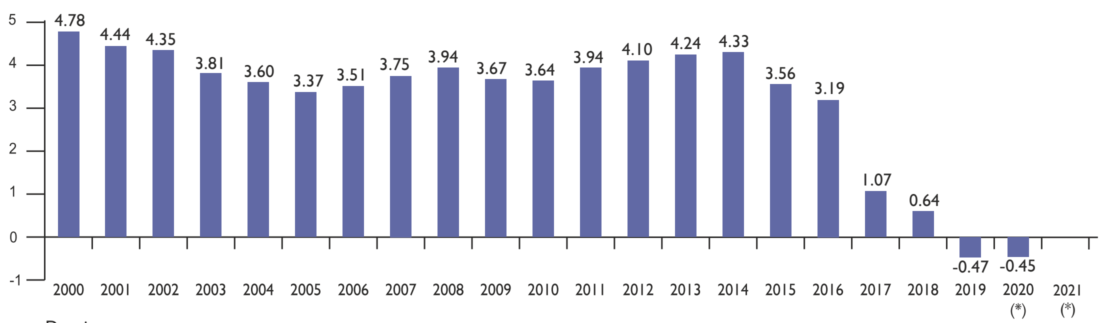
Source: TGSS; INVERCO.

6.2.1. Performance of fixed-income assets: Public Debt

The performance of the assets comprising the Fund's portfolio is defined by the IRR (internal rate of return) of each security at the time of purchase and is calculated as a weighted average over the nominal value. As at 13 November 2020, all the financial assets in which the Reserve Fund was materialised were amortised, so that as of that date and as long as there are no new acquisitions of financial assets, it is not appropriate to refer to an IRR for the acquisition of the assets.

The weighted average acquisition IRR on the nominal value of the assets held in the portfolio shows the following development per financial year:

Acquisition IRR evolution



Data in percentage.

IRR weighted average on nominal value.
(*) The 2020 figure refers to 12 November. As of that date, the entire Reserve Fund is held in account, so that from that date onwards it is no longer appropriate to refer to asset acquisition IRR.

6.2.2.Performance of the account "Social Security General Treasury Special Reserve Fund. Art. 91.1 T.R.L.G.S.S.".

On 11 June 2014 there was a change in the remuneration conditions of the accounts held by the Reserve Fund with the Bank of Spain. At the meeting of the Governing Council of the European Central Bank on 5 June 2014 it was agreed that the applicable interest rate would be zero per cent or the Deposit Facility rate if the latter is negative. Effective as at 11 June 2014, the deposit facility rate stood at -0.10% (currently -0.50%).

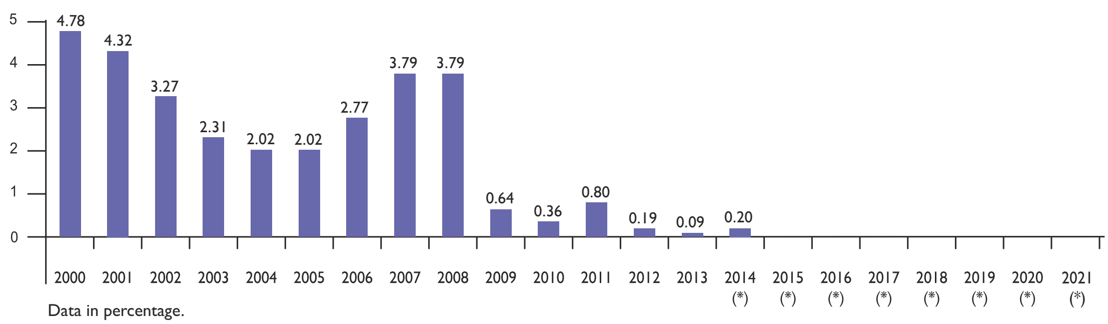
This measure would be effective from the aforementioned date for all accounts held by public sector entities, regardless of whether they were remunerated or not. However, taking into account that the periods for calculating interest on the accounts coincide with calendar months, the Bank of Spain applied the Deposit Facility rate, provided it remained at negative levels, to interest settlements made as from 1 July 2014.

Since 1 March 2015, on the basis of European Central Bank Guideline ECB/2014/9, the first €20 million of balances on the accounts held by the Reserve Fund with the Bank of Spain are remunerated at the Eonia interest rate, while balances in excess of this amount are remunerated at the Deposit Facility rate.

Negative interest charges are not passed on to the Reserve Fund but are borne by the social security system, in accordance with its regulations. Thus, despite the negative contribution to the current account since 2014, the negative interests have not reduced the value of the Reserve Fund.

