

Cyprus National plan under the Council Recommendation on Access to social protection for workers and the self-employed

1. Challenges

1.1 The General Social Insurance Scheme (GSIS)

The General Social Insurance Scheme has taken its current shape following two major reforms of the Scheme that was first introduced in 1957; these are the 1964 and 1980 reforms.

The 1964 reform extended compulsory insurance to every person gainfully employed in Cyprus, including all categories of the self-employed.

The 1980 reform introduced earnings-related insurance, in replacement of the previous scheme of flat-rate contributions and benefits. Regular annual indexing of pensions was also introduced as a part of this reform.

The General Social Insurance Scheme covers the following branches of social security:

- Sickness benefit (in cash)
- Unemployment benefit
- Statutory (old age) pension
- benefits in respect of accidents at work and occupational diseases (in cash and in kind)
- Maternity benefit (in cash)
- Paternity benefit (in cash)
- Invalidity benefit (in cash and in kind)
- Survivors' benefit

The General Social Insurance Scheme is financed by contributions from insured persons, employers and the State. The total current contribution rate for employees in 2021 is 21,5% of earnings, shared amongst the employee, the employer and the State in the proportion of 8,3%, 8,3% and 4,9%, respectively. For the self-employed the rate is 20,5%, of which 15,6% is paid by the self-employed and 4,9% by the state.

Coverage

The GSIS is a universal scheme covering all people exercising gainful activity, including apprenticeship, either as employed or self-employed persons from the age of 16 as well as civil servants.

There is no special distinction between full-time, part-time workers or employees with permanent or temporary contracts, seasonal workers or workers in new forms of employment such as platform work. All are insured either as employed or self-employed workers and have the same rights and obligations under the scheme

However, self-employed persons are not entitled to benefits for employment injuries and occupational diseases and unemployment benefit.

In October 2020 there were 38,441 self-employed persons and 496,680 employed persons insured.

All persons pay contributions on the basis of their insurable earnings subject to a ceiling (€4,784 a month in 2021).

The insurable earnings of self-employed persons are stipulated by Regulations according to their specific occupational category (16 occupational categories in total). For each category of self-employed persons a compulsory minimum insurable income is prescribed (notional income). If a self-employed person proves that his actual income is lower than the minimum insurable income of his occupational category, after submitting a relevant application and providing ample evidence, may be allowed to pay contributions on his actual income.

The amount of benefits depends on the duration of insurance (long term benefits), the insured earnings, and the number of dependents of the person concerned. The insurance conditions for entitlement and calculation of benefits are the same for both employed and self-employed persons.

With the purpose to allow insured person to cover gaps in their insurance record the legislation provides for Voluntary insurance. Voluntary insurance is allowed to persons who wish to continue insurance after a prescribed period of compulsory insurance or work abroad in third countries in the service of Cypriot employers. The condition for continuation of insurance on a voluntary basis is that the person concerned has at least one year of insurance on prescribed level earned from paid contributions. Persons working abroad in third countries in the service of Cypriot employers are allowed to be insured without any condition as to previous insurance. The application for voluntary insurance must be submitted within 12 months from the end of the contribution year for which voluntary contributions are to be paid.

Voluntary insured persons working abroad for Cypriot employers are not entitled to employment injuries and occupational diseases. Other voluntary insured persons are entitled only to maternity and funeral grants and to old-age and survivor's benefits.

Moreover for the purpose of covering gaps in insurance, credits are awarded to insured persons with respect to the following periods:

- Service in the national guard
 - Full time education
 - Unemployment: Any period of unemployment for which unemployment benefit is paid (up to 26 weeks) and, in addition, any period of unemployment (up to 26 weeks) for which no entitlement to benefit exists.
 - Incapacity for work: Any period of incapacity for work due to sickness, injury or maternity for which benefit is payable
 - Parental leave
 - Child raising period up to three years preceding the 12th birthday in respect of each child
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- Prospective insurance period between the date of insured person's invalidation or death and age 63 qualifies for the pension.

