The new Greek pension reform: improving governance and ensuring sustainability

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The Greek pension reform of May 2016 includes the integration of all insurance funds into one agency, the replacement of the main pension by a national pension and a contributory pension, the introduction of uniform rules and equal pension rights as well as measures for the containment of pension expenditure. However, questions are raised about the adequacy of pensions.

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Description

In May 2016, in the framework of the third Memorandum of Understanding (signed in August 2015), the Greek Government introduced a new pension reform enshrined in Law 4387/16. The provisions of the law foresee, among other things, the following:

• The integration of all public main pension funds into one Single Agency of Social Insurance (EFKA) and the integration of all public supplementary pension and lump sum benefit funds into the "Integrated Fund for Supplementary Pensions and Lump Sum Benefits"(ETEAEP).

• The adoption of a common 20% contribution rate for old-age pensions and 6.95% for health insurance, which apply to the employee's salary or to the monthly taxable income of the self-employed, freelancers and farmers. Provisions are made for transitional arrangements until 2021.

• The establishment of a social solidarity allowance of €360 for uninsured elderly persons.

• The establishment of a state-funded guaranteed national pension equal to the annual poverty threshold for a single person (€384 per month for 2016) for 20 years of contributions, reduced by 2 percentage points for every year less than that. Fifteen years is the minimum contributory period to be eligible for the National pension.

• The establishment of a contributory pension, which is the product of the multiplication of the pensionable salary by the replacement rate. The pensionable salary is calculated on the basis of the average salary over the whole working life for employees, and the average monthly taxable income over the whole working life for the self-employed. The replacement rate is the sum of the annual replacement rates, which range from 0.77% to 2% (of the pensionable salary) depending on the number of years of contributions.

• The introduction of a link between a positive economic performance and an increase in the total amount of the national and contributory pension: the annual increase in pensions will be estimated on the basis of 50% of GDP growth and 50% of the change in the consumer price index.

• The freezing of existing pensions at current levels until their value becomes equal to the value of the respective new pensions.

• The re-calculation of all current supplementary pensions on the basis of an annual replacement rate of 0.45%. Following the re-calculation of the supplementary pension, the income, from main and supplementary pensions of existing pensioners cannot be reduced to below €1,300.

• A decrease in the upper ceiling of both the main pension and the multiple pensions: from €2,773 to €2,000 and from €3,680 to €3,000 respectively.

• Tightened eligibility rules for survivors' pensions and for pensioners' family allowances.

• The gradual phasing out, by the end of 2019, of the means-tested Social Solidarity Allowance (EKAS), starting in May 2016 with the elimination of the allowances going to the 20% highest-income beneficiaries.

• The abolition of all state-subsidies to the social insurance funds as well as all nuisance charges.

• A temporary increase in the supplementary pension insurance contribution rates, of 1 percentage point up to 2018 and 0.5 percentage point up to 2021, split equally between employers and employees.

Outlook & Commentary

The new pension reform is considered to be the most crucial reform of the pension system since 1932, when social insurance in Greece became mandatory and the main social insurance organisation (IKA) was established. It aims to improve governance and to ensure the long-term financial sustainability of the system, which remains at risk. It establishes, for the first time in Greece, a single social insurance agency, promoting equal pension rights and applying uniform rules to contributions and benefits, thus eliminating most of the inequalities of the past, especially in terms of funding, coverage, conditions of pension entitlements and levels of benefits among the various funds.

The reform also establishes a closer link between contributions and benefits by taking into account contributions over the whole working life when calculating the pension benefit, creating at the same time incentives to remain in the labour market and to keep up with the payment of contributions. The latter, in turn, is expected to improve the financial sustainability of the whole pension system.

The abolition of the Social Solidarity Allowance, the introduction of low replacement rates and the decrease of upper ceilings to the main and multiple pensions are expected to decrease pension expenditure and improve the long-term sustainability of the system. Pension expenditure is projected to decrease from 17.57% of GDP in 2015 to less than 15.6% of GDP in 2060. Yet, some of these changes raise serious questions about the adequacy of pensions.

Further reading

Euro Summit Statement: http://www.consilium.europa.eu/en/press/press-releases/2015/07/12-euro-summit-statement-greece/

Memorandum of Understanding between the European Commission acting on behalf of the European Stability Mechanism and the Hellenic Republic and the Bank of Greece: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

Law 4387/2016 (in Greek)

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