The average, by year, of the rates applied is presented in the graph below:

Current account average interest rate



(*) The 2014 figure refers to the period when the Eonia remuneration was in force (from 1 January to 10 June). As of July 2014, the deposit facility rate is applied, with the negative interest generated being borne by the System. For this reason, the negative rates applicable to the remuneration of the accounts have not affected the Reserve Fund balances. The evolution of the deposit facility from June 2014 to 31 December 2021 is shown in the table below:

Deposit facility rate 11 June 2014 to 31 December 2021

Date variation	Facility Deposit Rate
11/06/2014	-0.10%
10/09/2014	-0.20%
09/12/2015	-0.30%
16/03/2016	-0.40%
18/09/2019	-0.50%

6.3 Performance summary

The table of percentages and the graph representing the evolution of the Fund's performance, analysed in detail in the previous sections, are summarised below:

Performance summary

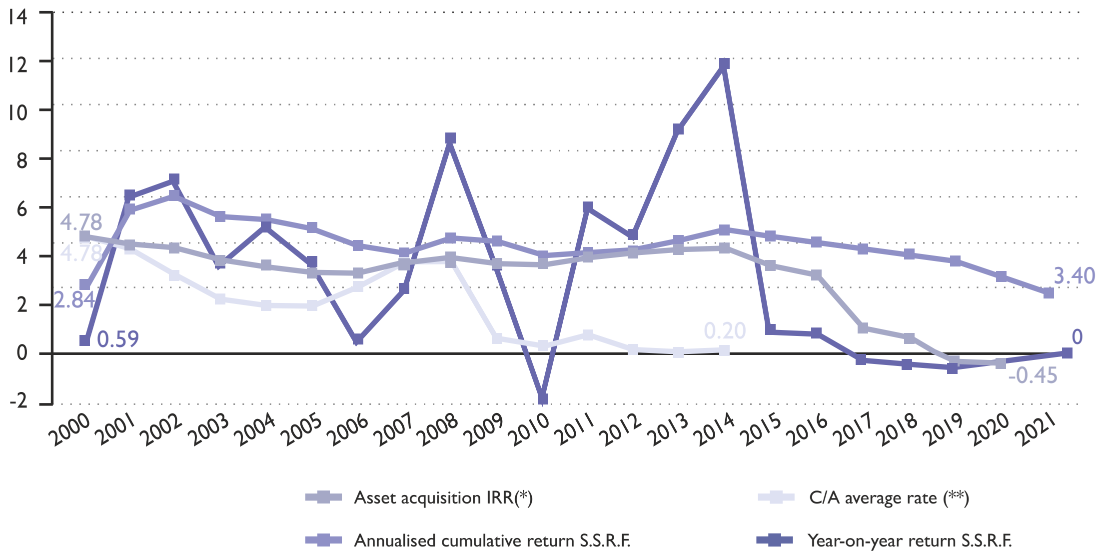
Year	Asset acquisition IRR	C/A average rate	Annualised cumulative return	Year-on-year return
2000	4.78	4.78	2.84	0.59
2001	4.44	4.32	5.86	6.51
2002	4.35	3.27	6.43	7.12
2003	3.81	2.31	5.57	3.70
2004	3.60	2.02	5.48	5.20
2005	3.37	2.02	5.16	3.82
2006	3.51	2.77	4.41	0.59
2007	3.75	3.79	4.17	2.66
2008	3.94	3.79	4.71	8.77
2009	3.67	0.64	4.60	3.70
2010	3.64	0.36	3.96	-1.83
2011	3.94	0.80	4.14	6.02
2012	4.10	0.19	4.20	4.89
2013	4.24	0.09	4.56	9.14
2014	4.33	0.20(*)	5.06	11.85
2015	3.56	(*)	4.79	1.05
2016	3.19	(*)	4.55	0.90
2017	1.07	(*)	4.27	-0.12
2018	0.64	(*)	4.01	-0.33
2019	-0.47	(*)	3.78	-0.30
2020	-0.45(**)	(*)	3.57	-0.39
2021	(**)	(*)	3.40	0.00

Data in percentage.

(*) The 2014 figure refers to the period when the Eonia remuneration was in force (from 1 January to 10 June). As of July 2014, the deposit facility rate is applied, with the negative interest generated being borne by the System. For this reason, the negative rates applicable to the remuneration of the accounts have not affected the Reserve Fund balances. See the evolution of the deposit facility rate on page 33.

(**) The 2020 figure refers to 12 November. As of that date, the entire Reserve Fund is held in account, so that from that date onwards it is no longer appropriate to speak of asset acquisition IRR.

