



**HELLENIC
OBSERVATORY**
European Institute

Towards a New Social Contract: Greek pensions halfway through adjustment

Platon Tinios
Piraeus University & Hellenic Observatory, LSE

LSE Hellenic Observatory Policy Paper

APRIL 2016

This document has been prepared for the European Commission. However, the report reflects the views of the author only and has not benefitted from any interaction with the European Commission. The Commission cannot be held responsible for any use which may be made of the information contained therein

About the author

Platon Tinios, is Assistant Professor at the University of Piraeus. In 2015/6 he is a Visiting Senior Fellow at the Hellenic Observatory of the London School of Economics. He was born in Alexandria and was educated in Egypt, Greece and England. He studied at the Universities of Cambridge (M.A. Ph.D.) and Oxford (M.Phil). He served as Special Advisor to the Prime Minister of Greece from 1996 to 2004, specializing in the economic analysis of social policy and especially pensions. He was a member of the EU Social Protection Committee from 2000 to 2004. He has also worked as an economic adviser at the Ministries of National Economy and Health and Social Security. His research interests include pensions, ageing populations, social policy, gender, labour economics and public finance. He has written in Greek and in English on pensions and social protection. His last book on gender and pensions was published in 2015 (F. Bettio, G. Betti, P. Tinios and Th. Georgiadis, 2015, *Unequal Ageing in Europe: Women's Independence and Pensions*, Palgrave Macmillan, NY).

Table of contents

List of Figures	4
List of Tables	4
EXECUTIVE SUMMARY	5
The context	5
What are pensions for?.....	5
Greek pensions: A Mechanism for disaster	5
Pensions and crisis: What happened between 2010 and 2015?.....	6
Interpretation of the post 2010 pension scene	6
The logic of reform: to rejuvenate trust in a new social contract.....	7
Medium term measures to buy time for deliberations.....	7
Outline of a new multi pillar system.....	8
Problem areas to be tackled in the preparation period	9
Reform technology' to prepare for the new social contract.....	10
1. Introduction: The need for a fresh look at pensions	11
1.1 A need to take stock.....	11
1.2 Strategy and governance	11
1.3 Tackling ambivalence on pensions.....	13
1.4 Overview of the argument and outline.....	15
2. Pensions: Buying peace of mind.....	16
2.1 Pensions and old age security.	16
2.2 Thinking of pensions in terms of pillars	19
2.3 The Greek pension system up to 2009: a mechanism for disaster.....	22
3. What happened? An interpretation of developments since 2009	27
3.1 The situation before the crisis in 2009.....	27
3.2 A summary of the new pension arrangements.....	28
3.3 Difficulties in interpreting pension developments since 2010	31
3.4 A (subjective) evaluation of pension developments since 2010	32
3.5 Cuts in pensions as an equilibrating mechanism	36
3.6 Fiscal costs and insurance benefits: The case of auxiliary pensions:.....	38
3.7 An acknowledged inability to perform the functions of a pension system ..	39
3.8 Data and pensions: Hidden Treasure?	41
4. What can be done still?	43
4.1 Short to medium term: Buying time through parametric rationalisation	44
5. A risk- spreading cooperative solution in outline.....	55
5.1 General desiderata of a systemic reform.....	55
5.2 Sketching alternative 'three and a half pillar systems' for Greece.....	57
6. The way ahead: Signposting five problem areas	62
6.1 The Transition period and recognition bonds.....	62
6.2 Issues to be faced: The Starting point, Savings, Idiosyncracies, Governance	

7. Preparing for a new social contract	67
ADDENDUM An outline of pension developments in 2015.....	69
A Timeline of pension reform 1934-2018	71
REFERENCES.....	72
APPENDIX 1 : Proposal for a research body	75
APPENDIX 2 The Question of public information.....	79

List of Figures

Figure 1: Private pensions a Europe. Source European Commission (2010) Private pension schemes: Their role in adequate and sustainable pensions.....	22
Figure 2: Simulation of Replacement rates of the old and new pension systems, for different career lengths	33
Figure 3: Comparing official pre- and post-reform projections, 2009 and 2012.....	34
Figure 4: Pensions as percent of GDP, Greece Germany Italy 2001-2012	35
Figure 5: Cumulative falls of different kinds of pensions, 2010- February 2013.....	38

List of Tables

Table 1: Five broad Dimensions of Fund consolidation.....	49
Table 2: Two examples. One of real consolidation (Printers into IKA) one of the 'name plate'	49

EXECUTIVE SUMMARY

The context

After a period of rapid change, there is need for a fresh look at the pension landscape. To take in the bigger picture, we should start from first principles – of what a sound modern pension system needs to do. A sober contrast of what is happening with what needs to be done, could serve as the foundation for a new strategic course. Such a course starts from the needs of society and *then* designs a new pension system; pensions ought to adapt to society and not, as happened previously, society to pensions. Greek society owes it to itself to, finally, conduct that debate on pensions, which to date has *not* taken place. The report argues for an explicit multi-pillar system, as well as for a medium-term programme to buy the time necessary for preparations and for consensus building.

What are pensions for?

Pensions exist to promote peace of mind in old age. They are needed to avoid poverty, and to ensure that exits from employment do not lead to falls in welfare. These functions have always been served by solidarity – arising in the family, in the occupational group, or wider society.

A well-run pension system makes sure that the various forms of solidarity operate in tandem. Multi-pillar systems assign clear rules: The first pillar builds on society-wide solidarity, and is run by the State on PAYG. The second pillar is based on occupational solidarity and is financed by accumulating reserves, in order to preclude one group paying for another. The third pillar, individual pensions, uses self-help and formalizes life-cycle saving. The State intervenes both as direct provider of pensions, but also as system coordinator, regulator and ultimate arbiter. A clear link between contributions and entitlements (reciprocity) as well as sound and transparent governance are key.

As social and financial sophistication develop, the State tends to concentrate on the social side of pensions. As a consequence, a large number of variants of multi-pillar systems exist, while, in the EU only three countries persist in near-exclusivity for the state pillar. The pension tool box is full and can be tailored for specific situations, provided that needs are clearly identified.

Greek pensions: A Mechanism for disaster

The Greek pensions system has suffered from poor governance, which exacerbated the contradictions of fragmentation in a financing system that presupposes equal treatment: by hiding away true incidence, pensions played a key role in clientelistic politics. These factors lay behind a persistent tendency to increase expenditure at the individual level, which translated into structural deficits. As expenditure was decoupled from revenue, the shortfall was made up by government grants. In this way, fiscal problems became the main drivers for pension reform. However, attempts at that reform consistently fell short of requirements, as differences about

redistribution between occupational groups were conflated with redistribution between generations.

The pressure to reform pensions was reduced when the government's budget constraint became less pressing as a result of the euro. So, while pension expenditure continued unchecked, the impasse on pensions prevented the recalibration of the social safety net away from the family and acted to poison industrial relations. Pensions, thus, served as a wider 'Microfoundation of disaster'.

Pensions and crisis: What happened between 2010 and 2015?

The pensions reform law 3863/10 was the first and, according to the IMF, most effective, law passed after the bailout. The pension scene in 2015 is certainly decisively different, notwithstanding the occasional confusion – caused by a difference in its impact between the very long term and the current decade.

Pension viability is held to have been answered long term, given that pension outlays as a share of GDP in 2050 were drastically reduced. This was due to a new two-tier pension calculation system, based on career earnings and on a drastic raise of retirement ages for younger contributors. However, these changes would only have a measurable impact well after 2020. This was due to an evident desire to exempt those close to retirement by very gradual introduction of the new system and through expanding the number of contributors with vested rights. This 'grandfathering' in practice exempted the Greek baby boom, known as 'the Polytechnic generation'.

So, structural reforms did *not* 'bite' during the crisis. Pensions continued to appear a 'safe haven' from the labour market, leading to exodus into early retirement chiefly by women. Increases in expenditure combined with falls in revenue, to make the pension system a key source of fiscal 'surprises'. Given that no compensating finance was feasible, funds had to be sought from *within* the pension system, by cutting pensions-in-payment. These took place on ten different instances since 2010, leading to cumulative cuts ranging from 14% for low pensions to almost 50% for larger pensions, and affected pensioners of all ages. In an effort to argue that auxiliary pensions no longer posed a fiscal risk, the process of equilibrating budgets by cutting pensions in payment on an annual basis was formally instituted in 2012.

Interpretation of the post 2010 pension scene

New system pensions, for *full* careers, are *not* especially low for the first pillar. This guarantees continued dominance of the State in pensions. Expenditure consolidation is probably due to using career averages for income replacement. A serious flaw arises from the 'collateral damage' of the repeated cuts of pensions in payment. These raise a pall of uncertainty over income security even for older individuals, and undermine the key function of a pension system – to prevent sudden falls in consumption at old age.

An overall evaluation is that what took place since 2010 was only '*half* a reform'. While certainly dealing with some problems – chiefly in the long term – it did not change the underlying logic of the system, the main pivot of which remained the exclusive reliance on the State. Cutting pensions in payment further undermined the credibility of the pension promise. A persistent downward spiral may be in

operation, where fiscal problems lead to pensions' changes which further devalue the social contract of pensions. In this way they encourage tendencies to disintermediation by younger contributors.

A further issue to be tackled is the changed post-crisis circumstances. The fall in GDP per head by a quarter since 2008 means that any given pension amount represents a greater burden to production. This has already led to pensions as a percent of GDP being the highest in the EU in 2012 (17.5 per cent). Looking forward, the employment landscape will be more challenging, while funds to pay pensions will have to compete with debt servicing. These considerations have not, to date, been factored in. However, they should inform *future* discussions.

The logic of reform: to rejuvenate trust in a new social contract

To instill trust in the pension system, it would be preferable to embark on a thorough reform which rebases the pension promise. It should examine how pensions can best support the economy rather than *vice versa*. In order to do this, Greek society should invest in seeking a new pension system based on a renegotiation of the social contract underlying pensions. Only this could definitively resolve the 'pension problem'.

Such a strategy could be implemented in two phases. *First*, a programme of medium term measures must create the 'fiscal breathing space' needed for a calm and thorough preparation. Greek society should 'buy time' to deliberate and build consensus. *Second*, a new pension system should be adopted. Such an approach can be constructed around the idea of spreading the risk of ageing as widely as possible between all sectors of Greek society. This can be attained by an explicit multi-pillar system, which provides an architecture for transparent cooperation of all kinds of solidarity. To succeed, it must rejuvenate trust amongst younger contributors by restoring a credible link between contributions and entitlements. For older participants, it should provide reassurance that pension cuts have reached their ceiling. The new pension system should thus be founded on the notion of intergenerational justice.

Medium term measures to buy time for deliberations

These initiatives operate *within* the logic of the current system; by streamlining it, increasing its effectiveness and furthering equity they can buy time and build trust. For medium term measures to have an appreciable impact, a vested right cannot be seen as an absolute prohibition; if so, all adjustment is forced onto younger generations. Individuals with vested rights could face disincentives to exercise those rights before age 65, for example by surcharges or levies on the pension amounts to be received.

Medium term measures can be sought in the following dimensions:

- Revenue. Contributions rates for all employees should be harmonized – in most cases *downwards*. Contributions for the self-employed should be at *ad valorem* rates on declared income. Contribution systems should be streamlined with tax collection.