1.2 Gaps in access to social protection

Self-employed persons

In 2020 there were 38,441 self-employed persons insured under the GSIS. Self-employed persons are entitled to all benefits provided by the GSIS with the exception of unemployment benefit and benefits for occupational accidents or diseases. In this respect the contribution rate of self-employed persons is 1% lower than the contribution rate of employed persons.

New Forms of Employment

While the GSIS covers all employed persons regardless of the type of employment contract (temporary, part-time work, fixed term contracts), new forms of employment pose a challenge to the GSIS as the distinction between employment and self-employment is becoming less and less clear. Therefore, in the case where a person working in new forms of employment is classified as self-employed where in fact an employment relationship exists, not only he/she will not enjoy full coverage as concerns benefit entitlements but he/she will be insured on the basis of notional incomes not reflecting his/hers actual earnings. This will undoubtedly have a negative effect on the level of benefits in the future. Therefore special attention should be paid in the classification of workers in categories of insurance.

The pandemic has increased the number of persons working in new forms of employment (digital platforms and those working in temporary employment or telework).

New forms of employment require a totally new approach regarding their monitoring and control in order to ensure that they are correctly assessed and fully declared.

Efforts to improve the design of social protection systems with a view to better responding to the particular circumstances and needs of specific types of workers in NSFE, not only enhance social protection coverage for those workers but also help to create a level playing field for workers and employers.

1.3 Main Challenges and areas of Reform

Extension of Coverage, Adequacy and financial viability

The safeguarding of the long term financial sustainability of the Social Insurance Scheme while extending the coverage and improving the adequacy of benefits provided.

Transparency and simplification of administrative requirements

The Social Insurance Services are characterized by:

- inefficiencies of existing processes
- limited quality control mechanisms
- lack of sufficient risk analysis
- low level of digitalization
- limited use of data analysis tools for trends analysis and identification of potential frauds,
- lack of citizen centric approach

All the above do not allow the Social Insurance Services to provide fast efficient and effective service to the public. The current situation is characterised by high administrative cost, duplication of effort, significant error and fraud risk, substantial delays in application processing and inadequate response to citizens' request for information.

2. Lessons learnt from the COVID-19 crisis

The outspread of the COVID pandemic revealed the magnitude of the challenges. The enormous pressure on the Social Insurance Services (SIS) to respond to new socio-economic and demographic changes quickly and effectively endangers the Social Protection System in Cyprus.

2.1 Gaps closed through temporary measures during the pandemic

During the pandemic emergency measures were introduced in the form of special benefits paid to all workers whose work was temporary interrupted due to the pandemic including self-employed persons. Moreover special benefits were also paid to unemployed persons whose period of payment of unemployment benefit was exhausted. The periods for which these benefit were paid is treated as paid insurance period for the purpose of entitlement and level of benefits.

The COVID 19 pandemic had a catalytic effect in respect of the modernization of the Social Insurance System especially in respect of its adaptability to an ever changing socioeconomic environment where non-standard work is becoming more prevalent and of its ability to provide protection to all workers especially in periods of crisis such as the pandemic. However the provision of special benefits paid to workers is of temporary nature, financed by the Government general budget and is not part of the GSIS nor does it share the same entitlement conditions or, levels as of benefits as those provided under the Social Insurance Scheme. As a result, the benefit was not mainstreamed into the social protection system.

The extension of social protection systems to non-standard workers and the self-employed requires a comprehensive approach where legal and actuarial aspects are evaluated as part of a comprehensive study in order to incorporate the necessary changes into the legislation, consider any adjustments in respect of contributions in order to ensure the financial sustainability of the GSIS, the adequacy of benefits while at the same time introducing the necessary checks, monitoring tools and controls to minimize fraud and error and combat undeclared work.

