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BRIEFING NOTE

Greek pension reform once again: Explaining its logic and issues

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Introduction

Pension reform is, once again, the main issue in Greek political discussion. It returns only months after all retirement ages rose to 67 in the summer of 2015. There have been at least three major pension reforms and at least ten pension cuts since 2010[2]. All this frantic activity apparently fails on the most basic test of pension reforms: to prevent the need for *another* pension reform a few years (or months) down the road. And all this in a country that has been accused of not doing *enough* on reform.

Pre-crisis reform inertia has been replaced by apparently ineffective activism. Discussion without action was replaced by action without discussion. This briefing note tries to cut through the fog. It attempts to promote understanding, to explain the strategic choices and to highlight the major issues of discussion.

A brief presentation of the pre-crisis conundrum is followed by an outline of the logic and practice of the repeated pension changes following the bailout. The situation at the end of the second bailout and the period of negotiation is dealt with in greater detail, to provide background for the current proposal and the outstanding issues which will dominate discussion. The note ends with a consideration of a possible alternative. A timeline at the end of this document outlines the main events, focusing on bailout-era changes.

Background to the reform

Pre-bailout inactivity: Pensions bankrupt the state

The Greek pension system was designed in the 1930s around IKA, the State social insurance and pension provider for the private sector. Being a direct contemporary of US Social Security, it shares many of its design and financing features. Two differences, however, were instrumental in its downfall. Firstly, governance shortcomings, which allowed pensions to become instruments in clientelistic[3] deals with groups of the population. Secondly, fragmentation, which provided the means through which these deals could take place. The system fragmented by occupation, pension tranche, mode of finance and cohort[4] to form a confusing kaleidoscope. The upshot was expensive (high percent of pensions to GDP), ineffective (high old age poverty) and discriminatory (across genders, generations, occupations).

Demography was added as a problem from the mid-80s, by which date it was obvious that the Greek baby boom would combine with drops in fertility to create a ‘perfect storm’, which would reach its apex in the 2010s. Warnings, notably by a Committee headed by Prof John Spraos in 1997, were shrugged off by pointing out that pensions were guaranteed by

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[2] The 2010 reform was characterized by the IMF as ‘a landmark pension reform, which is far-reaching by international standards’.

[3] Roughly, using features of pension and other laws to buy political influence.

[4] Fragmentation: by Occupation= different occupations had different providers, contribution rates, retirement ages etc. By pension tranche=each employee is entitled to a primary pension, anauxiliary pension and a esparation payment, delivered by different bodies; by mode of finance= some providers levy proportional contributions, others a head tax, some are subsidized by the State or receive a tied tax. By cohort=pension reforms affect new workers and leave older ones unaffected. So we have ‘pre-1983’, pre1993, pre-2010, now pre-2015 etc.

the State. As the Chairman of the Trade Union Confederation put it, at the time, '*The State will become bankrupt before the pension system does*'.

Attempts at pension reform took place in 1990/2, 1998, 2001 and 2008. These corrected some issues but never managed to deal with more than a fraction of the problem. In the meantime, pension deficits were piling up with increasing speed. These pensions after 1992 were not met by contribution increases but, instead, were financed by government grants. The grants themselves were financed by external, borrowing.

In 2009 the TU Chairman was proved prophetic, when the State became bankrupt, just before the first bailout-era pension bill in July 2010.

The first two bailout periods: Pension dualism and insecurity

Under the tutelage of the troika the first pension reform bill (law 3863/10) introduced to post-bailout pensions their distinctive characteristic of **generational dualism**:

For the *future generation*, there is clarity with a uniform, new, streamlined system based on common rules. This system remains 100% State run, PAYG, financed by compulsory payroll taxes[5]. It emphasised poverty protection through a basic pension; this was combined with a more reciprocal, that is, with a closer link between contributions and entitlements, though still defined-benefit, pension package. Far from being, as it was accused, a neo-liberal innovation contrary to the European Social Model, it was more of a revamped 1960s style social insurance type system common across Europe in the 1960s and 1970s.

For the *current generation*, i.e. roughly those to retire in the next 15 or 20 years, the situation could only be characterized as shambolic. All governments of the period sought to protect incumbents, and chiefly those of the Greek baby boom generation[6]. Hence retirements proceeded on the basis of pre-crisis, 2009 entitlements. In a tug of war between Greek politicians and the troika, those entitlements were in some cases expanded (as in the case of 'mothers of underage children'), in others retrenched (invalidity pensions, review of the 'heavy an unhygienic industries). In the latter case, as in others, there was an evident desire to delay implementation. For example, in 2012 the iconic case of hairdressers was indeed withdrawn from the list of heavy occupations. This affected only hairdressers with less than ten years tenure; all hairdresser retirements to 2025 or so remained unaffected.

As the crisis in the labour market deepened, the unchanged conditions of access to pensions encouraged an exodus into retirement, seen as a safe haven. This was combined with unemployment and with reluctance to pay contributions, amounting almost to a wholesale rebellion on the part of contributors. The resulting deficits could not be met by borrowing as previously. They could only be financed by recourse to raids in pensions currently paid out; these were cut on ten different occasions between May 2010 and 2014.