- Fund consolidation, in the direction of real harmonization of insurance conditions, administration and planning to make wider use of economies of scale.
- Treating privileges as stranded costs which are fixed, affecting privileged populations which are no longer being replaced. They can be costed and their finance can be negotiated between pensioners, current workers, employers, making full use of pension fund property. This process should be decisively applied to the system of heavy and unhygienic occupations, which must be discontinued on health policy grounds.
- Minimum pensions act as an incentive to early retirement which consigns pensioners to a permanent poverty trap. Seeing minima as public subsidies to old age, equity dictates that this should be available to all citizens equally. If so, minimum protection cannot be enjoyed earlier than the largest pensionable age of a public fund (currently OGA). Those who decide to retire earlier, will still be able receive the 'organic amounts' specified by their own funds.
- Depending on the possibility of expenditure consolidation that can be attained (chiefly the success of discouraging the exercise of vested rights) extraordinary levies on pensions can be considered for a given and limited period, which coincides with the period of deliberation and social dialogue.

Outline of a new multi pillar system

In its full operation ('the steady state') the proposal is for a 3 ½ pillar system. Details such as the relative size of pillars, the exact replacement rate of each, the extent of state subsidy and the speed of transition must remain open, to result from public deliberations and open discussion once a menu is constructed based on openly available reliable data.

The **First pillar** would consist of public pensions, provided by a single state provider on a Pay-as-You-Go basis. They should replace the sum of primary, auxiliary and separation structures. In order to leave space for the other pillars, the replacement offered must be lower than today. Total replacement will result from the addition of two components: a means tested pension collectable at the age of 67; and a notional defined contribution (NDC) pension for the remaining replacement.

The **second pillar** would consist of mandatory occupational pensions on a defined contribution, pre-funded basis. These funds will accumulate assets, in order to finance payment of annuities to their members. Membership would be compulsory by occupation, with a *minimum* contribution rate of 3 to 5%. Their governance can provide a valuable field for cooperation between employers and trade unions. The property of today's funds could be used to help finance existing privileges preserved during the transition.

The **third pillar** would refer to individually tailored stakeholder provision, akin to personal saving. This, in the Greek context, could deal with the issue of the middle generation of 40-year olds currently 'caught out' by the suddenness of reforms. Similarly, it could allow those whose careers do not follow common patterns (e.g. expatriates, occupationally mobile individuals, women moving in and out of the labour force), to boost their own provisions.

The **'third and half'** pillar would try to integrate working longer as a putative '4th pillar'. This could mean delaying retirement for those already working; increased employment opportunities for working mothers and the possibility of enticing recent pensioners back to the labour market, possibly with new flexible types of labour contracts. The possibility of 'recontracting retirement' could be an innovation designed to give an opportunity to return for those (primarily women) who retired early, as a result of the crisis from 2010.

Compared to the current situation, the new system must be distinguished by a **fast transition**. Rather than waiting for a full generation to pass, an attempt should be made to speed things up. This would consist in allowing individuals in their 30s and 40s the right to opt in, receiving 'recognition bonds' in lieu of contributions they have paid into the old system.

Financing of recognition bonds could be costly given the high interest rates which will most likely be faced by the Greek Government. However, some kind of underwriting of these bonds on the part of a European body could operate as a win-win proposition. It would reduce the cost of the bonds, but could also act as a concrete (and constructive) evidence of European solidarity. It could be a 'flagship initiative' where the EU supports a pension reform securing viability in the face of ageing.

Problem areas to be tackled in the preparation period

The Achilles' heel of multi-pillar schemes is the transition period. During the transition, individuals of working age will have to pay both for their own and for their parents' pensions (the 'Double payment contention'). However, that process does not necessitate new external borrowing, as it can be financed internally as part of the same pension reform process. The reform brings into the open existing implicit obligations to pensioners. It does not add to societal obligations, but only makes them more transparent.

Preparing the reform will require extensive work on a number of problem areas:

1. Characterising the baseline. The impact and status in generational justice of changes since 2010 will need to be justified on equity and efficiency grounds. Pension and debt sustainability issues will need to be evaluated jointly.
2. Savings. Can Greece save enough? Greeks have been used to paternalism in pensions. Can they take over decisions on retirement saving? Is the financial system ready to support a large increase in demand?
3. Fine tuning to Greek idiosyncrasies, which may help adequacy. First, Greeks are pension-poor but housing-rich. It could be possible to use one feature to aid solving the other, for instance by reverse mortgages. Secondly, the work of pensioners could be used to upgrade the long term care infrastructure.
4. Governance and implementation Issues – for example improving the administrative machinery exists needed for means testing. Other issues would be redeployment of pension fund employees, the role of the insurance sector etc.

Reform technology' to prepare for the new social contract

Previous attempts at reform failed to convince society of their intentions, nor of the inherent dangers of inaction. A thoroughgoing pension reform needs a full information pack to accompany discussion. This must be derived from three technical exercises: (a) New sustainability and adequacy figures to incorporate the effect of the crisis; (b) a detailed medium term cash flow to cover the next ten years. (c) microsimulations illustrating the distributional and inter-generational impact of both the 'no reform' and 'post-reform' scenario. A role in preparing this data in a transparent way has sometimes been usefully played by institutes focused on the scientific issue of responding to ageing. Such a body could combine work preparing background pension information with debt sustainability.

One should not underestimate the complexity of the overall task. Other countries had set in train deliberations which spanned the length of more than one parliamentary period – in order to insulate preparations from immediate economic, financial and political pressures; such a hiatus also allowed positions to be rethought and reformulated in the face of new evidence and encouraged the emergence of consensus.

1. Introduction: The need for a fresh look at pensions

A need to take stock

Reform of the Greek pensions system remained resolutely in the policy agenda for decades. Despite repeated attempts, the original underlying issues did not retreat, while new ones appeared to be added persistently. Nevertheless, deep reform *did* come in 2010, in somewhat chaotic circumstances, as the first substantive reform initiative which followed the original bailout agreement.

Five years after those reforms, there is a need to take stock. We need to understand *three* sets of questions, *two* of which concern the past and another set is oriented to the future. We need to start by interpreting the past: *What were the problems that had to be tackled?* What was the underlying malaise of the Greek pension system that evaded reform for so long? Were *new* issues added after the crisis? The *second* question requires an interpretation of what happened between 2010 and 2014: *were the outstanding issues dealt with, how, and in over what time frame?* An answer to these two issues lays the groundwork for the *third* and most important class of questions, asks *what can happen still? Are there tasks for the future?* Is there anything remaining to be done? Is the 2010 reform complete, or does it need to be supplemented by additional parametric improvements within the reformed structure? More importantly, has the issue of systemic change being laid to rest or is there still an argument for thoroughgoing change? And if so, in what direction and how?

Five years after the reforms, there is a need for clear thinking – to overcome what political scientists call ‘path dependence’ (Pierson 2000). In a very complex matter where multiple objectives can be met and a multiplicity of interests, generations and occupational groups are involved, it is important to be clear on what the primary aims are and what ends they are called to serve. Institutions often acquire a life and permanence of their own. Changing conditions may signal the need for new answers that unchanged systems may not be able to furnish. In a highly complex and contentious field such as pensions, it is frequently the case that the ‘large picture’ is obscured by details – ‘the wood cannot be seen for the trees’. To orient the approach it and to secure the necessary detachment, is important to ground arguments on first principles, whilst being aware that answers should be oriented to the future – which might look quite different from the past. In other words it is imperative to take a fresh look at pensions – where we are and where we want to go.

Strategy and governance

Strategic choices and governance improvements. In what is often a highly technical and complex topic, we must be aware of a distinction between **major societal choices** – which would typically require a clear and informed political mandate **and managerial and quality improvements**, i.e. governance improvements. The latter can be pursued as a matter of course as part of the *existing* mandate. The latter’s importance is enormous: Good governance is a prerequisite for being able to define problems and hence decide. It is also instrumental in building trust. Indeed, Barr and Diamond 2010 say that whether a pension system is run competently or not, can frequently be more important than more ‘ideological issues’ about State

involvement. Without efficient governance, the range of feasible choice is severely circumscribed and (otherwise laudable) reform attempts can be undermined.

In a low trust environment, discussing and implementing a programme of governance improvements can be used as a means to *build* consensus, inspire trust and introduce habits of cooperation. Reform may frequently appear as a chicken and egg problem: You need trust, so that reform can lead to institutional development; yet, trust is lacking *because* such institutions do not exist. A programme of improving quality of social protection ‘from the bottom up’ – i.e. at the user interface – can break the conundrum by facilitating the building of trust in pursuing a shared goal¹.

Indeed, such a course was followed in Greece in 1998 in the form of a separate public dialogue between the social partners on administrative changes, bypassing other, more contentious issues such as long term pension viability and retirement ages. The process led to a series of consensus reports (Dialogue Committee 1997) which were partly legislated, though subsequently largely ignored. Administrative issues are very important in the Greek context and keep recurring in pension discussions. They frequently outshine discussion of more ‘strategic’ matters, such as fund consolidation; opposition to consolidation frequently focuses on disturbing the links of the insured with ‘their own pension fund’, by replacing them by a more impersonal and bureaucratic relationship, even if the latter is more efficient.

An idea of the subject matter than can potentially be covered can be gleaned by the separate reports generated by the 1998 process: Contribution evasion; relations of pension providers and banks; legal aid and contributors’ rights; asset management (financial and real estate – e.g. real estate companies); administrative simplification and compliance costs; non-insurance (welfare) benefits; pensions and health insurance. It is no accident that many of these issues are still argued about, more than fifteen years later.

There is a further reason not to take governance as given. If we think of governance capacity as a finite *stock*, then there will exist a trade-off between those ‘no pain’ administrative improvements (that do not require major societal decisions) and strategic choices. Using up the (fixed) governance ability in one area, means that it is not available to tackle the others. If the same administrative machinery is assigned to both, then it would either do one *or* the other. If it attempts *both*, there is a danger (as has probably happened in the past) that it succeeds in *neither*.

Nevertheless, this report cannot hide that its value added is in *strategy*, rather than in administrative and managerial improvements. The report can signal the importance of governance issues, it can flag administrative prerequisites or perhaps even offer isolated suggestions. However, it cannot pretend to be able to suggest a complete plan to improve the administration of pensions. It is important to note, however, that strategy and administration often require different competences and involve a divergent ‘job description’. If both strategic and administrative improvements are needed, it is as well, then, that responsibility for each should be assigned to distinct and separate bodies and individuals.

¹ A similar reasoning is often applied to foreign policy through discussions on ‘confidence building measures’ in complex international relations. Greek-Turkish relations are a case in point; US-China relations provide perhaps a more optimistic example.

This leaves the matter which is paramount for charting a course and that where any value for this report must be sought: rethinking strategy, by taking stock of where we are, and asking where we would like to be. **Does the Greek pension system, as it is today and as it might be in a few years' time, meet the design requirements of a modern pension system? Can it do more to further societal choices in a world that is rapidly changing?**

Tackling ambivalence on pensions

The current time, five years after the landmark pension legislation of 2010, is perhaps an especially apt occasion for a rethink about pensions policy. The Programme for Adjustment (bailout agreement) had, in any case, foreseen the need for an overview and review of progress on pension reform to take place by November 2014. In this context, a report was to be prepared by KEPE. That report would have started the process and would have provided the quantitative information on which a balanced assessment could have been based. Indeed, unofficial press reports in autumn 2014 signalled that work was proceeding, and may even have been at an advanced stage. Nevertheless, the report was never tabled and the review did not take place.