Performance evolution



Data in percentage.

(*) The 2020 figure refers to 12 November. As of that date, the entire Reserve Fund is held in account, so that from that date onwards it is no longer appropriate to refer to asset acquisition IRR.

(**) The 2014 figure refers to the period when the Eonia remuneration was in force (1 January to 10 June). As of July 2014, the deposit facility rate is applied, with the negative interest generated being borne by the System. For this reason, the negative rates applicable to the remuneration of the accounts have not affected the Reserve Fund balances. See the evolution of the deposit facility rate on page 33.

7. Comparison of the most representative magnitudes of the Reserve Fund

This section provides a comparison of the value of the Reserve Fund in 2021 compared to 2020, at full acquisition cost, as well as the most representative magnitudes of the Reserve Fund. Finally, the evolution of their distribution at total purchase price is shown.

Comparison Reserve Fund value

Concept	Year 2020 (M€)	Year 2021 (M€)
Social Security Reserve Fund	2,137.92	2,137.92

Data as at 31 December of each financial year.

Comparison of the most representative magnitudes of the Reserve Fund

Concept	Year 2020	Year 2021
Return on fixed-income assets (IRR) acquisition	-	-
Return on fixed-income assets (IRR) market	-	-
Average current account rate	-	-
Annualised cumulative performance SSRF	3.57%	3.40%
Year-onyear performance SSRF	-0.39%	0.00%
Concentration level	-	-
Duration	0 years	0 years
Modified duration	0	0
% nominal value of foreign debt over total portfolio	-	-
% SSRF a total acquisition price over GDP (*)	0.19%	0.18%

Data as at 31 December of each financial year.

(*) The data for the financial year 2020 is expressed in relation to the GDP for 2020 (€1,121,948 million) and that of the financial year 2021 in relation to the GDP for 2021 (€1,205,063 million) according to data from the INE based on CNE-2010 published on 25 March 2022.

As at 31 December 2021, there is no change in the total amount of the Social Security Reserve Fund compared to 31 December 2020. Since the date of the last amortisation (13 November 2020), the entire Fund is held on account and has remained unchanged.

Annex. Economic and financial information about the annual accounts

This report on the actions for the year 2021 and the situation of the Reserve Fund as at 31 December 2021, which is submitted to Parliament, in compliance with article 127 of Royal Legislative Decree 8/2015 of 30 October, approving the revised text of the General Social Security Act, is intended to provide information on the management and actions carried out during the year, which have been based on the decisions of the Management Committee as the highest management and control body. Specifically, the most representative data of the Reserve Fund as at 31 December 2021 are detailed, such as its value, composition, distribution by portfolios, performance and market value.

The aforementioned information, from the point of view of management, presentation of data, breakdown of information by time periods and valuation at market prices, has a different approach, in specific sections, to the economic-financial information included in the annual accounts, in accordance with the applicable accounting principles.

Order EHA/1037/2010 of 13 April 2010 approved the Spain's General Public Accounting Plan as a framework accounting plan for all Public Administrations.

By Resolution of 1 July 2011 of the Controller General of the State Administration, the Adaptation of the Spain's General Public Accounting Plan to the entities that make up the Social Security system was approved.

Given the nature of the securities in which, by law, the Social Security Reserve Fund may be realised, they can only be classified for valuation purposes under the categories of "Held-to-maturity investments" or "Available-for-sale financial assets".

At its meeting of 11 February 2014, the Social Security Reserve Fund Management Committee, on the basis of the report of the Controller General of Social Security, determined, for the purposes of the valuation established in the Adaptation of the Spain's General Public Accounting Plan to the entities that make up the Social Security system, that the Public Debt financial assets comprising the Social Security Reserve Fund should be reclassified, with year-end effects, from "Held-to-maturity investments" to "Available-for-sale financial assets" if during the financial year there were changes in the intention or financial ability to hold them in the held-to-maturity investment category.

Finally, additional information is provided on the equity position of the Social Security Reserve Fund based on the accounting data for the end of the 2021 financial year.

Financial position of the Reserve Fund as at 31 December 2021

Concept	Amount (€)
Long-term debt securities available for sale	**0.00**
- National Portfolio	0.00
- Eurozone Portfolio	0.00
Short-term debt securities available for sale	**0.00**
- National Portfolio	0.00
- Eurozone Portfolio	0.00
Financial balance allocated to the Social Security Reserve Fund	**2,137,923,025.06**
Short-term interest on debt securities	**0.00**
- National Portfolio	0.00
- Eurozone Portfolio	0.00
Other short-term interest receivable	**0.00**
Total	**2,137,923,025.06**