The Greek Pension Reform Strategy 2010-2014

A leap forward

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THE OUTLOOK OF THE SYSTEM

Pillar I
- Main pension
- Secondary pension (auxiliary)
- Lump-Sum benefit*
- Means-tested pension

Pillar II
- Few IORPs est. 2004 and on

Pillar III
- Negligible

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THE CHALLENGES

The inherent Greek problems

• Excessive number of funds
• Different rules
• Indexation rules
• People’s mentality and lack of SS-related education
  • media
  • politicians
• Illegal migration flows
• Very high contribution rates (almost 45%)
• Legal connection between funds and the Bank of Greece

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THE ACTUAL REFORM

The 2010 Reform

• A new pension logic
• Lower accrual rates
• Higher statutory retirement age (65-today 67), adjustable according to life expectancy from the year 2021.
• The full contributory period increases 35 → 40 years.
• Indexation of benefits
• Pensionable earnings
• Long-term viability
PENSION REFORMS – RECOMMENDATIONS BY THE EC

• The Recommendations
  • (a) link the retirement age with increases in life expectancy;
  • (b) restrict access to early retirement schemes and other early exit pathways;
  • (c) support longer working lives
  • (d) equalize the pensionable age between men and women;
  • (e) support the development of complementary retirement savings to enhance retirement incomes.

• The prerequisites checklist
  • Reduce pensions
  • Alter indexation rule
MORE REFORMS SINCE 2010 UNDER THE MTFS

December 2011

- A substantial revision of the list of heavy and hazardous occupations, reducing the number of workers by 30%.

March 2012

- A vast reform of the auxiliary pension (DB → BNDC)

November 2012

- A reduction in employer’s contributions by 1.1% in the Private Sector, to be reduced by another 4 until 2016
- Statutory retirement age is 67

2012–2013

- Administrative reform
- Lump-sum benefits recalculation
HORIZONTAL PENSION REDUCTIONS


- Two annual payments of pensions lost
- Monthly Contribution on Auxiliary Pensions
- Monthly contribution on Main pensions
- Reduction of the tax allowance (personal exemption) by \( \frac{1}{4} \), extended to the full amount in some cases
- Zero indexation until 2014 (extended to 2015)
- Special reductions for pensioners below 60yo, on top of the extra contributions
- A reduction of 40% to the pre 55yos Fund
- Main and Auxiliary pensions cut further by 10, 15, 20%
The Evolution of Public Pension Expenditure Up until the Debt Crisis

Total Public Pension Expenditure / GDP
1994-2009

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THE EVOLUTION AFTER THE DEBT CRISIS
TOTAL PENSION EXPENDITURE IN BIL. EUROS
UNDER
THE MEDIUM - TERM FISCAL STRATEGY 2015-2018

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## The Impact of the Reforms – Ageing Working Group Results

<table>
<thead>
<tr>
<th>Change in Public pension expenditure to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 (2007-2060)</td>
</tr>
<tr>
<td>2012 (2010-2060)</td>
</tr>
<tr>
<td>2015 (2013-2060)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>2013</th>
<th>2020</th>
<th>2040</th>
<th>2060</th>
<th>Change 2013-2060</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>16.2</td>
<td>15.5</td>
<td>14.1</td>
<td>14.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>EU</td>
<td>11.3</td>
<td>11.2</td>
<td>11.7</td>
<td>11.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Euro Area</td>
<td>12.3</td>
<td>12.4</td>
<td>13.1</td>
<td>12.3</td>
<td>0.0</td>
</tr>
</tbody>
</table>
### The Impact of the Reforms – OECD Replacement Rates

#### Gross Pension Replacement Rates

**Low-Average-High earners**

**2012**

<table>
<thead>
<tr>
<th></th>
<th>Greece</th>
<th>Denmark</th>
<th>Ireland</th>
<th>Germany</th>
<th>Portugal</th>
<th>Spain</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low earners</td>
<td>75.4</td>
<td>120.7</td>
<td>73.4</td>
<td>42.0</td>
<td>67.5</td>
<td>73.9</td>
<td>71.0</td>
</tr>
<tr>
<td>Average earners</td>
<td>53.9</td>
<td>78.5</td>
<td>36.7</td>
<td>42.0</td>
<td>54.7</td>
<td>73.9</td>
<td>54.4</td>
</tr>
<tr>
<td>High earners</td>
<td>46.7</td>
<td>64.4</td>
<td>24.5</td>
<td>42.0</td>
<td>54.1</td>
<td>73.9</td>
<td>48.4</td>
</tr>
</tbody>
</table>

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AVERAGE CONTRIBUTORY PERIODS (IN YEARS) FOR MAIN AND AUXILIARY PENSIONS 2010-2060 AND TOTAL 2013-2060

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**DEMOGRAPHY (1)**

- Greek total population, working age population and population over 65 years old (in millions)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
<th>2050</th>
<th>2060</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population Greece</td>
<td>11.0</td>
<td>10.7</td>
<td>10.1</td>
<td>9.6</td>
<td>9.1</td>
<td>8.6</td>
</tr>
<tr>
<td>Working Age population</td>
<td>7.2</td>
<td>6.8</td>
<td>6.2</td>
<td>5.5</td>
<td>4.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Population aged over 65</td>
<td>2.2</td>
<td>2.4</td>
<td>2.6</td>
<td>2.9</td>
<td>3.1</td>
<td>2.8</td>
</tr>
</tbody>
</table>

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• Demographic old-age dependency ratios for Greece, EU and the Euro Area
CONTRIBUTIONS
SOCIAL SECURITY CONTRIBUTIONS IN BILLION EUROS

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IMPLICATIONS (1)

- Stalling destroys ordinary people’s lives, abrupt change has major impact on it, reparation out of the question

<table>
<thead>
<tr>
<th>At-risk-of-poverty rate for pensioners (SILC) (% Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>EU (27 countries)</td>
</tr>
<tr>
<td>EU (15 countries)</td>
</tr>
<tr>
<td>Greece</td>
</tr>
</tbody>
</table>
### Old-Age Poverty Analyzed

#### Year 2011 2012 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARP Threshold</td>
<td>6591</td>
<td>5708</td>
<td>5023</td>
</tr>
<tr>
<td>ARP rate for pensioners</td>
<td>19.9</td>
<td>14.3</td>
<td>12.4</td>
</tr>
<tr>
<td>Median equivalised income people 60 years old or over</td>
<td>9640</td>
<td>9656</td>
<td>8600</td>
</tr>
<tr>
<td>Median equivalised income people less than 60 years old</td>
<td>11436</td>
<td>9400</td>
<td>8100</td>
</tr>
</tbody>
</table>
THE NEXT DAY

Progress has been impressive

- Administrative reform ✓
- Linking work days to pension ✓
- Fighting contribution evasion ✓
- Catering for the demographic evolution ✓
- Uprooting false notions +++

- Shifting the risk from the state to the individual, reintroducing the 2nd and 3rd pillars in Greece, while at the same time maintaining the safety net for low earners

- A great leap forward, a long way to go…
SOURCES (1)

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Thank you for your attention

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