The *retired* generation thus did not escape scot free. However, the pension cuts were presented as unrelated to the pension system, which was repeatedly declared as 'viable'. They were, instead, blamed on the crisis or on fiscally-focused pressure by the troika. The

[5] The new system affected everyone, but only in the sense that all *future* entitlements after 2011 were under new rules. In the case of pensions, they would be have been calculated on a pro rata basis. That is, when someone was to retire in 2016 with 40 years' contributions, 5/40ths of his pension would have been calculated under new rules and 35/40ths under old. This was never tested, but it would mean that the new system would be, in practice, irrelevant to anyone younger than say, 45.

[6] The Greek baby boom is known locally as the 'Polytechnic generation' – i.e. the people who came to political maturity after the downfall of the junta in 1974

decision by all governments to invest in blame avoidance as a communication strategy largely explains the reluctance to engage in any kind of open discussion about what was happening to pensions or to where they were heading.

The situation was made worse by a Supreme Court decision in early 2015, ruling pension cuts since 2012 as unconstitutional[7]. The Court did not opine that cuts are *per se* unconstitutional; rather that the post 2012 cuts were insufficiently justified. This ruling added to the confusion, by placing a question mark on the legal status and future prospects of current pensions.

In consequence, Greece could hardly be thought to have ‘a’ pension system in 2015. It, rather, had a *pair of systems* reacting against each other in an unstable ‘danse macabre’. On the one hand, there was a relatively clear system and less generous system of the new generation. On the other there was a highly uncertain system for incumbents: They are still *theoretically* entitled to pensions amounts calculated using pre-crisis rules.

So, a new pensioner has his pension calculated as if the crisis had never happened. Once the amount has been worked out, it is subjected to each of the ten cuts. In the pay slips that every pensioner gets every three months, each cut is itemised and labelled by its name, usually emphasising its temporary nature and solidary character. Cuts in the second half of the form (that is those imposed after 2012) have already been declared illegal, a fact which does not stop them being applied regularly. Each cut, when imposed, was to have been the last one. So, the lack of discussion about the prospects of the system is hardly reassuring; it is more to disguising further cuts still to come.

Existing pensioners were between the two groups, current workers and new pensioners. They fear that they would always and inevitably be in the firing line, should finance be inadequate.

Pensions in 2014 presented many of the problems of a half-finished project. These problems would only become worse if the project was abandoned, as it sometime threatened to be. Despite the flurry of pension reforms, key indicators were anything but reassuring:

- Greece had the most expensive system in Europe. It had climbed to the top place of pensions as a percent of GDP, absorbing 17.5% of GDP in 2012. The acceleration of ageing after 2015 would pose further challenges.
- Other social groups had social problems which remained unaddressed. Poverty during the crisis had ceased to affect people aged 65+ (whose poverty risk fell by seven points) and hit mainly families with inadequate access to employment.
- The widening of pension system deficits did not seem to abate; the prospects of more cuts could not be ruled out.

At the end of the second bailout, the ND/PASOK government reneged on its obligation to make public a mid-term review of the prospects of pensions. Hiding from discussion could not disguise the key fact that the pension system, for what it was, cost a lot and delivered little;. Granted that income security at old age ought to be the objective of pensions, the Greek system produced almost total insecurity. No-one could give any assurance to current 50 year olds even of the order of magnitude of their entitlements when they retire ten years hence.

The year of the third programme: Negotiation, defiance, adjustment

[7] This was in apparent contradiction with an earlier ruling of the same court, that earlier cuts from 2010 to 2012 could go ahead.

The year 2015 did not begin auspiciously. The outgoing government in January avoided its duty to issue the first (partial) pension with new rules. The incoming anti-austerity activists were committed to roll back changes, making up cuts and starting discussion on pensions from scratch; this was to take place in the autumn, after the end of negotiations with the lenders. In the meantime all changes were placed on hold and early retirement continued unabated.

Negotiations led, after the debacle of the summer, to an application for a third bailout. The creditors demanded, before opening negotiations, a series of prior actions. The most important was urgent action to stem early retirement. (a) In the private sector, minimum pensions had been used by 60% of private sector applicants to compensate for insufficient contributions due to early retirement: Henceforth minimum pensions could only be accessed by individuals older than 67 (b) In the public sector, incumbents had been protected by a bewildering array of minimum retirement ages, some as low as 50. All these had to be raised abruptly and almost in a step fashion to equalize all, even the very low ages, to 67 for both genders by 2022. The result is to take retirement ages out of pension reform discussions.

The text of the Memorandum of Understanding (MoU) which accompanied the bailout accorded pension adjustment very high priority. In the strategic preamble it spoke of generational justice[8]. In the detailed recommendations it committed the government to pick up again the implementation of the reform, to respond to the Supreme Court decision on post-2012 pension cuts, and to fold the dedicated pensioners' safety net (EKAS) into a new general safety net. The government was allowed the leeway of proposing measures of equivalent effect, 'by October 2015'.

The Proposed 2016 Reform

The *general* organizing principles of the proposed reform: an end to dualism?

The Government's proposals were released by Minister G. Katroungalos in early January 2016. The proposals responded to the invitation of equivalent measures to substitute for the MoU; they are Greek proposals, not dictated by outside bodies. Their key aim was not to cross the 'red line' of pension cuts – at least for primary pensions. Even so, the proposal was a far cry from the original SYRIZA position of rolling back changes and starting afresh. Indeed, the proposals could be understood to be completing the course of adjustment-era reforms. They did this by accepting as a key organizing principle the application of common rules and organizational consolidation, and applying them to a set of issues which had been left unfinished by the changes to 2010.