Those unfamiliar with the political economy of Greek pensions may have expected all sides to have welcomed the chance to air their views and back their arguments with data. After all, the authorities in autumn 2014 were on record that the changes implemented since 2010 had breathed life into a moribund system and had guaranteed its long term viability. According to that view, near-term issues faced by the pension system were exclusively due to the crisis and were essentially unrelated to the long term issues tackled by the reform. On the other side of the argument, the government coming in after the January 2015 elections, could equally have been expected to look kindly at a substantive review. A common observation of some critics was to see pension reform as a plank in a cohesive 'neoliberal agenda'. A distinct strand of argumentation was to understand the pension changes of the MoU period as a plank in a macroeconomically-inspired internal devaluation. As such, it was almost unconnected to internal pension system issues. An important corollary of this view, could be that the changes could, in principle, be reversed – provided the macroeconomic environment shifted away from MoU-inspired austerity. In *either* case, a sober look at the record and data even if not being able to settle the issue definitively, would have clarified matters and have taken debate forward.

Even outside the political sphere, evaluations of pensions and appreciation of what had already taken place were contradictory and confusing. We can distinguish arguments supporting actions in the pension field, and others more critical. We look at each in turn, starting with 'the argument of the defence' before examining 'the argument for the prosecution'.

'The argument for the defence' of pension actions held that the 2010 reform had provided a plausible and definitive answer to the pension problem, leaving only minor adjustments for the future. The IMF had characterized it, in the first post-bailout report in August 2010, as a "*landmark pension reform, which is far-reaching by international standards*" (IMF, 2010), and two years later '*as one of the main achievements of the program*' (IMF 2013). Similarly, the EU Ageing Working group in

its 2012 report concurred that viability had been conclusively dealt with: Greece showed the largest improvement in the burden of pensions forecast for 2060 of any EU country (EPC 2012, see section 3).

Notwithstanding these appreciative statements, pensions since 2010 had remained a key locus for concern. Individual pensioners hearing the triumphal official declarations, may have wondered how viability is consistent with ten consecutive cuts of their own pensions since 2010. (Tinios 2013). Despite the reforms, fiscal overruns in pension systems and pension providers persisted as major short term threats to the budget. Pension expenditures rose as more people sought refuge from the labour market, while at the same time, and despite efforts to curb evasion, the contribution base appeared to be dissolving. Firms complained vociferously of non-wage costs impinging on their ability to operate and compete.

The **Argument for the prosecution** of pension actions denied that the changes were directly linked to the pensions situation. A widespread evaluation, not only in Greece, was that the 2010 reform was part of a wide-based attack on the European Social Model (e.g. Busch et al 2013 from a German perspective), inspired in part by a 'neoliberal agenda'. Even given that not all in 2009 was plain sailing, the situation was made worse by the changes, evidenced by pension cuts and exacerbated by the 'haircut' imposed on pension fund property. If this was so, it followed that the abrogation of key planks of the 2010 reform (such the initiation of the new two-tier pensions systems, reductions in auxiliary pensions or future increases in retirement ages) could be pursued with little structural damage. According to this view, the 2010 reform was a false start and that, therefore, there could and should be a return to 2009 with little danger.

Two counter-arguments exist to contradict this hopeful position: Firstly, the rapid ageing of the Greek population was already an undeniable fact in 2009, and is even stronger now. Secondly, even if the *previous* pension system were affordable in 2009, it is unlikely to be so still. On the one hand, there exist close to half a million more pensioners who rushed to retire in the years from 2009, largely in order to escape the effects of the crisis. On the other, the economy itself has shrunk by a quarter since 2008, while its course from now on is unknown and unknowable. However it may be, the type of pension system suited to the needs of post-crisis Greece is likely to be different in key respects to the situation pertaining then.

Clarity in describing where we are and where we want to go is of importance, independently of any difference in political views. Taking stock of what happened to pensions matters in charting the future course of both economy and society. After the changes of the magnitude that have taken place since 2009, we need to re-examine the relationship between pensions, economy and society. Looking at the pension system in isolation from its wider context – that is, examining pensions independently of the economy they are to serve – would in a real sense involve putting the cart before the horse.

This report makes a start to justify developments in pensions by basing them on first principles. Between the two polar positions – the complacency that the 2010 reform said the last word, on the one hand, and the nihilism which denies any usefulness to past changes - the report attempts a more balanced reading: **Reforms were indeed significant, but provided only partial fixes. Whilst dealing with the very long term,**

pensions during the crisis operated perversely. Early retirements led to cost overruns, a cost made up by large and repeated cuts in pensions of all pensioners. This dealt a major blow to the (already shaky) credibility of the pension promise, encouraging further evasion and setting in motion a vicious circle. The key message was that the pension system, while remaining a charge on competitiveness and a drain on public finances, is no longer trusted to deliver old age income security. The latter is the reason for having public pensions *in the first place*. **Thus, the problem of the 2010 pension agenda was that it did not go far enough- that it was, essentially, only 'half a reform'.**

If it sets off a vicious circle, half a reform may in cases feel closer to a race to the bottom. This needs to be addressed, the report argues, by making participants feel a fresh start has been made. Whilst accepting the majority of parametric changes that have taken place since 2010, the second-stage reform should concentrate on adding legitimacy to the changes and restoring credibility to the overall pension promise. A thoroughgoing systemic reform can do so, by demonstrating how a new system can *both* serve individual needs for old age income protection *and* inflict lower costs on production. Such a reform could be similar to the type of reform pursued across Europe and the developed world in the last two decades. Bringing in elements of prefunding can correct the overweening ambition of the public pension system and answer the challenges faced today in a more convincing manner.

In many ways, the problems faced by pensions since 2010 could have been avoided if there was a fuller understanding of what the changes were aiming for, as well as closer monitoring of decisions taken and a more thorough discussion of the trade-offs encountered as well as the obstacles faced. Correcting many of these issues presupposes undertaking the public debate that has not taken place hitherto, even if such a debate is held retrospectively.

Overview of the argument and outline

The argument of the report is simple². The **challenge** is how to cope with a system which still assigns a monolithically central role to the public sector. The State was unable to fulfil that role in the past and will probably be unable to furnish it in the future. In addressing the needs of the individual, the system over the next decade appears incapable to guarantee consumption smoothing and old age security, which are (and should be) its key functions. In terms of the macroeconomy, the costs in terms of drains of competitiveness and generating public sector deficits are only likely to become worse. **The solution** consists of risk spreading. The idea is to bring in more players who will assist the State to face the common challenge in a more effective manner. In that context, a multi-pillar pension system can be seen as a kind of public-private partnership. The private sector is brought in to help shoulder the weight, allowing the better off to assume responsibility for a greater part of their

² The ideas and proposals contained in the report follow closely those of the chapter by Stavros Panageas and Platon Tinios, 'Pensions: Arresting a race to the bottom' in *Reforming the Greek Economy* edited by C.Meghir, N.Vettas, C. Pissarides and D.Vayanos, to be published by MIT Press in 2016.

own income replacement. This frees the public sector to concentrate on the areas where self-help is insufficient – i.e. on the poor and on those with broken or irregular careers. **The way ahead** to implement the solution will not be plain sailing. There are many obstacles which need to be spotted and answers sketched before they have to be met.

The argument .We need, first, to understand **what needs to happen**. This is built up from appeals to first principles – both of the functions of pensions and the structure of the systems that provide them. By explaining in section 2 the options and dilemmas faced by pensions generally, we can shed light on why Greek pensions presented special difficulties which proved so difficult to reform. Section 3 looks **at what happened**. It examines the key contention that reforms since 2010 have not disposed of pension problems, but in some respects may even have made them worse. Key to this is that, even in the very long term, pensions will be provided by the State and will have to be financed exclusively by future generations of workers. Sections 4-6 look at **what can happen still**. A start in section 4 is made by looking at parametric changes that can be added to the existing system to correct or improve it, as well as by looking in broad outline at what fund consolidation can mean. These changes improve the medium-term fiscal outlook of pensions and can hence be seen as securing a ‘breathing space’ in which the technical preparations and the societal discussions that must accompany a reform can take place. Section 5 outlines a multi-tier reform that can bring in providers other than the State - a public-private partnership based on clear rules and demarcation of responsibility. The report provides a rough sketch of an explicit multi-pillar pension system, similar to that introduced in many European countries, which can allow the spreading risk, so that society as a whole can bear it with greater ease. Section 6 highlights problem areas and issues that must not be left to chance. Economic analysis can spot obstacles on the way, and adapt ideas from an increasingly richer international toolbox. The key message is that technicalities, even the key issue of the transition period, are obstacles to be overcome and should not be seen as trump cards preventing the exercise of fundamental choice. Section 7 returns to the broad-brush approach: Given that what is proposed is a kind of new social contract on pensions, it turns to political economy to pose the question of how Greek society can debate and prepare for such a contract, offering some concrete suggestions on the process that can be followed.

2. Pensions: Buying peace of mind

Pensions and old age security.

Pensions are the solution the 20th century came up with to deal with old issue of old age security. They exist in order to ‘buy peace of mind’, to help maintain the standard of living at a time when earning capacity is, for biological reasons, limited.

They supply a basic human function which, in one way or another has to be met³. So, the same service, support at old age, can be provided through different modes: by the family informally, by saving either individually or collectively, or, finally, by the State through a pension system. *All* systems have to cope with the *same* underlying sources of risk: the risk of longevity, as well as the uncertainties inherent in very long term contracts (how to apportion the effects of unforeseen developments to secure continuity, the need for trust). It can be expected that income support will in most cases be supplied by a mix of modes. The question is how to manage the mix in such a way as to succeed in the underlying long-term task with minimal cost and disruption.

The story of pensions since the early 20th century is one of gradual expansion of the responsibility towards more collective forms of provision (Mackenzie 2010). Old age support originally was a family responsibility. The development of financial markets enabled the transfer of purchasing power between periods, bringing to the fore saving (and life insurance). Collective occupational insurance allowed the explicit linking of old age protection with the employment relation and could thus benefit from risk pooling. The State brings social policy to the fore, by allowing redistribution to take place not only *between* but also *within* generations, for example by using tax funds directly to increase pensions of the aged poor.

So, a *formal* pension system can play its role by facilitating a number of redistributions, both *between* and *within* generations, each kind dealing with particular types of risk. Players in that game could be individuals, families, occupational groups or society at large, in the guise of the State. The potential complexity could serve as an asset, by widening the field of choice; it could also prove a liability, by allowing systems to be subverted by individual groups, occupations or even generations to secure larger benefits for some at the expense of others. Thus, governance is key, in order to balance the economic *costs* of pensions with the social benefits: Minimise distortions to production and maximize retirees' peace of mind by limiting threats to their standard of living.

In doing so, there is an overwhelming need for clarity and demarcation of the roles played by the various actors involved. Transparency allows the various types of redistribution taking place to be separately identified; this also permits the pension promise to be managed more efficiently and social consensus to be arrived at with greater ease. In this structure the State enters both as a potential provider (frequently of the 'floor' of pensions), but also as the system coordinator, regulator and ultimate arbiter. In managing promises there exist four 'levers' which determine *both* the overall weight of pensions *and* how that is borne by society:

First, the burden on current production, most succinctly measured by the overall size of the pension promise relative to the size of current production (GDP). This depends on the number of pensioners, how long pensions are paid for (the age of retirement) and the size of pensions relative to the working age incomes (the replacement rate).

³ The need to take care of older people who did not take part in production – the concept of retirement – was less common than one would have expected, and was aided by changes in the nature of work and the spread of longevity. Only as recently as the late 19th century, in the US most people continued at work and pensions were reserved as a sign of special favour. Mackenzie 2010.