3. Policy objectives and measures to be taken

3.1 Policy Objectives

Formal Coverage

The Government is committed on maintaining the national social security system as the most fundamental part of the country's social protection system. Within this framework the Government intends to amend the relevant legislation and reform the Social insurance System in order to enhance social protection for all regardless of the type and duration of employment by extending and improving cover of various benefits such as unemployment benefit, employment injuries and occupational diseases benefits in particular for the self-employed, and persons working with contracts or new forms of employment (e.g. platform workers).

Effective Coverage

The reform of the legislation will take into consideration the rules and qualifying conditions for the entitlement of unemployed benefits and employment injuries and occupational diseases benefits to ensure that all self-employed persons and persons in non-standard forms of employment have access to these benefits regardless of their labour status or employment relationship. The changes in legislation will take into consideration the financial sustainability of the GSIS which according to the latest actuarial study with reference year 2017 is ensured until 2080.

Adequacy

The safeguarding of the adequacy of the benefits of the Social Insurance Scheme has always been the fundamental goal in any change to the Scheme. Within this framework we are currently proceeding with the amendment of the legislation in order to extend the period of payment of maternity benefit for more than 18 weeks which is the current period of payment. In addition the government is moving forward with the transposition of the Directive 1158/2019 on work life balance for parents and carers to national law.

Transparency and simplification of administrative requirements

Recognizing the importance of transparency and the need for citizens to have access to updated reliable and accurate information regarding their insurance record and entitlements to benefits and having in mind that the current social Insurance legislation is complex , the objective of the reform of the Social Insurance System will also include the simplification of legislation to make it easier and more understandable to citizens.

In addition, the government will also proceed with the reengineering the Social Insurance services in order to improve operational efficiency and effectiveness, introducing quality control mechanisms, risk and control mechanisms to minimize fraud and error and ultimately provide fast and accurate service to its citizens.

Furthermore, in order for the Social Insurance Services to be able to operate in a digital economy the government plans to upgrade the existing Social Insurance IT system. The IT System will be interlinked with other government information systems and databases for exchange of information and will also provide timely information to citizens including updated information regarding the status of their applications. Ultimately the new IT system will reduce the administrative burden, simplifying administrative requirements for workers, the self-employed and employers. Within this framework the Government is also moving forward with the digitalization of applications for benefits.

Finally the Government is already moving forward with further development of the online system for payment of contributions in order to give the possibility to users to pay contributions electronically for those which the deadline for payment has expired along with additional charges imposed for late payment.

These measures will ultimately improve the service provided to the public, ensure the safety of the transactions, and enable employees and self-employed persons to have information regarding their transactions and their insurance record. In addition the measures will improve the ability of the SIS to prepare statistical reports and analyze data.

3.2 Measures

Measures adopted

As concerns beneficiaries a special allowance for insured persons who have thalassemia, at the age of 50 was introduced in 2020. The benefit is calculated in the same way as statutory (old age) pension and provided the person fulfills the contribution criteria for statutory pension at the time of application of this special allowance (in any case after completion of 50 years of age). This allowance is terminated at the age of 63 if insured person is entitled to old age pension, and/or at the pensionable age (65).

In connection to the improvement of the service provided to citizens and modernization of the organization of Social Insurance Services, following the Council of Ministers' decision of 2/10/2019 regarding the abolition of the cashier's desks operating in the District Offices of the SIS and the adoption of automated collection methods, as from 15/02/2020 a new developed and efficient online payment system became available to users for the online payment of contributions due. The use of the system is compulsory for employers and self-employed persons as concerns the payment of contributions for which the deadline of payment has not expired. Users can register online to the system and pay their contributions due either via SEPA direct debit method or credit/debit bank card.

Measures to be adopted

Reform of Social Insurance legislation

Aim of Measure: Coverage-Extend social insurance coverage to self-employed and workers in nonstandard forms of employment and simplify legislation.

Specific target group: self-employed (38,441 Oct. 2020) and workers in nonstandard forms of employment

Branch: Unemployment/Employment Injuries and occupational diseases

Expected results: Enable self-employed persons and persons in nonstandard forms of employment to claim benefits, more transparency to citizens as a result of simplified legislation.