Consolidation was extended in three dimensions, presented here in descending order of importance.

First, **consolidation among generations.** Most pension reforms change regulations for distant retirements and protect those of the near-term. The proposals, stand this on its head:
they take a slightly more general version of the 2010 new system and apply it across the board. The result would be the same system for *all generations*, uniformity to be attained

[8] The MoU talks of the "*the need for social justice and fairness, both across and within generations*".

within a relatively short period of three years[9]. This starts already by 2016, as **new retirees** will be entitled to pensions calculated under new rules: career average income replacement, a basic pension for all and a proportional pension on Defined Benefit (DB) lines. **Existing pensioners** will have their own entitlements recalculated under new system rules; if there is a difference between that and their current entitlements, the difference will be collected as a 'personal bonus', to be netted out of future increases. In any case, under the proposals, in a short period of three years it would be possible to claim that all generations participating in the social insurance contract are subject to the same rules. This proposal would also be able to sidestep the vexed problems of reductions: There will be a reduction relative to expectations for *new* retirees – who will be few in number due to the wave of early retirements in 2015 to forestall pension age increases. Whether current pensioners will suffer further cuts is postponed until 2018. Finally the younger generation escape with a slightly *more* generous system than they started out with.

Second, **consolidation in revenue structures**. Consolidation of entitlements would be irrelevant without an equivalent consolidation in the way contributions were collected. Under the 2010 reform each day of employment put in Greece from 2011 on was gaining rights under new system rules – leaving the preexisting, widely disparate, revenue collection structures stranded. Whilst contributions were collected under previous contribution rates and regimes, this created the paradoxical situation of the same benefit being charged wildly different rates.

We can distinguish three types of issues. In the case of **employees**, for instance, workers in previously generous funds continued paying inflated contribution rates, even after their generosity had been abolished. The National Bank was charging itself contribution rates in excess of 50 per cent (to reflect its historic privileged status) whereas workers at Eurobank were being charged half that, 26 per cent. The case of the **self employed** was equally paradoxical: their entitlements were supposedly calculated in a manner equivalent to employees, applying accrual rates to concepts of lifetime incomes. The latter, however, were entirely theoretical as contributions were still collected with a system of insurance classes, under which everyone paid the same euro amounts, whether they ran kiosks or department stores. Farmers were on a class of their own, paying extremely low amounts of contributions and enjoying exceptionally high subsidies from the State. Finally, some, chiefly in the **free professions** but also journalists relied on tied taxes to pay for their pensions. Lawyers, for instance, relied on a charge on conveyancing and other legal actions, engineers enjoyed a surcharge on all public works, journalists a percentage on advertising turnover. This type of revenue is independent of work input and shifts costs to unconnected third parties.

Issues regarding the three groups had been raised before. Revenue consolidation was a requirement under the 3rd MoU. All tied taxes had to be abolished. The equalization of employee rates was scheduled to occur within 2016; the proposals push this date back, leaving a gradual adjustment

For revenue consolidation, to work, we must first define a common contribution base and then apply uniform percentage rates to it. This would then be available to be used to work out entitlements in a common way for all occupations. Indeed the proposals move in this direction by specifying that contribution base as taxable income for the self employed. On this will be applied the same proportional rates currently used for employees. The equalization of employee's rates is promoted in principle, but is pushed back - through a gradual process which is not completed until 2020. The tied taxes should have been long abolished.

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[9] The most controversial question in pension reform, retirement ages has already been dealt with as a prior action and is hence not an issue.

Moving wholly or partly in the three sub-direction would undoubtedly cause revenue loss which would only be added to the preexisting problems collecting contributions. Revenue consolidation, thus, cannot avoid the vexed issue of short term fiscal balance (discussed later).

Third **consolidation in administrative structures**. This has two facets: *Firstly*, consolidation of all protection tranches. Greek old age protection was fragmented 'horizontally' into primary pensions, auxiliary pensions and separation payments. The demarcation between the three was never clear; all were mandatory, state-run, PAYG and Defined Benefit. Though the issue had been raised, the proposals backed away from full integration, presumably leaving the discussion for the future (see the separate section on auxiliary pensions). *Secondly*, consolidation of pension providers belonging to the *same* tranche. The necessity of this had long been accepted and providers had been folded into larger umbrella organisations. Within these organizations, these providers had retained their independent organization. What remained was to proceed with *functional* consolidation so that the umbrella organisations would operate like unitary structures rather than loose confederations. The proposals thus involve creation of a single body, the Unitary Institution for Social Security , which will probably be known by its initials as EFKA, in which will be incorporated all primary pension funds (including civil servants) in one directorate, separation funds in another and health insurance in a third, under single management and with common support structures. Auxiliary pensions retain their independence.

Consolidation, whether that applies to entitlement rules, contributions or to administrative structures will bring considerable benefits in streamlining of procedures, administrative simplification, and reduction of compliance costs. To grasp the magnitudes involved, IKA currently has approximately 800 different ways to compute entitlements; these will be replaced by a single algorithm. The saving will be greater should contribution collection be assigned to tax offices. Consolidation will free up personnel, in the pension funds, the central administration but also in private businesses; these can be redeployed to more productive uses[10]. Consolidation paradoxically produces common ground between the lenders and the reform proponents (though probably not with SYRIZA cadres in the trade unions and professions).