These three numbers determine how much needs to be subtracted from the consumption of producers in order to support their parents – the key macroeconomic distributional issue.

Second, the mode by which pensions are financed. Pensions may be financed *either* directly from the generation currently working – what is known as Pay-As-You-Go financing, *or* they must be paid from a stock of funds accumulated in advance by the retired generation – pre-funding. However, an individual can draw pensions from both sources in separate tranches (sometimes called ‘pillars’). Financing is a key equity consideration, determining the extent to which each generation bears the macroeconomic costs caused by its retirement.

Third, the extent of reciprocity in finance- i.e. how closely benefits are linked to contributions. Systems of social insurance typically link benefits closely to contributions, while social welfare assigns benefits on the basis of need. Reciprocity may result automatically as a consequence of the mode of financing, or may result as an indirect by-product of how pension entitlements are built up from contributions⁴. Notional defined contribution systems (NDC) for example are financed by PAYG, yet calculate individual entitlements by mimicking pre-funding – crediting notional individual accounts with contributions and calculating pensions as annuities resulting from the accumulated funds.

Fourth, the extent of redistribution taking place *within* generations – in the sense of favouring particular classes of individuals over and above their entitlement based on reciprocity. This cross-subsidisation may favour ‘socially deserving’ categories such as widows, mothers of young children, the unemployed, war veterans; it may extend to entire occupational categories such as farmers⁵.

Managing the pension promise is fraught with difficulties. Unless great care is undertaken, the system may well be ‘hijacked’ by some groups at the expense of others. This can happen directly through explicit subsidies or grants. It may also result from departures from reciprocity (such as special privileges). It can, finally, be due to groups breaking off from a general system, in order, say, to take advantage of favourable conditions, such as a rise in employment in their particular sector of production⁶. Even though such a disaffiliation could, at first glance, be thought to be reasonable, it contravenes the operating logic of a PAYG system: In such a system, the key parameter is the society-wide ratio of workers over pensioners. If one group faces a favourable ratio, it follows that another must face a *less* favourable one. In contrast, prefunding can separate redistribution between and within generations, as

⁴ This has a bearing on how pensions treat risk: Defined benefit (or ‘final salary’) schemes favour the beneficiary by specifying the pension as a function of the salary at the end of one’s career; defined contribution (or accumulation) schemes favour the system guarantor by limiting pensions to annuities paid out of the accumulated funds.

⁵ Insofar as pension systems operate as insurance, the existence of minimum pensions could be seen as a kind of insurance against being unlucky in one’s occupation.

⁶ PAYG depends on society-wide solidarity. Disaffiliating is equivalent to a group declaring they want no part of general solidarity; i.e. that they are a kind of insurance ‘island’. Appropriating favourable sectoral developments denies them from other occupational groups and thus increases their own burden.

higher pensions must ultimately reflect a greater pension pot. It also can guard against cross-subsidisation between occupations.

Contributor perceptions matter a great deal: Linking benefits closely to contributions – reciprocity – makes social insurance akin to a voluntarily-chosen insurance contract. In such a contract, premia are seen as inseparably linked to benefits. Severing this link (through lack of reciprocity) and by the absence of clear rules creates a twofold risk: contributions may be perceived as simply another tax on labour, while benefits could be misconstrued as politically-motivated handouts. Such perceptions magnify the economic distortions caused by both contributions and benefits. Well-run pension systems emphasise the link with contributions, and try to be explicit in justifying any social-policy related departures from reciprocity. They highlight the difference between a system governed by arbitrary interventions and one applying transparent general rules. Pension systems are ultimately systems of information handling, implying careful record keeping and smooth operation. As Barr and Diamond 2010 state, whether a system is well or badly run is of more importance than whether it is public or private.

Thinking of pensions in terms of pillars

Total pension income can be composed of three components, each of which corresponds to a different ‘pillar of support’. Each of the three pillars is assigned a different role, while the system as a whole operates so that the different pillars act in a complementary manner⁷. The three pillars correspond to different kinds of solidarity⁸: *First* pillar pensions are public, corresponding to *collective* societal solidarity, underwritten and managed by the State. Redistribution takes place both within and between generations. *Second* pillar pensions arise out of the employment relationship and may redistribute *within* occupational groups. They correspond to occupational solidarity, which justifies the frequent assignment of key roles to the social partners. The *Third* pillar consists of individually-negotiated provision such as life insurance, in the context of life-cycle savings; it is, in a sense, solidarity between stages of life⁹.

Of the three pillars, the State pillar can also redistribute *within* generations. In the absence of specialised dedicated instruments (such as minimum income guarantees), pensions can be assigned roles in social policy. In underdeveloped financial systems, such as those pertaining in Greece and other countries when their pension systems were being built up, the size of the non-state pillars was constrained by financial underdevelopment – the capacity of the financial sector.

⁷ Competitive relations between the pillars could run to undermining the pension promises given by each and hence end up undermining trust in the entire system.

⁸ This numbering scheme for pillars corresponds to practice in Europe. World Bank practice (e.g. World Bank 1994) (confusingly) distinguishes two public pillars: one for poverty prevention and one for income replacement. The European terminology conflates these two into a single public pillar, partly as a result of difficulty in separating the two functions.

⁹ European countries lay stress on mandatory second pillar occupational provision, unlike the US, where occupational pensions tend to be voluntary. This possibly reflects a corporatist tradition, plus a desire to involve unions and employers in constructive relationships.

Given the lack of sophistication of financial systems in Greece in the 1960s and 1970s, there existed at the time no realistic alternative to a State pension system. Where financial underdevelopment does not place limits, the preferred size of the state pillar may depend on the intergenerational (within-generations) redistribution desired, as well as the extent of correction deemed necessary to supplement individuals' choices (who may, for instance, be thought prone to save 'too little').

As economies develop, the capacity of financial systems expands, prosperity grows and social policy matures, we may expect the 'optimum' size of the State pillar to retreat from near-exclusive State provision. We will certainly be surprised to see the persistence of uni-polar or monolithic solutions – where *all* provision is confined to one pillar, whether public or private. Nevertheless, perceptions frequently lag behind reality, by reproducing conclusions based on anachronistic premises. For example, in Greece, support for an exclusive role of the State in pension provision, often depends on two arguments, of historical significance, but whose salience has receded: First, a generalized distrust of the financial sector and especially of the insurance industry¹⁰. Second, a view that allowing non-state providers may dilute social policy. The latter criticism frequently conflates the distinct issues of provision and financing of insurance, yet is frequently heard. Both accusations could have been valid in the past. However, this types of concern have been laid to rest in many countries by two factors: Firstly, progress in both the financial and social policy available instruments. Secondly, the regulatory infrastructure, both at the EU and the national levels, specifically designed to allay such fears. A sober look at some *a priori* objections can show them to be based on an anachronistic view of the available tool box¹¹.

Such perceptions could be due to a lack of open debate in what has been a very introspective, if not claustrophobic, climate of discussion. This anachronism generates what political scientists term 'path dependence' (Pierson 2000). Avoiding discussion means that the problems posed by reliance on a single pillar are never raised, and the onus of proof is displaced to the proponents of multi-pillar framework. In this way, it also avoids mention of the benefits of a wider base: the ability to spread demographic risk more widely, or the advantages of giving up a 'one-size-fits-all' pension policy, or (alternatively) of doing away with hidden cross-subsidies.

Nevertheless, multi-pillar schemes, through clear assignment, can add transparency and limit the possibility of 'playing the system' for the benefit some individuals and groups. Two conditions, however, are *sine qua non*: Firstly, public systems using PAYG finance should be based on uniform general rules; otherwise some sectors will benefit at the expense of others. Secondly, occupational systems should be based on

¹⁰ For example, the 2002 law regulating occupational pensions forbids insurance companies a role in managing occupational funds – despite being the financial intermediaries with the longest experience in managing such entities. This restriction effectively blocks the development of occupational pensions for small and medium companies, i.e. for the overwhelming majority of potentially interested customers.

¹¹ Such arguments often demonise a multi-pillar framework. The proposal of a multi-pillar system by the Spraos report led to its vilification in the press and the slander of Professor Spraos as a follower of the Chilean Junta. See Featherstone et al 2001.

prefunding (a pension pot). This both prevents one sector paying for another, and does not impose obstacles to workers moving from sector to sector.

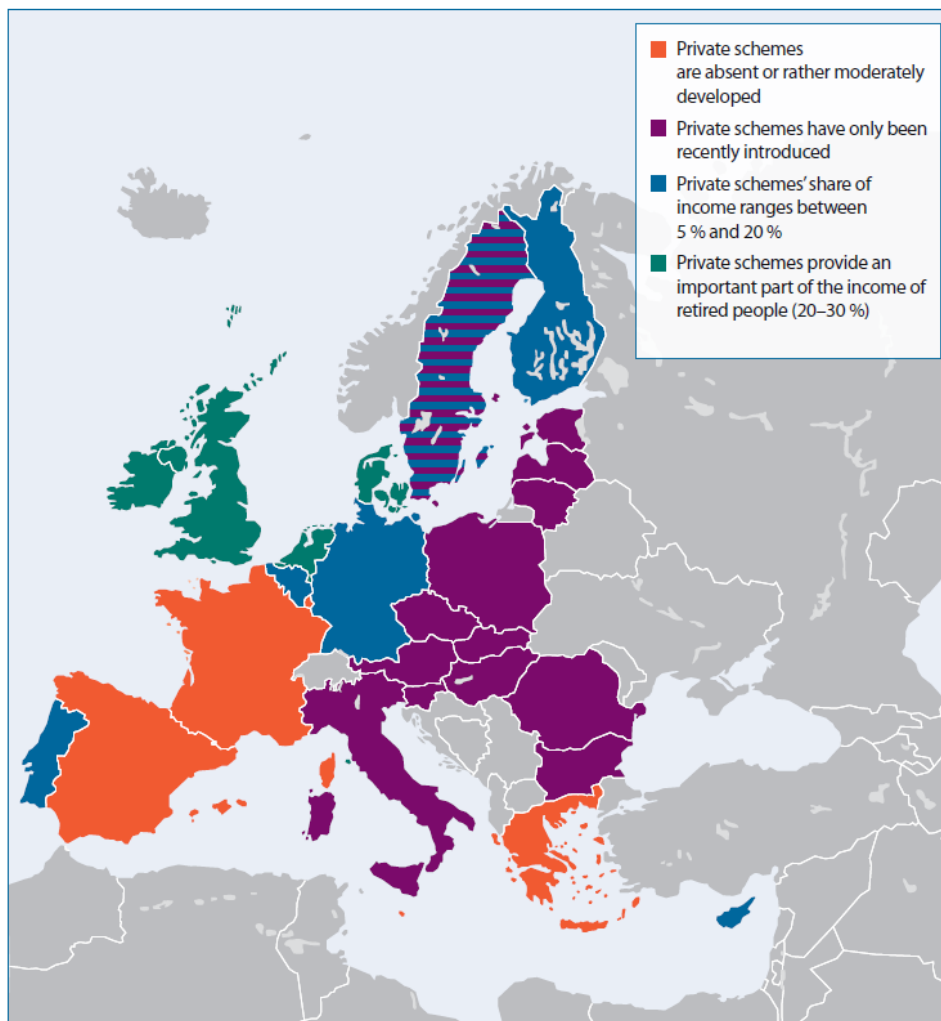
When state pension systems were originally set up, they often replaced pre-existing PAYG systems. In the post-war climate, redistribution in favour of the older generation was also seen as an important consideration. As ageing increasingly replaced this solicitude with worries about future sustainability and public contingent liabilities, the built-in generosity of pension systems was questioned (OECD 1988), and pension reforms were once again placed on the agenda. Early on, 'path dependence' was perceived as an endemic threat; institutions could acquire a life of their own and vested interests could block reform or steer it towards their own benefit. Nevertheless, after a slow start in the 1980s, the pace of pension system reform picked up, with the result that by 2010 those countries that had *not* rebased their system were in a clear minority, at least in the EU (Figure 1).

