The new reform of the social insurance system in Greece

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The reform of the social insurance system is one of the main social policy priorities of the new Government in Greece. It aims at establishing a closer link between paid contributions and benefits, and at addressing the aspects of the 2016 pension reform that were declared unconstitutional by the Council of State. In response to the COVID-19 outbreak, the social insurance contributions of most employees affected will be paid by the State based on certain criteria, while the payment of social insurance contributions for freelancers, farmers and self-employed persons has been suspended for six months.

Description

One of the main social policy priorities of the newly elected Government in Greece (July 2019) is the reform of the social insurance system. To this end, Law 4670/2020 was adopted by the Greek parliament on 27 February 2020, with most of the provisions having retroactive effect. The rationale behind this new reform was: a) to improve the efficiency of the system by creating a unified digital organisation; and b) to comply with the Council of State decisions concerning the unconstitutional aspects of the 2016 pension reform.

The main reform actions which bring about important changes to the social insurance system are the following:

- The integration, as of 1 March 2020, of the Unified Agency for Auxiliary Social Insurance and Lump-sum Benefits (ETEAEP) into the Unified Agency for Social Insurance (EFKA). The latter is renamed "digital National Agency for Social Insurance" (e-EFKA).
- The digitalisation of all services provided by the e-EFKA, such as the issuing of certificates, applications for benefits and pensions, etc.
- The introduction of a new system of social contributions for freelancers, farmers and self-employed persons. As of January 2020, freelancers', farmers' and self-employed persons' social insurance contributions are no longer linked to their declared income. Each freelancer, farmer and self-employed person has to choose amongst six social insurance categories, each one of which corresponds to pre-defined amounts for the contributory (primary) pension and healthcare. For those freelancers and self-employed persons who have less than 5 years of insurance, a special (lower) social insurance category is foreseen.
- The amendment of the social contribution categories for auxiliary pensions and lump-sum benefits for self-employed persons. They can choose among three contribution categories; previously the contribution rate for the auxiliary pension for the self-employed was 7% of the minimum salary and 4% of the minimum salary for the lump-sum benefit. Participation in the supplementary pension scheme continues to be mandatory for the self-employed in the "liberal professions" (except doctors), while for other self-employed, freelancers and farmers, participation is voluntary. In the case of the lump-sum benefit scheme, participation is mandatory for the liberal professions and some categories of employees, and is voluntary for farmers and freelancers.
- As of 1 June 2020, the social contribution rates for employed persons are reduced by 0.9 percentage points, due to the reduction in social contributions for unemployment benefit.
- The application, with retroactive effect from October 2019, of new higher annual replacement rates for the calculation of contributory pensions for every year of contributions between 31 and 40 years of contributions. The increase of the new annual replacement rates varies between 0.56 and 0.91 percentage points.
- The application, with retroactive effect from October 2019, of new lower annual replacement rates (-1.5

percentage points) for the calculation of contributory pensions for every year after 40 years of contributions.

- The reduction of the pension cut, from 60% to 30% of the total pension income (national pension, contributory pension and auxiliary pension), for retirees who combine income from pensions with income from work.

- The abolition of article 96 of Law 4387/2016, which implied re-calculation of the auxiliary pensions for those pensioners who received total pension income of more than €1,300 per month. This provision had brought about significant cuts to the level of auxiliary pensions, and, thus, to the total pensioners' income. Auxiliary pensions have been paid with retroactive effect since 1 October 2019 at an amount prior to the re-calculation of Law 4387/2016.

- The abolition of the extra pension benefit, known as the "13th pension", introduced in May 2019 by Law 4611/2019. This extra pension benefit was to be paid once a year, and corresponded to 30%-100% of the current pension (the highest percentage applying to pensions below €500 per month and the lowest to pensions above €1,000 per month).

Outlook and commentary

The new reform entails mainly parametric changes, which appear to address various disorders of the past, while reinforcing the reciprocity of the system. It establishes a closer link between paid contributions and benefits, and addresses the aspects of the 2016 pension reform that have been declared unconstitutional by the Council of State.

The digitalisation of all services provided by the e-EFKA, and the integration of the Unified Agency for Auxiliary Social Insurance and Lump-sum Benefits (ETEAEP) into the e-EFKA, are expected to improve access to services provided to insured persons, as well as the efficiency of the system. It should be noted, however, that these reform actions were not accompanied by the establishment of the "Social Insurance Regulation" of the e-EFKA, which ensures the application of uniform rules for benefits and contributions to all insured persons. The Social Insurance Regulation was expected to be completed andbrought into force by the end of 2018, but it is still pending.

Under the new system of social contributions for the self-employed, the social contributions of self-employed persons are no longer directly proportionate to their income, but each person can choose their contribution category. This new system leads to a significant reduction of the amounts paid for social insurance for high-income self-employed persons. However, given that the new amount of the lower contribution is higher than the amount of the lower contribution of the previous self-employed contribution regime, it appears that the new system causes a greater burden of social contributions for the low-income self-employed than the previous regime.

Moreover, the application of new annual replacement rates is expected to have a positive impact on the level of pension benefits for those who have more than 30 years of contributions. As such, it will lead to an increase of the average effective retirement age and, eventually, to an increase in the contributory period. By contrast, the application of lower annual replacement rates for contributory periods longer than 40 years, leads to a proportionally lower reciprocity of the contributions of insured persons with a long insurance record, which, in turn, is likely to create insurance disincentives.

Finally, it should be noted that, although the re-calculation of auxiliary pensions is expected to increase the level of pension benefits for most (high-income) pensioners, the abolition of the "13th pension" is expected to have a negative impact on the adequacy of pensions, especially for low-income pensioners.

In response to the COVID-19 outbreak, the Government has suspended the operation of several businesses, while other businesses have been substantially affected by the situation. Based on certain criteria, the social insurance contributions of most employees affected will be paid by the State for 45 days, while the payment of social insurance contributions of February and March 2020 for freelancers, farmers and self-employed persons has been suspended until September 2020.

Further reading

European Commission (2018), *Pension Adequacy Report 2018*, Volume II Country Profiles - Greece, Luxembourg: Publications Office of the European Union, pp. 75-84.

Law 4670/2020, Government Official Journal, Issue No. 43, Vol. A', 27 February 2020 (in Greek).

Theodoroulakis M., Sakellis I. & Ziomas D., (2017), *ESPN Thematic Report on Access to social protection of people working as self-employed or on non-standard contracts - Greece*, European Social Policy Network (ESPN), Brussels: European Commission.

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