The proposals were crafted with a mind to appear to stick and to reconcile the 'red lines' of the two parties engaged in negotiations. The government, on the one hand, needed to differentiate itself from the bailout system; it had also committed itself to a 'no pension cuts' line (subsequently reduced to 'no *primary* pension cuts'). The lenders, on the other hand, also have short-term fiscal issues in mind. Pensions are a perennial source of overruns. The lack of publicly released data mean that outsiders can only guess at the extent of deterioration in contribution compliance; the troika is presumably fully aware. Finally, the troika, is mindful of the bigger picture and would not want the hesitant competitiveness gains to be overturned by tax increases.

This difference of approach on **short-term fiscal matters** overshadows the structural issues. On the one hand, the government, in wanting to prevent pension cuts, has proposed an increase in contribution rates of 1.5 percentage points (from 26% to 27.5%); the increase is concentrated in auxiliary pensions and hence will not affect those not eligible, i.e. self employed and farmers. It does this in full knowledge that it is a tax on labour to which the troika will vehemently object. It is also seeking to replace the third-party taxes with new sources of funds to buttress the whole system; its proposals have not been made public but it is known to be toying with a financial transaction tax. Both these are in line with a general

[10] Many might see the possibility of redeployment as a threat to employment and to established practices, both in the public and in the private sector.

government approach to prefer tax increases to expenditure consolidation, lest it be accused of promoting austerity. The Government is mindful of its left wing credentials; making some people pay more taxes would be acceptable if those paying taxes can be portrayed as 'rich' or generally less socially deserving.

Seeing things from the creditors' perspective, the key question is **are these proposals financially viable?** No numbers have been released by the government, who described their proposals without any indication of costs or benefits. Indeed, all financial information regarding pensions is a closely held secret. The two sides involved in the negotiations, the government and the lenders, presumably both have access to projections and to outturn data. Onlookers do not, and have to form an opinion from what each side chooses to release or to leak.

So, are the proposals viable? The issue of pension viability so far has been approached only in a long term sense – have pensions been contained in 2050? In this sense, it would be surprising if anything has changed, as the new pension parameters are no different from the old ones. The more interesting question is to do with the medium term, which can be paraphrased as '*Will there be need for another pension reform'*? For the short term the question is more agonizing *'Will we have to find either new cuts or impose more taxes this year and next?'*

The revenge of hiding behind secrecy is that the answers to these questions are not known; when the information is finally released we will get to see not only this year's problems but also the accumulated problems of the years when information was withheld. In other words, deterioration may be worse than what is commonly thought.

With this proviso, we may reconstruct some of the arguments likely to be used. **The Greek side** will point out that the bulk of savings will come from lower pensions; these will only build gradually, as each new year-cohort of new retirees receive their new lower pensions; if there is a gap this will only need to be made up in the first few years– hence the temporary nature of the contribution increase. A further key consideration is that, the replacement of the current head tax for the self employed with a new proportional, tax-based system of contributions is a leap in the dark. No-one knows what all this will mean in total revenue. It will be surprising if a review in a few years does not lead to major changes.

From the **troika's** point of view, there are features of the reform that will be thought attractive: the rapid progression to common rules, the appearance of restituting generational balance, reductions of bureaucratic procedures and the possibilities of containing personnel costs. These are matters close to the institutions' hearts and will create a useful precedent to export elsewhere[11]. The pension experts' enthusiasm is likely to be tempered by general public finance concern about future public sector deficits; under the MoU the primary surplus has to climb to 3.5% of GDP in 2017. Old Greece hands will also be worried about implementation and a difference between projections and actual outturns. A further problem is that the benefits and public finance outlook will easily be disturbed if the period of discussion yields about-turns and dilutions of the original proposals. The law, when finally tabled, may be very different from the way it is now.

The upshot of these considerations is that it may not be surprising to see odd alliances in the context of the reform. The stance of Greek opposition parties is likely to be dictated more by general dislike of the government than any views on pensions or remorse about their role in the crisis. As the losers are well-connected people close to retirement, much of the SYRIZA leading ranks_ are likely to oppose it. The possibility of realignments is a function of the length of time devoted to discussion and the nature of the discussion itself. Candidness may work in the government's favour.

[11] Procrastination and shifting costs forward is by no means an exclusively Greek invention.

A check list of side-issues and areas of contention

What is the alternative? Is 'do nothing' a feasible alternative?

It is not clear *what* the alternative to the bill is. SYRIZA was elected with an implicit promise to return things to 2009. While this has been abandoned, memories of opposition to post-bailout changes are too fresh for that strategy to be accepted wholesale. So, the need to propose something 'made by SYRIZA' was undeniable – if only for communications purposes.

'Do Nothing' in this specific case would involve acquiescing in pension cuts, especially in auxiliary pensions which were overdue and necessary, as finance for them had dried up. It also left open the question of how to respond to the Supreme Court decision; simply to ignore it is not feasible.

More importantly, as data has ceased to be released, we really have no idea of what the actual situation is, especially on the revenue front. There might well exist a pressing need for corrective action; this will be known to the troika and the authorities, but not to outsiders. This might act as a hidden driver, making political handling harder.

In any case, the 2010 changes were only 'Half a Reform'; they left the question of the arrangements pertaining to those who will retire in the next 10 years open. This is not a satisfactory alternative. For the same reason, changes had *already* been imposed to the younger generation, and no more could be done in that direction. Something like generalising the 'new system' towards present incumbents was unavoidable.