A large number of variants exist internationally that conform to a general multi-pillar outline (Bonoli and Shinkawa 2005; Barr and Diamond 2010). We may find blueprints of multipillar systems replacing social insurance systems in Europe, where Switzerland was the first to introduce a formal multi pillar system in 1988¹². It was successfully followed by Denmark and Holland. Sweden was the first to introduce Notional Defined Contributions in 1995 and has found emulators in Poland and elsewhere in Eastern Europe. Italy proceeded on a multipillar reform based on NDC for the public pillar in 1995 (known as the 'Dini reform'). Germany's own reform in 2003 whilst not explicitly going the NDC way, shares many of its key characteristics. The Antipodes (Australia, New Zealand) have experimented widely with means testing for the state pillar combined with annuities for occupational pensions. Other selected features can be gleaned from elsewhere: Canada, the US (401k pensions), Latin America (recognition bonds to speed up transitions), Asia (provident funds). International experience does not only point to positive lessons but also negative ones. Argentina and Hungary both proceeded to multi-pillar reform, only to reverse course later, as the State appropriated accumulated private reserves. The pension policy tool-box is thus far fuller than many (at least locally) think it is; eclectic utilization of system elements can be adapted to match the specific needs of Greece. The lesson to take home is that, once needs and requirements are clearly identified, international experience may well offer ideas to be tailored to fit what is needed.

¹² Latin American countries have opted to replace a PAYG state system with an exclusive reliance on private, advance-funded pensions. This is explicable by the impact of persistent inflation on state pension systems. Nevertheless, there remains considerable state involvement: the system is mandatory, membership compulsory, while there exist a number of social-policy inspired features such as minima and minimum rate of return guarantees.

Figure 1: Private pensions a Europe. Source European Commission (2010) Private pension schemes: Their role in adequate and sustainable pensions.

Contribution of private pension schemes varies across the EU



The Greek pension system up to 2009: a mechanism for disaster

If one examines the history of pension insurance in Greece, there is no immediate reason why it should be especially dysfunctional. The milestones of that history mirror that of state social insurance in many countries across the world.

The pension system is constructed around the main pension provider IKA (Foundation for Social Insurance), with responsibility for the social insurance of employees chiefly of the private sector. IKA was founded in 1934 and re-founded post war in 1951. At the time, the financial sector was reeling from the effects of State default in the 1930s and hyperinflation in the 1940s, while post-war conditions necessitated major intergenerational transfers. IKA, in a similar way to its direct contemporary, US Social Security, exhibited what were, in the 1930s, state-of-the-art design features: a foundation on insurance principles, pay-as-you-go financing, a progressive benefits scale favouring lower pensions, an ambition to be the chief

provider of old age social protection. Given that, what was it that went wrong in Greece?

Unlike the US, social insurance in Greece faltered on *two* flaws: The first such, was governance. Two examples will suffice. A unique social security number is an indispensable tool for a social insurance system, as it allows the tracking of individuals' careers and pension claims over many decades, over numerous possible relocations and over changes of employer. Such a system was operational in the US within three years of the start of the system, at a time when paper-based systems were the only means of keeping records. Greece waited for the electronic age, but even then only legislated such a number (AMKA) in 1992 and took another 17 years to start using it in 2009. Governance of social insurance necessitates conducting regular actuarial reviews to act as early warning devices. In Greece the obligation to table such reviews was, from the start, repeatedly legislated, yet was universally ignored.

The second flaw, fragmentation, was exacerbated by governance shortcomings: As in the US, the original plan foresaw IKA operating as the sole provider by fully incorporating pre-existing pension funds. However, reaction by unions and employers, led to a compromise where IKA tolerated the parallel existence of other occupational PAYG funds, which were allowed to persist, supposedly to ease the transition¹³. Seventy-five years after the decision to consolidate pensions, old age income protection is still characterised by the existence of three 'tranches' of state-provided benefits (text box), though provision in practice is more dispersed, as there exists considerable additional within-fund dispersion. In recent years there is a tendency to amalgamate provision; however the new consolidated entities preserve much differentiation within themselves.

The decision to tolerate fragmentation and to abandon the principle of equal treatment in PAYG systems was tantamount to giving a nod in the direction of cross-subsidising parts of the population. This institutional framework encouraged defensive attitudes highly resistant to change (O'Donnell and Tinios 2003). In retrospect, fragmentation was responsible for four key shortcomings that have plagued the system since its inception (Börsch-Supan and Tinios 2001, Tinios 2010):

- Fragmentation was used as a mechanism in the political economy of securing privileges. Coupled with a judicious absence of statistical and actuarial information, it allowed pension provisions to be used to introduce, maintain and disguise sectoral privileges. Lobbying for embedded privileges, earmarked taxes, special retirement ages and other side-deals for specific groups was an effective instrument in political bargaining. Over time this bred further fragmentation, both through the creation of new funds¹⁴, and by

¹³ See Tinios 2012b The fate of pre-existing funds was the issue that led to the fall of *two* governments of the centre-left in the early 1930s. Interestingly, those developments *also* took place in the shadow of State bankruptcy...

¹⁴ A favourite fragmenting mechanism was to set up new 'auxiliary' funds, to provide for additional income replacement. These funds were mandatory and financed by PAYG, in essence thus little different from the primary funds they were supposed to supplement. Setting up a new compulsory

securing different insurance terms *within* larger funds (such as IKA). Fragmentation is greatly understated by the number of institutions available, as there is as much heterogeneity *within* as *between* institutions. For example, in IKA what is held to be 'the rule' for retirement ages is followed only by 15% of recent retirees; 85% retire earlier, by citing one of a multitude of exceptions (Tinios 2010). Despite the legal complexity, in *economic* terms all funds were indistinguishable: They were mandatory, governed by law, State-run and financed by PAYG. Their separate legal existence however, allowed individuals and groups to 'play the system'. By hiding away true incidence, this allowed pensions to play a key role in the clientelistic politics of the post-war period both before and after 1974. Combining a primary and an auxiliary pension could easily lead to earnings replacement exceeding 100%. In those cases where revenue was insufficient, it was sometimes politically easier to endow funds with earmarked taxes and other subsidies in order to ensure their continued independence as institutions¹⁵.

- Fragmentation also removed constraints on increasing expenditure at the micro level. So long as an occupational group could pay for its own pensions by shifting the cost to others, there was little to limit its ambitions for higher pensions. Particular groups who had secured open ended guarantees took the lead in pension generosity. Pension ages for specific groups fell as they vied to be included in the 'heavy and hazardous occupations list', or to negotiate separate old age pension ages – some comically low. While the average person probably did not retire especially early, there was a large privileged minority in the public sector who retired well before their 50s. (Tinios 2010). Given that pension privileges were concentrated amongst better-off workers, the pension system as a whole operated to *increase* inequality. Seen as a stock of receipts over lifetimes the better off benefited in *five* ways: (a) they had higher pensions; (b) they paid less for them; (c) they collected earlier; (d) (as in other countries) they tended to live longer; (e) they were frequently entitled to more generous survivors pensions, covering frequently even unmarried daughters...

auxiliary fund could allow occupations whose primary funds were in deficit to expand expenditures for as long as the new funds were still new – i.e. had more contributors than pensioners.

¹⁵ Micro-management of the pension promise (e.g resolving contradictions, expediting procedures) remains a significant part of the clientelistic operation of the Greek State. Control over these 'favours' is a prize that is not easily surrendered. Thus political control of pension provider management has a significance wider than its control over resources and explains the bitterness in any discussion to abolish independence of pension funds.

TEXT BOX 1: The Three tranches of old age income protection

Everyone is entitled to a 'primary pension'. For private employees this is mostly, though not exclusively, supplied by IKA and supplies around 70-80 per cent replacement. Farmers have their own primary pension fund (OGA), as do the self-employed (OAEE). *Within* primary funds there can be occupational differentiation: the 'heavy and hazardous occupations' cover more than 40% of employees; other occupations can have special regimes; there exist further differentiation by cohort (age of first contact with the system) and gender. The Civil Service, state enterprises and banks have distinct pension regimes.

Employees are additionally covered by compulsory **auxiliary** pensions supplied by independent funds; these are more specialised by occupation and supply a further 20 per cent (or so) replacement. Though all pension providers (both primary and auxiliary) were financed by PAYG, they are commonly understood by their members *as if* they operated on a prefunded basis.

The third tranche is **one-off lump sums** on retirement, provided by 'separation funds' to a minority of the employee population, who are overwhelmingly associated with the public sector. A typical fund can pay a number of monthly salaries corresponding to years spent at a particular firm (mimicking in a way redundancy compensation). When a dedicated fund does not exist, separation payments are sought directly from the employer.

The three tranches are distinguished according to mode of finance: Typically, primary funds are paid for in two parts by employer and one part employee; auxiliary funds are financed on a 1:1 basis; separation funds solely by employees. Elementary economics states unequivocally that the legal identity of the liability of a payroll tax has no bearing on its true incidence, which depends solely on elasticities of demand and supply. In other words, **who pays what part is irrelevant** and is not a good criterion to categorise insurance tranches. Nevertheless, most discussion in Greece stresses that feature as the key distinction between the three types of old age protection.

- Ever since the inflation of the 1970s and 1980s, pension increases were decoupled from pension providers' income, the shortfall being made up by government grants. Increasing the minimum pension in the early 1980s resulted in two thirds of IKA pensioners being entitled to the same amount, regardless of their contribution histories; a career of 23 years yields the same pension as one of 15. Thus seven in ten of IKA members receive a pension unrelated to their contributions. This makes nonsense of the supposedly insurance basis and gives a dramatic incentive to evade contributions. So, high minimum pensions both increase expenditure and limit revenue. Starting with IKA, ballooning deficits of pension providers and the need to provide grants to finance them (equivalent in 2007 to a third of total pension expenditure) became an increasingly important determinant of the overall deficit of the government.

- Discussions on the need to reform the system were invariably stalled, as differences about redistribution *within* generations (the privileges of particular sectors, as well as the operation of pension funds as centres of political power) were conflated with the general issue of needing to rebase redistribution *between* generations. As a result, reforms were piecemeal and repeatedly fell below needs. The generosity, originally justified by the special features of the first post war generation, was retained and even increased. In consequence, the pension system was seriously in deficit from the 1980s, well before ageing struck. It thus has to cope with an ageing problem ('the issues of the 21st century'), while 'the issues of the 20th century' still pending. (Tinios 2012b).