Timeline for implementation: The law must be approved by the parliament by June 2023

Financial Resources allocated: €679,700 to be covered by the Recovery and Resilience Fund

Implementing Body: Social Insurance Services, Ministry of Labour Welfare and Social Insurance following consultations with Social partners

Restructuring of Social Insurance Services

Aim of Measure: Improve transparency and simplify administrative arrangements-offer fast and accurate service to citizens improving transparency and reducing administrative burden. Provide ability to the Social Insurance Services to identify risk areas in order to adopt corrective measures in time reducing the risk of fraud and error.

Specific target group: All employed (496,680) and self-employed (38,441 Oct 2020) and workers in nonstandard forms of employment as well as employers (81,150)

Branch: All branches

Expected results (for citizens): Reduction of time required for processing of claims for benefits, reduction of errors, and improved interaction with citizens. Better functioning of Social Insurance Services

Timeline for implementation: To be completed by June 2024

Financial Resources allocated: €2,110,200 to be covered by the Recovery and Resilience Fund and additional €300,000 covered by the Technical Support Instrument

Implementing Body: Social Insurance Services, Ministry of Labour Welfare and Social Insurance

Digitalization of Social Insurance Services

Aim of Measure: offer fast and accurate service to citizens improving transparency and reducing administrative burden

Specific target group: All employed (496,680) and self-employed (38,441 Oct 2020) and workers in nonstandard forms of employment as well as employers (81,150)

Branch: All branches

Expected results (for citizens): Reduction of time required for processing of claims for benefits, reduction of errors, faster response to citizens' request for information

Timeline for implementation: To be completed by June 2026

Financial Resources allocated: €7,249,800 to be covered by the Recovery and Resilience Fund

Implementing Body: Social Insurance Services, Ministry of Labour Welfare and Social Insurance, Deputy Ministry of Research, Innovation and Digital Policy

Further development of online system of payment of contributions

Aim of Measure: Improve transparency and simplify administrative arrangements

Specific target group: All employed (496,680) and self-employed (38,441 Oct 2020) and workers in nonstandard forms of employment as well as employers (81,150)

Branch: All branches

Expected results (for citizens): Ensure safety of the transactions, and enable employees and self-employed persons to have information regarding their transactions and their insurance record

Timeline for implementation: expected January 2022

Financial Resources allocated: National resources

Implementing Body: Social Insurance Services, Ministry of Labour Welfare and Social Insurance.

4. Way forward

Challenges in Implementation

Reform of Social Insurance legislation

Opposing political views may be the expected impediments to the reform. The involvement of the Social partners from the beginning will create ownership of the process with a very high probability of consensus by the time the reforms reach the House of Parliament.

Restructuring of Social Insurance Services

Resistance to change by public servants is the expected impediments to the reforms. A change-management approach by the ILO experts who will be involved in the process will ensure that all staff of the SIS are involved in the project creating ownership of the changes.

Digitalization of Social Insurance Services

Identifying the appropriate system and technologies to be adopted that are future proof thus allowing for the continuous development of the system in order to easily address the current and future needs of the social insurance system. In addition the adaptation and training of the staff to be able to use the system may pose a challenge especially for older staff. In the same manner older citizens may find it difficult to interact in digital format.

Support needed from the EU

As already mentioned the Cyprus Government, through the Recovery and Resilience Fund has secured €10,000,000 and through the European Commission under Regulation (EU) 2021/240 (establishing a Technical Support Instrument) another €300,000 for the reform of the Social Insurance System and the Restructuring and digitalization of the Social Insurance Services.

During the course of the implementation of the plan we consider it useful, within the framework of the works of the Social Protection Committee to exchange views and participate in mutual learning activities with other Member States on the problems and challenges in achieving the objectives of the recommendation while at the same time the Commission together with the SPC should continue to develop and improve the monitoring framework.