Is this a continuation of the post2010 reforms or a New Start? Is it left wing?

The troika will see certain parts of the law as vindication: spreading of the new system, 'real' as opposed to window-dressing consolidation are two obvious points. The 2010 law had been accused (wrongly) by many as 'neoliberal'. The Government, therefore, feels the need to portray their approach as left wing – hence the emphasis on redistribution and the aversion to opening up to the private sector. This, however, stops short of stressing aspects of the reform promoting equal treatment, of which there are many[12]. The reason, presumably, is that those who lose out from equal treatment, i.e. chiefly public sector workers, are groups well-integrated in SYRIZA. The anti-privilege drum must be beaten with discretion.

The left wing profile will thus be mainly a question of semantics – that is, how to label opposing groups: one must expect heavy ladling of 'neoliberalism' and reminders of the murky past of opponents. This is unlikely to produce clarity.

What exactly does the third Memorandum of Understanding say?

The MoU is a 29-page reform agenda containing very detailed actions subject to quarterly reviews. It foresees a concentration of legislative activity in the first few months. In the preamble it stresses the need for ownership of the reform, as well as the need for consultation with the Institutions. The strategy stresses '*the need for social justice and*

[12] The main equal treatment argument involves the emphasis given to pensions at the expense of other social programmes addressed to the working generation – unemployment, social safety nets.

fairness, both across and within generations', placing pensions and social protection on centre stage.

In the strategy it stresses three objectives for the social field, which amount to a blueprint for a complete overhaul of the social protection system:

(a) "**Pension reforms** … to remove exemptions and end early retirement",

(b) "To get people back to work.

(c) "Improved the design of the welfare system, so that there is a genuine social safety net".

These structural measures take place within a tight fiscal framework. Given the estimate that, absent measures, there would be a primary deficit of 1.5 % of GDP in 2015, the adopted target of a 0.25 % deficit entails considerable fiscal effort on an annual basis. The gradual improvement of public finances, is to lead from a 0.5 % surplus in 2016 to 3.5 % in 2018,

Turning to specific reforms under the heading of 'sustainable social welfare': On **pensions**, consolidation is planned to lead to savings from 0.25 % of GDP in 2015, rising to 1 % in 2016, despite rapidly deteriorating demography. The MoU contains a detailed blueprint for reforms to be legislated by October 2015 and implemented by December 2016. These changes complete the 2010 law by taking action in areas that had been left aside. These include organizational change - all social security funds to be integrated-, extensive contribution and revenue harmonization and phasing out of entitlement privileges, including heavy penalties for early retirement. The authorities must also identify measures to compensate for the Court ruling on pension cuts. **The authorities can propose alternative parametric measures of equivalent effect, *'provided they are submitted during the design phase and are quantifiable'***.

A comprehensive Social Welfare Review, is hoped to lead to a savings of 0.5 % of GDP. Plans must also be submitted for a gradual nationwide rollout of guaranteed minimum income to start by April 2016 and be complete by end-2016. This is ultimately to include pensioners as beneficiaries along with the other population. In the meantime, the existing separate safety net benefit for pensioners (EKAS) should proceed to savings affecting the 10 % beneficiaries who are better off.

Does this reform cut pensions?

The proponents are careful to point out that no pensions will be cut *immediately*. This is stressed for primary pensions. For auxiliary the position is: '*We are doing our best, including imposing contribution increases; if there is a cut, we will have gone down fighting'*.

Apart from that, the answer to a seemingly easy question is unexpectedly complicated:

New pensioners from 2016 will have their pensions calculated as if they had always been contributing to the new system, rather than to the older regimes they (thought) were in force. For the majority, and especially for hitherto privileged groups, this will mean lower pensions. Strictly speaking this is not a cut, but merely a denial of expectations. For a few lucky people (especially those with few years of contributions, some farmers, perhaps others), there might even be increases.

Existing pre-2016 pensioners will have their pensions recalculated with the new rules, by the end of the adjustment programme. Amounts in excess of that will continue being paid as temporary amounts to be netted out with future increases.

Will (primary) pensions rise or fall in 2018?

The reform postdates the decision of whether to cut pensions until the end of adjustment, that is to 2018, presumably under a different government. This has the paradoxical impact of turning pensioners into ardent supporters of adjustment. Additionally, it allows the Government to turn the established Opposition 'line' into arguments for its own position: if (as the Opposition claims) the crisis is to blame for the cuts between 2010-2014, then, when the crisis is over, the time for pension rises might have come back.

In practice only very fanatical supporters will buy that argument. In addition to the usual public finance argument, we must also factor ageing. The retirement of the baby boom is in full swing (the youngest baby boomer is already approaching 50), and it will make matters worse regardless of other factors.

Is the SYRIZA new system different from the PASOK/ND new system?

There is more than a family resemblance. The same scheme is proposed with slightly more generous parameters. Basic pensions which will be drawn by all with 15 years of employment+, are €24 higher (384 as opposed to 360). Accrual rates after that are higher by only 0.12 per cent, just enough to claim that they are higher. The opposition retorts that their own accrual rates are cascading, whereas in the new proposals are marginal. Even those who understand the difference cannot know how the old system was supposed to operate; even its proponents did not dare issue a single pension with that system – despite being obliged to do so by January 2015. The 2010 system turns out to be a zombie-system which was never put to the test.

The self employed – is 37.5%contribution on income a little too much?