The upshot of these considerations was a dysfunctional pension system, a true 'Microfoundation of disaster' (Lyberaki and Tinios 2012), both in static and in dynamic terms. The need to borrow to finance pensions was a key determinant of overall public sector deficits. This was because the growing awareness of the distortionary effects of social insurance contributions meant that the larger deficits from 1992 on, were financed by increasing State grants (Tinios 2014a). Greater ease of finance (e.g. after Eurozone membership) removed some urgency from needed change, making retreats more easy to finance. Those macro-economic dysfunctions were coupled by *micro* economic problems, implying that the system was not able to fulfil its stated roles in economy and society – old income protection and social policy. Being in a perennial state of being reformed, the pension system nurtured constant uncertainty as to the exact content of the promises being handed out. Indecision on pensions had wider implications on social policy: Other social expenditure was crowded out. The 'rebasement of social protection' away from the family, which was necessary to build a social safety net remained merely a stated wish – in contrast to what happened in other EU Mediterranean countries from the mid-90s (Lyberaki and Tinios 2014).

However, the stalemate on pensions had wider importance for Greek political economy: Pensions from the 2000s became the 'sacred cow' of Greek political economy. The aborted Giannitsis reform in 2001 played a key role in rejuvenating the movement against reform and in confirming the leading role of the employees' confederation GSEE in that. Prior to the confrontation over the 2001 pension proposals, commentators remarked on the low turnout in strikes and deemed many labour unions as a declining force. The successful opposition to the Giannitsis pension proposals galvanised opposition to the general reformist agenda and thus blocked wider structural change- stretching well beyond pensions (Featherstone and Papadimitriou 2008). This history acted as a 'health warning' on active public debate on pension policy and greatly reinforced the tendency to postpone decisions and to engage in active blame avoidance – both key features of the pension landscape.

3. What happened? An interpretation of developments since 2009

The situation before the crisis in 2009

Eurozone membership, by guaranteeing for the first time in a generation price stability, had removed the key concern of short-term pension policy and heralded a major improvement in pensioner well-being. This (little appreciated) victory acted to expose the underlying structural imbalances as the key item in the agenda. However, easy credit access had done much to soften the main incentive towards reform – rising social insurance deficits (Fernandez, et al 2013).

In consequence, the Greek pension system entered the bailout period with all the main issues outstanding: it was fulfilling its social role badly, it added to public deficits and undermined productive efficiency. The 2002 EU Joint Report on Pension Strategy (ECE 2003, Tinios 2010) in assessing the relative performance of pensions had highlighted five failings. These had only become worse with time and were still painfully valid in 2009. According to this reading the Greek pension system was:

1. **Costly.** In 2007 pensions absorbed more than 12% of GDP. (OECD 2007), one of the highest percentages in the EU.¹⁶
2. **Under exceptional demographic threat.** According to Government projections (EPC 2009), Greece expected the highest additional pension expenditure of any EU country in 2060, almost doubling compared to 2010. In contrast, Italy which had implemented the ‘Dini’ reforms in 1996 was actually able to expect a fall in expenditure (EPC 2009, 2012).
3. **Economically inefficient.** A multitude of pension regimes led to a patchwork of cross-subsidisation between sectors, typically aiding the public sector and other sheltered sectors. On the other hand, non-wage costs were highest in manufacturing and would hence constitute a permanent burden to competitiveness shouldered by the private sector and exports¹⁷. (Börsch-Supan and Tinios 2001, Tinios 2014b).
4. **Socially ineffective.** Official reports admitted that “poverty is grey in colour”, in the sense that the risk poverty in Greece was overwhelmingly concentrated in the population over 65 years of age, despite the high expenditure on pensions (Lyberaki et al 2010, Tinios 2010a¹⁸). Whereas public pension subsidies are usually justified in terms of poverty prevention, in Greece they appear to have been earmarked to the better off.
5. **Resistant to change.** At least since 1990 the pension system had been under the threat of a major reform which was always postponed, in a perennial

¹⁶ Figures are updated to 2007. 2007 was the last pre-crisis year and hence excludes crisis effects.

¹⁷ Non-wage costs do not stop at social insurance contributions, which can rise to 50.7% in total. They include compliance costs as well as the impact of general taxation needed to finance government grants which account for a third of pension expenditure.

¹⁸ Data subsequent to 2005 show a rapid improvement in relative poverty risk of the over65 population (Mitrakos and Tsakoglou 2012).

‘Reform by Instalments’ (Tinios, 2005; Triantafyllou, 2006, Featherstone and Papadimitriou, 2008). Such reforms had *failed* to take place in 1990, 1992, 1998, 2002 and 2008. This increased uncertainty, and retained pension reform as a permanent thorn in the political economy of the country.

The combination of the five categories of ‘woes’ *should* have made pension reform a win-win proposition, combining economic efficiency with equity, whilst tackling the looming issue of population ageing. That meaningful reform was postponed for the last time when the financial crisis was in full swing in 2008, is proof that sectional interests once again prevailed over the acknowledged need for structural change¹⁹.

It was thus left to the Programme of Adjustment and its accompanying Memorandum of Understanding to fill the reform gap. The July 2010 Pension reform (law 3863/10) was the first piece of legislation following the loan agreement. The simple argument “There is no Alternative” served as justification, allowing the authorities to ‘wash their hands’ of reform proposals, by citing external compulsion (Tinios 2014a). This blame avoidance overcame the sticking point that thwarted previous attempts. In a manner of speaking, discussions without change were replaced by change without discussions. However, the practice of evading responsibility, only stoked up legitimation problems for the future. These, five years later, are still not fully overcome and could prove to have ramifications stretching into the future.

A summary of the new pension arrangements

Law L3863/10 was passed very quickly with little discussion, while the social dialogue that was then in operation was sidelined²⁰. The law was supplemented in the years to 2014 by at least *four* other laws, a multitude of presidential decrees, and other legal instruments, whose status in relation to the original situation was not always clear. The new pension environment is thus formed by a *constellation* of legal instruments, following the first and decisive step of 2010. Some of the subsequent changes can be seen as filling in details to a given blueprint; others may be seen as corrections to that blueprint; others may even be interpreted as due to revisions or reorientation of the original vision. The situation was not helped by a quick return to the aversion to discuss pension issues and the dearth of statistical indicators. As a result, even a simple description and characterisation of the pension changes can be controversial; an evaluation, such as the one offered in this report, is thus, of necessity, subjective.

The preamble of the 2010 law stated boldly that “*our objective is to change the system radically*” (Parliament 2010). Indeed, there is general agreement that the law

¹⁹ An interesting footnote is that, paradoxically, the Greek financial system had been ‘inoculated’ against toxic assets by the Derivatives scandal of 2006 which centred around pension fund managements awarding themselves exorbitant fees in purchasing inappropriate derivatives as investment vehicles. Those managements were famously lambasted by the Minister of Finance as ‘clueless’...

²⁰ The ‘Stergiou Committee’ which had been in existence since early 2010, had deliberated and produced a volume of collected papers but was completely ignored. (Stergiou 2010).

is far more drastic than its predecessors. In describing pension changes, we must be careful to distinguish, on the one hand, 'steady state' provisions setting up arrangements which will hold, once the system is fully in operation, and, on the other hand, medium term implementation effects, which are operating in the current decade. These two types of effects frequently operate in opposing directions, decreasing expenditure in the long term and increasing it in the medium term. A *second* distinction recognizes the dynamic nature of decisions by differentiating between 'proactive clauses' aiming to change behaviour and 'reactive' clauses arising as responses to situations emerging as part of the operation of the system. As will be seen, pension cuts and many of the medium-term provisions are reactive; consolidation of funds and increases in retirement ages are proactive; some other provisions may be seen as either (or both).

In characterizing the new pension environment, *five* features of the new legal situation can serve as summary (for details of the 2010 law see OECD 2011, Matsaganis 2011, Tinios 2010b; for subsequent developments, see Simeonidis 2013):

1. A '**New**' **State pension** system for the very long-term. (a) **Pension calculation.** The pre-crisis system will be replaced by a new system of pension calculation. Each pensioner will be entitled to a pension from the public system which will come in two parts: A flat-rate 'basic pension' of approximately €360, together with a proportional part linked to the number of years of contributions²¹. If careers remain as short as currently (c. 25 years' contributions), the new system will prove less generous. However, should careers match those in the rest of the EU (c40 yrs), replacement rates will be equivalent to current ones (figure 2)²² (b) **Very Gradual introduction.** The new system is introduced very gradually, in the sense that it was to be implemented for the first time in January 2015, after which date, it was to be applied on a *pro rata* basis. In other words, a retiree in 2015 with 30 years' contribution, out of which two in the new system, will receive 2/30ths of his pension by using the new calculation and 28/30ths by the old. The spread of the new system was extremely slow and was unlikely to show in total expenditure until well after 2020 (c) **Retirement ages** for the new system increased very rapidly in a step fashion, affecting especially women less than 30. A subsequent law in 2012 further increased retirement ages to 67, without a period of transition²³.

2. **Fund consolidation for primary pensions.** All periods of employment after 2011, regardless of pension provider, give rise to the *same* entitlements, all to be calculated according to the new way. The *need* for separate funds for the future is severely curtailed, as all funds will be handling the same insurance entitlements. Accordingly, the law abolishes a large number of

²¹ The proportionality factor is somewhat smaller for larger pension amounts, making the calculation more complex.

²² A feature of the new system is that, somewhat surprisingly, it retains the old system minimum pension, in addition to the flat rate basic pension.

²³ No estimates of the impact of the second increase in retirement ages was ever offered.

providers, incorporating them into a single primary pension provider – IKA ETAM. However, many consolidations are merely cosmetic, in the sense that pre-existing differences in retirement ages, pension entitlements and other provisions are preserved within the larger funds²⁴. Most older funds are included in the consolidated entity, retaining their financial autonomy and independence. They thus keep their own accounts, being separate organisations in all but name. The one notable exception is new hires of civil servants, who are insured from 2013 in the private sector fund (IKA) on an equal basis to private employees. Differences in **contribution rates** of older funds are retained. This sits uncomfortably with the law's own provision to equalize entitlements from 2011 on. The *same* accrual within the same fund is thus 'purchased' by wildly differing contribution rates, depending on their original pension provider (ranging from 20 per cent to more than 40 per cent in some banks).

3. **Extensive 'grandfathering'** measures protecting those close to retirement. Thus, rights to lower retirement ages and higher replacement rates are largely preserved for current retirees. This allowed the government to legislate for later retirement at the same time as vigorously pursuing programmes of early retirement during the crisis years²⁵. For example, those close to retirement age in 2010 were allowed to 'buy in' up to 7 years' extra contributions to facilitate and often to bring forward their retirement. In a similar development a 'technical' legal detail could mean the institution of early retirement for mothers by up to 5 years²⁶. Some individuals may thus have seen their retirement ages effectively *reduced*. Though no projections were ever released, these measures could largely exempt cohorts to retire by 2020 or later.

4. **Preannouncement of future retrenchment.** Many changes were preannounced. Such were a clamp down on fraudulent invalidity and survivors' pensions, and an overhaul of the 'Heavy and Unhygienic Occupations' system. When the latter did take place, however, it was less draconian and more gradual than original expected. Thus, preannouncement may have accelerated early retirement for a time in order to forestall future changes. The IMF in its review made much of the 'trigger clause' (article 11): If actuarially based projections show future outlays exceeding those expected in 2010 by more than 2 ½ points of GDP, then measures must be taken to bring expenditure down.

5. **A rebasing of auxiliary pensions and separation payments to take place by 2015.** The 2010 reform only dealt with primary pensions. Treating auxiliary

²⁴ Differences of generosity between providers are thus left as a kind of 'stranded cost' affecting older contributors and not being renewed.

²⁵ In the near absence of dismissals, these provisions were used to shrink of the public sector. This was differentially applied to women (Lyberaki and Tinios 2012).

