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

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A brief introduction to Cyprus
The growth of supplementary provision
Performance of the system
The impact of the “crisis”
Quo vadis?
Supplementary Pension Provision

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
Supplementary Pension Provision

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

<table>
<thead>
<tr>
<th>Category</th>
<th>000s</th>
<th>%s</th>
</tr>
</thead>
<tbody>
<tr>
<td>All contributors to GSIS</td>
<td>310</td>
<td>100</td>
</tr>
<tr>
<td>In GEPS</td>
<td>31</td>
<td>10</td>
</tr>
<tr>
<td>In BPS (ex. municipalities) occup schemes (pension and provident funds)</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>In municipal occup schemes (pension and provident funds)</td>
<td>3.8</td>
<td>1</td>
</tr>
<tr>
<td>In banking sector retirement gratuity schemes (effectively provident funds)</td>
<td>7.5</td>
<td>2</td>
</tr>
<tr>
<td>In Cyprus Airways occup schemes (mainly provident funds)</td>
<td>1.6</td>
<td>1</td>
</tr>
<tr>
<td>In petroleum sector retirement gratuity scheme</td>
<td>0.5</td>
<td>*</td>
</tr>
<tr>
<td>In cent. govt. manual workers provident fund</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Other members of a provident fund</td>
<td>92.4</td>
<td>30</td>
</tr>
<tr>
<td>Employees without any supplementary coverage</td>
<td>124.2</td>
<td>40</td>
</tr>
<tr>
<td>In special pension schemes for doctors and lawyers</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Self-employed without any supplementary coverage</td>
<td>30</td>
<td>10</td>
</tr>
</tbody>
</table>

* 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