The self employed used to be subject to a system where contributions were levied as a head tax (fixed amount regardless of size of business or income); beyond that classes were voluntary. Pensions were calculated using 'insurance units'. The whole thing was heavily subsidised. They are now consolidated with employees, having the employees' system applied to them.

This in practice means (a) contributions to be levied with the same rates as employees (b) these will be levied on taxable income and collected monthly (c) There is a minimum contribution equal to what a low-paid employee will pay - €110/ month or so, down from approx €220 (d) there will (probably) be a ceiling to contributions corresponding to c €5500/month. (e) pensions will be calculated in a similar basis as for employees, i.e. applying accrual rates to career average income (f) time to 2016 will be calculated using the old insurance classes (unclear how that will be done).

These proposals has raised a furore. It means lawyers will pay 37.5%[13] of their taxable income – from the first euro and before tax deductions; small shop owners 27% (no auxiliary pension and separation payment). In return they might receive higher pensions than what they were used to (though not lawyers – as they will lose their tied taxes on which most of their pensions were based) – a fact which is hardly ever mentioned.

Opposition to the reform has focused on the new contribution systems, which is discussed *independently* of pension entitlements. Thus, some obvious points are missed: Employees

[13] 20% primary+ 6% auxiliary +1 ½ % auxiliary increase+ 6.5 % health + 4% separation.

are subject to the *same* rates, and (therefore) contributions have to be high because *pensions* are high. What is objected to, thus, is a form of compulsory over-insurance.

In any case, the confused discussion 'discovers' in the new self-employed contributions drawbacks which have *always* held for employees: Contributions are high; there is incentive for contribution evasion; competitiveness is affected; contributions are unjust and regressive, as they impose higher rates for the poor (the contribution floor) than for the rich (the ceiling). Applying what has *always* held for employees for the first time, serves as a **reminder that the *entire* system is too expensive and distortionary.** Rather than seeking to exempt *one* group, and keeping the problems intact for those who can't complain, it would be best to consider an entirely new system – a fresh start (next section).

Other facts *not* mentioned are that (a) the existing head tax contribution system is collapsing, though the extent of the collapse is unknown. (b) the head tax was introduced precisely because tax evasion was rife (in the 50s), i.e. the previous system is what is known by economists as a second-best solution, addressing a problem which is has in the meantime, become less acute[14]. Much of the discussion proceeds in complete ignorance of how the *current* system works.

This being said, there probably exist sound arguments that the self-employed are forced to over-insure. These could lead to insuring a part of earnings, reducing ceilings and floors, or making separation and auxiliary coverage voluntary. These, however should go hand-in-hand with changes to entitlements: if someone pays less he/she, should correspondingly be entitled to less. However, examining sound arguments is not encouraged by the confused discussion currently under way.

The farmers – is 37.5% contribution on income a little too much?

The same arguments for self-employed apply[15]. An added problem is that the distance between the old head tax and the new contributions is wider, as was the extent of subsidisation. A separate farmer's system was traditionally justified as most farmers were thought as subsistence peasant-type cultivators. That description may have been apt for the older generation, but does not apply to the new breed of dynamic cultivators, who are no different from small businesses (and probably want to be treated as such). Whether the transition to capitalist agriculture is complete or not is the real issue, but is unlikely to be raised in the discussion.

EKAS- the dedicated social safety net for pensioners.

EKAS (a safety net device especially for pensioners) attained notoriety in the summer of 2015, when the Commission Head was personally accused (and he claimed, falsely) of wanting to abolish protection to the poorest pensioners. The point (included in the MoU) is that there should be no *separate* safety net protection for pensioners, but that they should be included in a general safety net for the entire population. The proposals plan this for 2019. As a first step they include bringing the income cut-off criteria down, to reflect the general reductions in income during the crisis; EKAS expenditure had grown considerably as,

[14] The possibilities of tax evasion are far smaller than they were in the 1950s.

[15] The group facing the highest increase are agricultural employees (mostly foreign-born) who were previously paying the head tax and have now to be insured as normal employees (over 40% contributions).

with the same criteria, more and more people became eligible. This change will lead to a loss of rights for some people, which will be equated by some as a pension cut.

What are auxiliary pensions and what is happening to them?

This is an issue that only those familiar with the French system find it easy to understand. Employees in Greece since 1983, have had to contribute compulsorily an extra 6 per cent for auxiliary insurance (sometimes called supplementary). In return they get a second pension which replaces an average of 20 per cent of final salaries. Auxiliary are indistinguishable from primary pensions: compulsory, mandatory, pay-as-you-go, defined benefit, provided by State bodies. They are more fragmented than primary pensions and trade unionists have more say in their management. The auxiliary providers used to have more funds, for being less mature, but that is no longer the case.

Greek governments have been fighting rear-guard battles to keep those pensions separate from primary. They were excluded from the 2010 reform on the grounds that, in contrast to primary pensions, they cannot (or ought not to) receive subsidies. This fiction, combined with the abolition of tied taxes to create a major funding problem. This was 'dealt with' by consolidating (almost) all funds in one, ETEA, in 2012. Given that some funds were generous and ran deficits and other were parsimonious and had smaller ones, a common budget would have resulted in the thrifty poor paying for the spendthrift rich. To avoid that, the 2012 law required all pensions, at least for the period since 2001, to be calculated on the basis of total contributions paid, applying what is known as the Notional Defined Contribution (NDC) system. However, this decision was overturned, when it was stipulated that NDC would start only after 2014. The chief gainers were custom officials and tax civil servants (both closely linked with the then minister, an ex-trade unionist from the ministry of finance). So, generous pensions could be paid for a few years more, using contributions of other occupations with less generous systems.