²⁶ Mothers of underage children were entitled to retire at age 50, a theoretical right only, as the majority of children would have ceased to be underage when their mother was that age. After 2010 whether a child is underage is judged when the mother has worked for 20 years. So the right to retire at 50 of a woman who started work at 20 will be judged when she is 40, rather than ten years later.

pensions as inherently different, allowed the authorities to exempt them from the discussion. This simplified negotiations and economized on the data necessary when time was at a premium. Subsequent legislation in 2012 (law 4052/12) attempted to treat auxiliary pensions as self-sustaining independent occupational pension systems, not depending on any public subsidy or guarantee. If this were so, then auxiliary pensions (and separation payments) would not pose any fiscal threat; taking them *out* of discussions would thus be fully justified. Subsequent developments in auxiliary pensions essentially followed from the necessity to defend this position, making the issue of how to equilibrate auxiliary pensions a major point of controversy in 2015 (section 3.5 looks at auxiliary funds in detail).

Difficulties in interpreting pension developments since 2010

The pension reform law was passed hurriedly in 2010 with little discussion and no quantification. Reforms were promoted quickly, sidestepping and surprising social concertation mechanisms. As often the main reason proffered was the necessity to comply with outside pressures, there was little attempt to justify why the specific set of measures were chosen, or even who the gainers would be, should the reforms succeed.

The tensions in the 2010 law's preparation, as well as the attempt to remain within the system and to push parametric reform to its limits, are evident in its length and complexity (99 articles in 55 pages, some vague, some mutually contradictory, some allegedly comprising a 'legal minefield'²⁷). The law's ambiguities gave rise to a cottage industry of cases in the courts, a large number of circulars and frequently necessitated corrective legislation (Katroungalos and Morfakidis 2011).

So, in the case of pensions discussion was over almost before it had begun. The old reticence to talk about pensions returned very quickly. Discussions became the sole preserve of the Ministry on the one hand, and the (erstwhile) troika on the other. Though, apparently (or so the troika claimed) the quality of data concerning the pension system had improved, those data were hardly ever released. When data saw the light of day (often leaked), it was unusable, through lack of documentation or failure to provide consistent time series. This left outside observers in the dark. They were confronted by partial snapshots of data – like a system of dots than cannot be connected. Also on offer were general triumphal statements often placed in doubt by casual empiricism (See section 3.7 on data).

As a result, the very attempt to judge what happened and how far the design requirements of the reform had been met, is itself controversial. What follows attempts to make sense of developments since 2010 – trying to separate ideological presuppositions from reasoned arguments. In many cases the evaluation arrived at may require further grounding in quantification and possibly legal argument, neither of which is in easy supply.

²⁷ Parts of the law come in conflict with reality. A year can (implicitly) contain more than 400 days, or early retirement is retained for women who bear children at the age of 48.

A (subjective) evaluation of pension developments since 2010

Two things that the reform is *not*. The criticism is often voiced that the Greek austerity programme is directly due to the implementation of a ‘neo-liberal agenda’ (e.g. Busch et al 2013). Such an agenda – at least in its ‘pure’ Latin American variant – included a privatisation of pensions as its central feature (e.g. Diamond and Valdes-Pietro 1994). In contrast, European reforms since the 1990s all included the strengthening of non-state pensions i.e. the second and third pillars (Tompson 2011, Tinios 2012c). In addressing long term fiscal problems, the answer chosen in much of the EU was to co-opt non-state actors. The functions of old age income security would continue to be served, as a cooperative venture of many societal actors, private and public. Despite facing a very serious long term fiscal challenge, the Greek reform conspicuously failed to move in any direction encouraging non-State pillars, and hence to limit future public commitments. Despite some innovative features, it is easier to characterise the new system as part of a defensive (or even palliative) strategy to *contain* structural change. It does *not* challenge the central role of public provision; it maintains Pay-as-you-go as the sole mode of finance; though it makes a start to combat fragmentation, it does so hesitantly and partially. Thus, it is a reform that has demonstrably chosen continuity over systemic change.

The other common accusation levelled at the pension reform, and increasingly so after January 2015, is that the reform and subsequent pension developments had little to do with pensions *per se*. Instead, it was dictated by the macroeconomic requirements of a policy aiming at austerity and which used internal devaluation as its main instrument. In other words it was first and foremost a ‘Memorandum Policy’. If so, it was ineffective, as reforms can be associated with an *increase* and not a fall in pension outlays in the short and medium term. Reductions are evident in the long term only. Cuts in pensions-in-payment, certainly did take place. These were *not* part of the intentions of the reform itself but were necessitated by reaction to unforeseen developments – a kind of collateral damage.

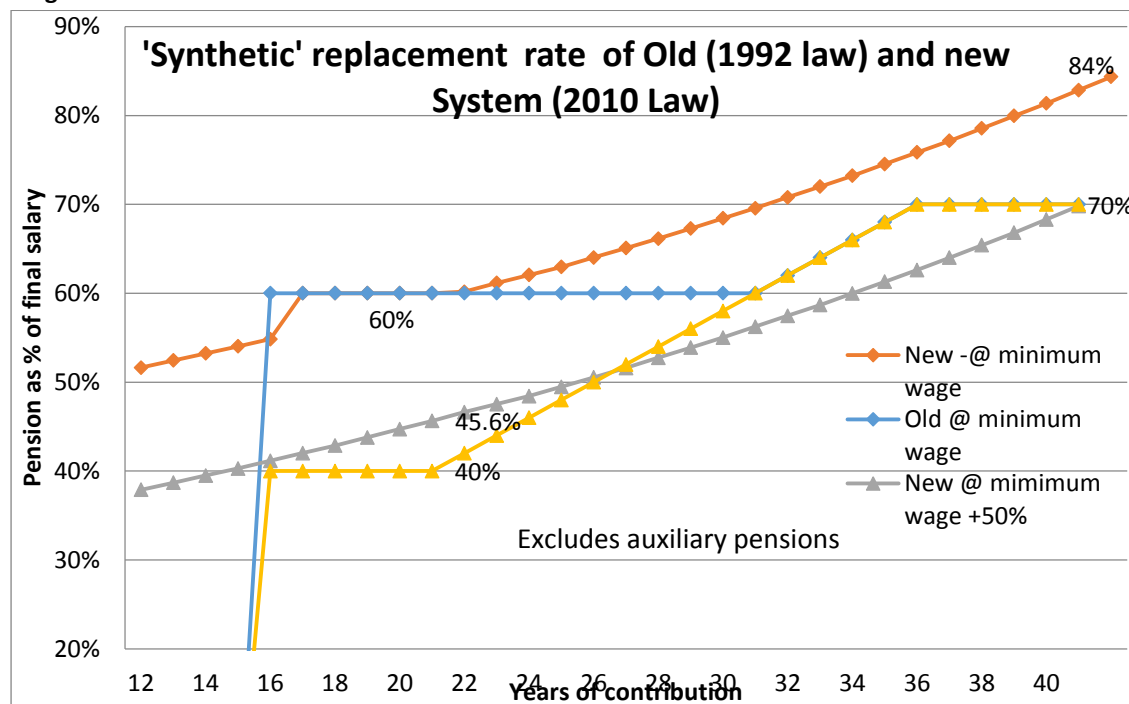
Even taking on board that the overall shape and logic of the system remain, other features of the reform can be cited to support the position that the 2010 reform is less bold and less thoroughgoing than it is made out to be.

Is the new system less generous than the old? The replacement rate of the new steady-state system will lead to lower pensions, *only if* the current low number of contribution years is maintained, i.e. if contribution evasion remains at its current high levels indefinitely. (Tinios 2013). If, as is reasonable in the decades to 2060, career length converges to European norms – which are well above 35 or 40 years - then simple calculations (Figure 2) simulating old and new provisions show that the new primary pensions system leads to *higher* replacement rates (except perhaps for the very affluent)²⁸. For a full career of 40 years, once auxiliary pensions are factored in, replacement rates will remain close to 100%. If this is so, the new system leaves very little room for income to be supplemented from sources outside the State. It is, thus, evident that little role is envisaged for non-state pillars, even in the distant

²⁸ This effect is due to the fixed EUR 360 component that every pensioner is entitled to in the new system- leading to a more progressive replacement schedule. Paradoxically, the new system retains additionally the old system of minimum pensions.

future²⁹. **The ambitions the State assigns to its own system remain *exclusive*** – in the sense that it persists in denying a role to occupational or private provision for income replacement for the coming two generations (to 2060), encompassing the totality of the period when ageing is a challenge. Financing pensions in future is thus expected to remain a charge on the public purse, as in the past - complicating long term fiscal planning.

Figure 2: Simulation of Replacement rates of the old and new pension systems, for different career lengths



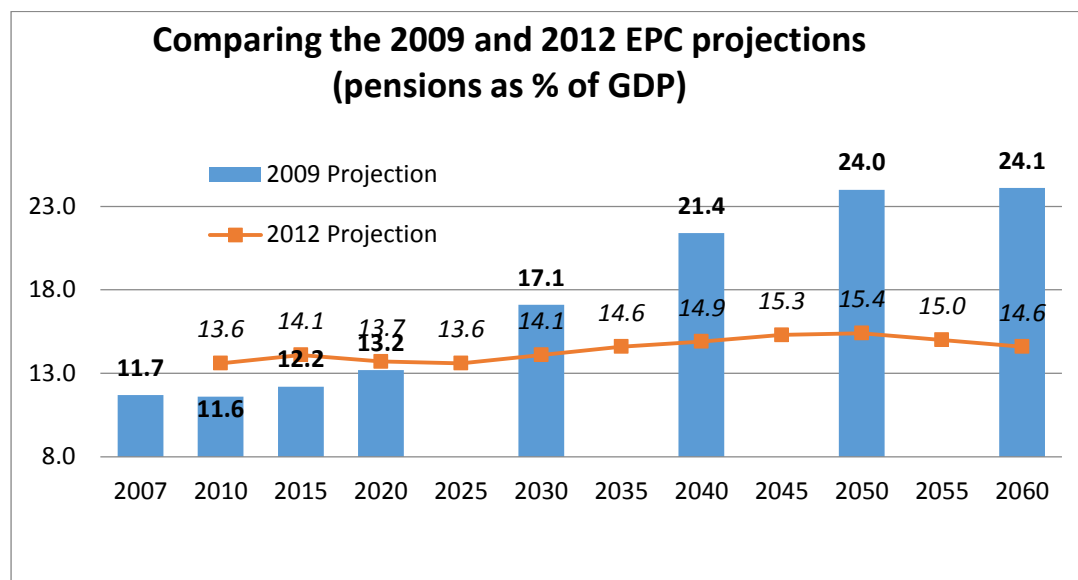
Source: Tinios 2013, Appendix 2. Pensions evaluated at different years of contributions for individuals paid through their lives at (a) the minimum wage; (b) minimum plus 50%

Grandfathering and other provisions make clear that the targeting of the reform is to the very long term. The IMF *ex post* review concedes that the reform, despite addressing pension sustainability, ‘addressed only *long-term* structural imbalances’ (IMF 2013, p38). This leaves entirely open what happens in the decade to 2020, the crucial years of adjustment to post-crisis reality. We can see this by comparing the official expenditure projections submitted to the EU Ageing Working Group (AWG) in 2009 (before the reform) with those submitted in late 2010 (published in 2012) which incorporate the effects of the reform. Indeed, in the AWG 2012 the reduction of the GDP share is by far the largest in the EU – 11 ½ percentage points of GDP in

²⁹ This must be qualified by the effect of moving income replacement to using career average rather than the last 5 years. *If we factor in high growth* for the future, this can have the effect of reducing effective replacement rates. However, this result is dependent on the (arbitrary) growth assumption and is not an intrinsic result of the new formula. Where income is not continually rising, the new formula can lead to *rises* in expenditures.

