

LSE Hellenic Observatory Research Seminar Seminars

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# The slow growth and sudden demise of supplementary pension provision in Cyprus

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# ➔ Supplementary Pension Provision ↓

## Outline of presentation

A brief introduction to Cyprus

The growth of supplementary provision

Performance of the system

The impact of the “crisis”

Quo vadis?

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## A brief introduction to Cyprus

Part of every major empire

Legacy of British administration

Characterisation according to VoC or WWC  
typology

EU accession 2004

Economic success and economic  
catastrophe

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The growth of supplementary provision

Colonial servants and provident funds

“Beveridgean” welfare provision

Collectively agreed provident funds

“Bismarkian” pension reform

Civil servants and semi-govt. sector

Inequalities

# nature of pension provision in Cyprus

## **Public pension system (GSIS, all working)**

- Retirement and disability benefits
- Contributions from employer, worker and state
- Benefits based on salary and years of contributions

## **Provident funds (private sector, public sector manual, banks, airline)**

- Savings schemes with employer and employee contributions
- Payout based upon contributions and interest earned
- Payout in case of retirement, disability, leaving job (vested), loans for approved purposes
- Some (banks, airline, pub sector manual) guarantee minimum return, so need valuation

## **Pension funds (mainly semi-government)**

- Retirement schemes with employer contributions
- Payout based upon salary and service
- Payout in case of retirement or disability
- Benefit “defined”, so need regular valuation

## **Pension schemes (civil service)**

- Contractual promises to employees
- No contributions (except for survivors benefits)
- Obligations built up in public budget, so need for regular valuation

# coverage of supplementary pensions in Cyprus c2003

	000s	%s
all contributors to GSIS	310	100
in GEPS	31	10
in BPS (ex. municipalities) occup schemes (pension and provident funds)	8	3
in municipal occup schemes (pension and provident funds)	3.8	1
in banking sector retirement gratuity schemes (effectively provident funds)	7.5	2
in Cyprus Airways occup schemes (mainly provident funds)	1.6	1
in petroleum sector retirement gratuity scheme	0.5	*
in cent. govt. manual workers provident fund	8	3
other members of a provident fund	92.4	30
employees without any supplementary coverage	124.2	40
in special pension schemes for doctors and lawyers	3	1
self-employed without any supplementary coverage	30	10

\* under 0.5%

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## Performance of the system

Conservative investment strategies

The 2000 stock market crash

Minor scandals (EAC)

Underfunding of semi-govt. schemes

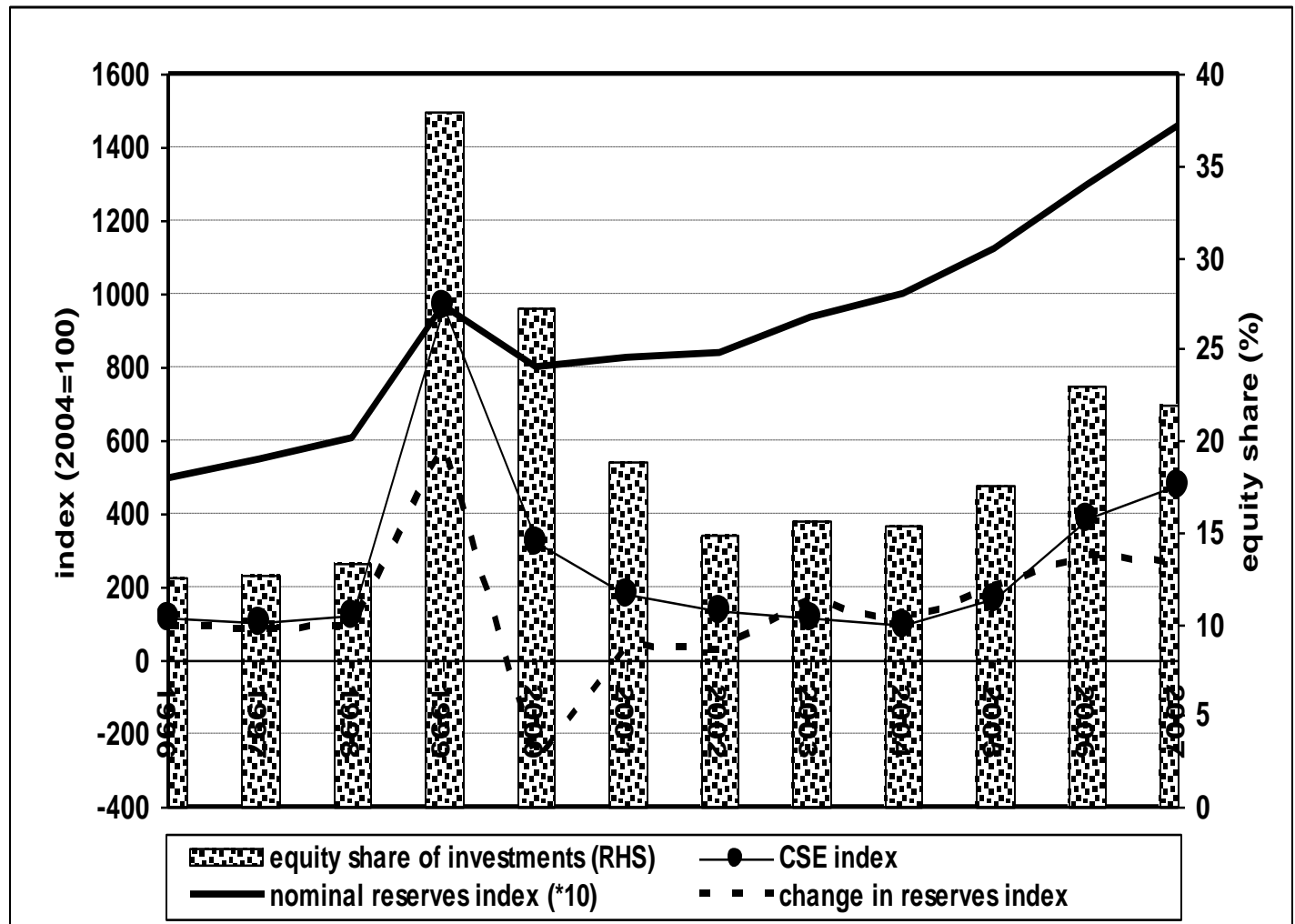
Under provisioning of bank schemes

Civil servants scheme unfunded



# provident fund performance and the 2000 stock-market crash

reserves,  
changes in  
reserves,  
and the  
equity  
shares



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## The impact of the “crisis”

Minor impact of stock exchange collapse

Cutbacks to public pension system

Closure of civil service/semi-govt. schemes

Temporary loans from semi-govt. funds

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## The impact of the “crisis” (2)

Troika bailout and “private sector involvement”

Rescue plans for provident funds

Closure of bank schemes

Payouts for redundant workers jeopardised

Even hotels fund damaged

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Quo vadis?

Need for supplementary provision

Profound suspicion of financial institutions

DC schemes more transparent?

Where and how to invest

Confronting demographic change