Getting one occupation to pay for the others cannot balance the books for long. To stick to the story that auxiliary insurance does not rely on the state, the 'zero deficit clause' was inserted. Under this clause, if there is a deficit in one year, balance is attained by cutting *all* pensions by an equal amount. Interestingly, pensions could *only* go down, and could never rise again.

The zero deficit clause was applied in 2014, when pensions were cut by 5.3%. No data justifying that figure were ever released; rumour had it that the cut warranted was closer to 20%, which was politically unpalatable. This, however, creates pressure for bigger cuts in 2015.

Auxiliary pensions in late 2015 were a one-way-bet downwards. Given their rapid deterioration, they are no more than a pay-while-you-can, or even a pay-what-you-grab system. The Committee of Experts formed by the government suggested in October that they should be abolished as a separate tranche and should, instead, be incorporated into primary pensions. Reportedly the Minister also agreed; however he was overruled by SYRIZA and in the final proposal auxiliary pensions are retained.

Nevertheless, the commitment to prevent pension cuts is less stridently mentioned; everyone expects cuts, at least comparable to 2014 ones. The law, dedicates the (temporary) increase of 1 ½ points of contributions to auxiliary pensions, presumably to avert the certainty of cuts. Even so, it is difficult to produce a convincing story whereby auxiliary insurance would still exist in ten years' time.

Separation funds and separation payments

Separation funds are historical remnants from pre-pension days, when provident funds were the only old-age protection. They have been outdated for at least fifty years. At the time of retirement, an employee will receive as a golden handshake a lump sum typically equal to (monthly salary) times (number of years of contributions)[16]. So, for 36 years' work you receive three years' pay in a single payment. The providers are financed by PAYG and their contributors are overwhelmingly public sector. When public employment is rapidly shrinking, the conditions of finance of these funds are impossible. Nevertheless, they keep operating until definitively laid to rest. The amounts they pay have been cut by more than 40 per cent, while they are paid with delays stretching to five years. They also apply a version of the zero deficit clause, which in their case is even more bizarre: If someone retires in a large age group he will get less money than someone retiring in a small age group.

As it is common knowledge that the days of both auxiliary insurance and separation payments are numbered, that is another incentive to rush to retire while the money is still there.

The alternative – is a multi-pillar reform feasible?

The new proposals surprised people not so much for being new, as for applying across the board what was *already* in force for employees. In doing so, it reminds us of the problems of the system as a *whole;* it underlines that the path it has been on since 2010 is undesirable. It is not a choice *between* the PASOK/ND and the SYRIZA systems; *all* are equally problematic. The externally supervised pension reform process has fixed some problems, and endowed Greece with a rigid, 20th century-type State pension system of the kind being abandoned everywhere. The State is monolithically dominant, financing is exclusively pay-as-you-go, pensions are high and hence entail high contributions, there is very little lee-way for departures from the new norms.

What is needed, under this light, is a 21st century system channelling the role of the State towards social policy rather than income replacement and allowing flexibility to meet the challenges of the new economy.

A fresh start would be served by a multi-pillar scheme, in which roughly the *same* total pension entitlement is apportioned between three different sources, distinguished by the different kind of solidarity that is dominant in their logic.

First, the public pillar resulting from social solidarity, financed by PAYG, focussed on poverty prevention, a smaller and cheaper version of the current system

Second, the occupational pillar resulting from occupationally solidarity, financed by prefunding and hence ensuring differentiation without cross-subsidies. Contributors aware of the close links of contributions to entitlements, would think of such a plan as constituting their own money, hence will not see it as taxation.

[16] The question of how separation payments are taxed highlights a point of difference between social and private insurance. Private insurance pays tax at three different points: as insurance premia, as fund income and as payouts at the end. Separation payments are not (to date) taxable when received. Pensions are taxable as income.

Third, the personal pillars resulting from voluntary life-cycle saving possibly aided by some tax exemptions.

The system can be fine-tuned to limit non-wage costs and stands a chance of convincing young contributors that things have changed. Ensuring that the transition period is short is of crucial importance. Such a system cannot be legislated from one week to the next; a period of technical preparation, reflexion and implementation is essential.

This is not an easy reform to prepare, to pass or to implement, even if there is by now considerably international experience. However, the alternative would be a succession of pension reforms, as the credibility of the system and of social protection as a whole sink further and further.

A Timeline of pension reform 1934-2018

Phase	Date	Description
Pre-history	1934	Law founding IKA on social insurance lines. A compromise permits fragmentation.
	1950-1970	Refounding and expansion of system. First IKA deficit 1958
Ineffectual combatting of deficits leads to the crisis	1980s	Deficits become endemic. Stabilization programme 1985-7 fails to include structural reform. Government grants to pension providers introduced.
	1990-1992	Two major reform bills under ND Government. 'New' system introduced for post 1992 labour market entrants. Last contribution increase.
	1997	'Spraos Committee' shocks by suggesting that system will collapse by 2007. Ignored, on the grounds that the pension system is supported by the State.
	2001	Greek entry in the Euro. Reform attempt by PASOK Minister T.Giannitsis withdrawn after protests.
	2008	Reform under ND government; 'decorative' consolidation.
Undeclared crisis	2008	Financial crisis begins. First year of negative growth in Greece. ND declares 'Greece is buttressed against the crisis'.
	Oct. 2009	New PASOK government. 'Greek Statistics' episode ushers in the Greek crisis
First bailout	June 2010	First Bailout agreed. First pension cut in May.
	July 2010	Pension law 3863/10 is first bailout law. New system for the young generation; increase in pension ages to 65; incumbents protected.
	2011	Various implementation laws, including Disability, Heavy and Hazardous Occupations Early retirement builds up with government blessings.
Second bailout	2012	Second bailout. PSI cuts privately-held debt Reserves of some pension funds also hit.
	2012	Supreme Court Decision declares pension cuts to 2012 constitutional
	2012	Further rises of retirement ages to 67. Major cuts in pensions Law governing auxiliary pensions introduces 'zero deficit clause'
	2014	Zero deficit clause leads to 5.2% cuts across the board cut to auxiliary pensions
	Nov 2014	Obligation by government to review and to suggest corrective action ignored
	Jan. 2015	ND/PASOK government neglects to issue first 'new pensions'.
Third bailout	Jan 2015	Election of SYRIZA anti-austerity government committed to overturn pension changes, make up for cuts and start afresh. All implementation placed on hold
	Mar 2015	Supreme Court decision ruling that all pension cuts *after* 2012 are unconstitutional, for being insufficiently justified.
	June 2015	The Government only has enough cash to *either* pay pensions *or* to pay back the IMF. Chooses to pay pensions
	July 2015	Referendum called. The EU' insistence to abolish the low pension safety net cited as reason. EU President insists Commission misrepresented.
	July 2015	Decision to proceed to 3rd bailout despite referendum result.
	July 2015	Prior actions passed increasing retirement ages drastically to apply immediately and increasing pensioners' health insurance contributions.
	Aug 2015	3rd MoU voted with cross-party support. Key requirement to deal with generational justice. Detailed pension needed by October 2015.
	Sept 2015	Elections won by SYRIZA; same coalition as before
	Oct 2015	Government-appointed 'Committee of Sages' issues report calling for a 'new social contract' and a fresh start. Government distances itself from the report
	Jan 2016	Government proposals unveiled. 170-page document, not accompanied by any quantification. Negotiations with the institutions
	Jan 2016	Negotiations with the institutions and with groups of the population
	Febr2016??	Institutions' reaction; tabling of law to Parliament
	Mar 2016??	Implementation
???	End 2018	End of 3rd adjustment programme. All pensions to be recalculated using new rules. **Will pensions rise or fall?**

FURTHER READING

Good and authoritative sources of information with access to sources that have not been released are the IMF's special page, "The IMF and Greece" http://www.imf.org/external/country/GRC/.

The biennial OECD *Economic Surveys: Greece*:, Paris are perceptive and authoritative. Reports exist for 2009, 2011, 2013. 2015 should be available soon.

A general analytical description of the Greek pensions System:

Börsch-Supan, A. and Tinios P., 2001, The Greek Pensions System: Strategic Framework for Reform, in Bryant, R.C. and N. Garganas and G.S. Tavlas, *Greece's Economic Performance and Prospects*, Bank of Greece and Brookings Institution, σελ.361-443

The author of this note has written a book (in Greek) on deciphering the pension system, with extensive analysis of statistics:

Π.Τήνιος, 2010, *Ασφαλιστικό: Μια μέθοδος ανάγνωσης*, (The pension problem: A method to decipher) , Κριτική.

An easily available review of the link between reforms and the last stage of the crisis, containing extensive statistical information is a report for the European Parliament:

Platon Tinios, 2015, Employment and social developments in Greece, DG for Internal Policies, European Parliament, October 2015. http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563468/IPOL_STU(2015)563468_EN.pdf

A description and a more optimistic view of reforms 2010-2014,

G.Simeonidis, The Greek Pensions Reform 2010-2014: A leap forward, March 2015 http://www.actuaries.org/oslo2015/papers/PBSS-Simeonidis.pdf

Other works by P.Tinios on pension reform:

Tinios, P. 2012 The pensions merry-go-round: End of a cycle?, in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds). *From stagnation to forced adjustment: Reforms in Greece 1974-2010*, C. Hurst & Co, London, pp117-132

Tinios, P. (2015) "Off-the-Shelf Reforms" and their blind spots: Pensions in post-memorandum Greece", in R.Gerodimos and G.Karyotis (eds) 2014, *The Politics of Extreme Austerity: Greece beyond the crisis.*, Palgrave., pp 66-76.

Panageas, S. and Tinios, P. (2016). «Pensions: Arresting a race to the bottom». In "*Reforming the Greek Economy*", edited by Costas Meghir, Christopher Pissarides, Dimitri Vayanos, Nikos Vettas, MIT Press forthcoming.

A recent argument for a multi-pillar system (in Greek), is in:

Platon Tinios, *Το Ασφαλιστικό του 21ου αιώνα; Ανάγκη αναστοχασμού για μια νέα αρχή, (the pension issue of the 21st century: A need for reconsideration for a fresh start)* Study submitted to the Athens Chamber of Industry and Commerce (EBEA), January 2016. http://www.acci.gr/acci/PressOffice/View_Press_Releases/tabid/521/ItemID/7771/View/Details/language/el-GR/Default.aspx