2060. Figure 2 compares the two projections to show that the effect of the law only begins to be noticeable well *after* 2020³⁰.

Figure 3: Comparing official pre- and post-reform projections, 2009 and 2012



Source: Tinios 2013, appendix 1, using EPC Ageing Working Group projections

Indeed, the situation is *more* critical for the medium term. In the period 2010-2015 retirement is taking place under the old system. In an effort to encourage retirement as a reduction of public sector employment but also to placate public opinion, the 2010 reform offered generous concessions to those due to retire in the first half of the decade. This was only *partly* due to a desire to manipulate the unemployment rate during the crisis. It was certainly encouraged by implicitly thinking that it is more important to protect family income by sheltering male heads of family ('breadwinners'), as well as a misplaced belief that less work for older workers means more work for the younger unemployed³¹. Ironically, the grandfathering measures were skewed more to women, whose access to pensions was differentially eased (Lyberaki and Tinios 2012).

However it may have been, exempting those nearing retirement from structural changes, as well as increasing the share of population with vested rights, had the perverse effect of projecting retirement as a safe haven from the worsening pressures of the labour market. This had the impact of increasing exits from the

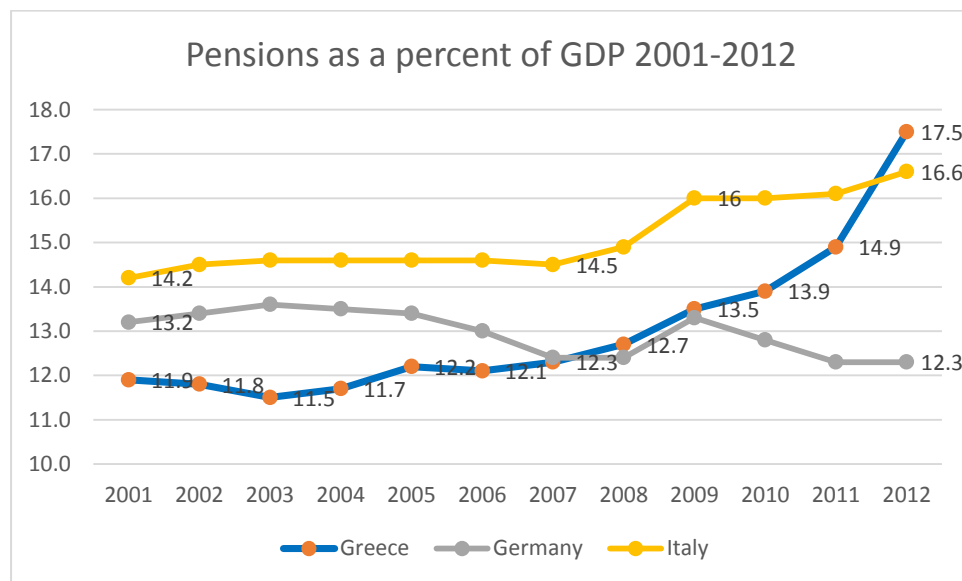
³⁰ New updated projections had, reportedly, been submitted to the EU Ageing Working Group in November 2014, embodying the commitments of the authorities at the time. These were partly leaked to the press in March 2015 but will not be officially published by the EU until the autumn of 2015. An issue that the apparent 2013 baseline pensions as percent of GDP figure (16.2%) differs from the Eurostat figure for actual pensions for 2012 (17.5%), as shown in Figure 4.

³¹ This is an example of the '*lump of labour fallacy*': more jobs for some, necessarily mean less for others. Authoritative rebuttals already existed in the nineteenth century –notably by Alfred Marshall in 1890. Employing more workers increases output and can *potentially* makes everyone better off.

labour market. Pension deficits from 2010 on consistently overshoot targets, due to greater demand for pensions but also due to a faster than expected reduction in contribution revenue. Revenue shortfalls concentrated in those areas where contributors had greater discretion and where liquidity issues more pressing (small businesses, the self-employed, farmers)³².

Figure 4 charts pensions as a percentage of GDP for Greece and for two selected Eurozone countries both with comparable (if slightly worse) demographic environment and ageing outlook. *Three* observations are in order. *First*, in the period to 2007 total pensions kept up with the rapid growth of GDP keeping almost a flat profile. *Second*, pension expenditure starts rising appreciably after 2008. This is only partly due to deceleration of GDP; discretionary pension increases in 2008 and 2009 increased pensions per head; the number of pensioners is beginning to show the expected (certainly since the Spraos' report) demographic deterioration. *Third*, in the bailout period there is an explosion of expenditure which jumps from 13.9 per cent of GDP in 2010 to 17.5 per cent in 2012. This percentage is by far and away the largest in the EU, the next highest country being Italy at 16.6 percent. In contrast, in Germany pension expenditure appears to have been contained by the 2003 reforms, even showing slight falls from 2009.

Figure 4: Pensions as percent of GDP, Greece Germany Italy 2001-2012



Source: Eurostat (date accessed 13.5.2015)

That pensions absorb 17.5 per cent of total production should give us pause to reflect. That amount is already 4 points higher than the 2012 projection expected for 2020 (Figure 3). Part of the reason certainly lies in the rush to the exit after the 2008

³² The precise magnitude of these effects cannot be gauged as the flow of information on the pension system essentially stopped after the bailout. A further issue is that delays in processing pension applications. In May 2014 a number in the tens of thousands were outstanding, meant that cash expenditure underestimated true outlays. The backlog has still not been cleared.

and 2010 pension reforms. The more significant pension cuts were not implemented until 2013, so are not contained in Graph 4. An undoubtedly large role, however, is played by the collapse of GDP per head – by a quarter between 2008 and 2014. This, as a matter of arithmetic, implies that the same pension expenditure in nominal terms represents a far larger burden to production. When one factors in that the reduction in output per head was not evenly spread but was concentrated in the private sector, the outlook appears even bleaker. The implications of this for pension discussions have not been appreciated yet; we shall return to them in section 4.

Cuts in pensions as an equilibrating mechanism

This design fault in the pension reform was the starting point for a vicious circle that could undermine trust in pensions as a whole. As the short and medium term effects in net cash flows were not foreseen, while the impact of grandfathering was underestimated, fiscal underperformance became endemic. It was added to by a similar underperformance due to the late or inadequate implementation of structural measures (such as cutting back on pension entitlements or reducing the size of the public sector), whose (hoped for) fiscal implications had also been built into the medium-term or annual programs. As these programs could not be amended (the amount of bailout finance had been fixed *ab initio* and was invariant), other sources of budget finance had to be found to compensate for the losses³³.

Indeed, the overall progress of the bailout in Greece cannot be understood without factoring in this mechanism of regular, yet completely unforeseen, ‘unintended consequences’ (Tinios 2014b). In terms of budget execution, this meant that expenditure overruns could not be financed by borrowing and had to be counterbalanced by extraordinary measures to make up for losses, as that was the only way to keep to the agreed budget. In this way, the overall budget targets were met, but the *actual* programme was far removed from that originally planned³⁴. In particular, structural measures had to be replaced by extraordinary taxation levies and across-the-board cuts.

Pensions-in-payment (i.e. pensions paid out of existing commitments, some to individuals well into their 80s) were a tempting target for this process. The stock of pensions is the largest single public expenditure item; it is also paid to groups of the population who have exited the labour process and whose protests, for that reason, are less disruptive than those of other groups. As a consequence, after the Government had solemnly declared that ‘pensions were safe for a generation’, it went ahead to cut pensions in payment on *ten* separate occasions between 2010 and mid-2013. The IMF in its ex post review (IMF 2013) politely acknowledges this issue, by stating that medium term fiscal issues were solved by ‘eliminating pension

³³ This mechanism could partly lie behind the controversy around over-optimistic fiscal multipliers in the Greek program; projected expenditures entailed a different set of measures from those finally employed.

³⁴ As programme borrowing is limited and there was a single lender (the three institutions acting as a unit), any unforeseen increase in government expenditure had to be exactly counterbalanced by additional expenditure cuts within the same annual cycle.

bonuses' (sic); however, those pensions that were cut were the result of consistent application of rules mostly still in force and not due to any extraordinary bonuses.

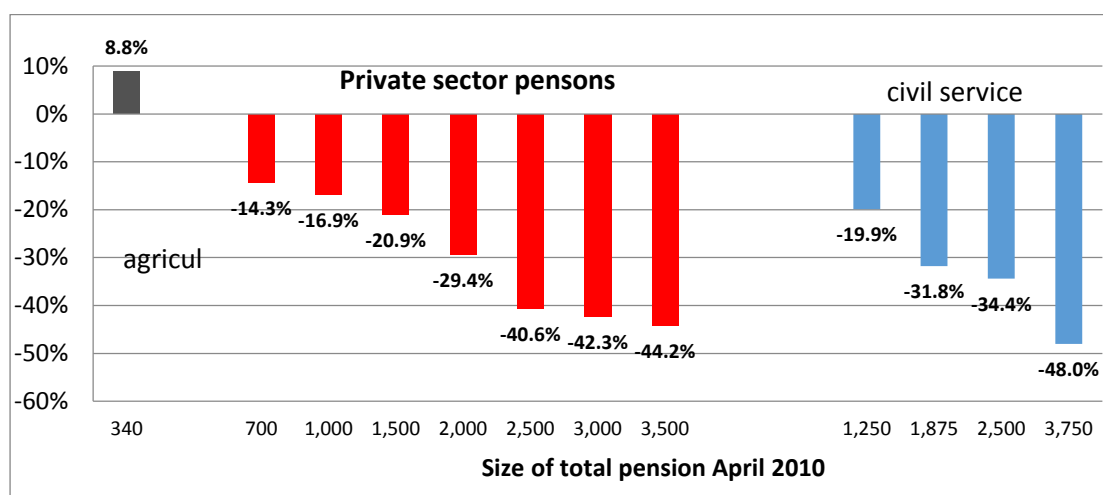
These repeated raids on pensions-in-payment led to cuts in the gross amount of some pensions of around half (figure 4). Interestingly, farmers' basic pensions (paid without the precondition of contributions) were *increased* by 9%, at the same time as the minority of larger pensions of the civil service were reduced by 48% and in the main private sector fund by up to 44%. The bulk of urban-sector pensions was only affected by the abolition of the 13th and 14th pension in 2013, implying an annual reduction of 14.3%³⁵. Given that GDP per head has fallen by a quarter since 2009, a fall concentrated in the private sector, the restrained cuts to lower pensions meant that pensions' *relative* attractiveness increased for the two thirds of retirees who draw the minimum pensions. This can explain two observations: (a) the rush for early retirement and (b) the *fall* in the relative at-risk-of-poverty rate for individuals over 65. The latter is sharply at variance with large rises of poverty amongst families with children.

It is significant that no justification was ever offered, either for the extent of the cuts, or for their distribution across the pensioner population. In each subsequent cutting episode the governments were concerned to point out that care had been taken to protect lower pensions. No calculation was ever published showing the *cumulative* effect of directing the brunt of retrenchment repeatedly to the same group of individuals (such as that of Figure 5). Nor was any algorithm or underlying principle justifying the locus or extents of the cuts ever offered, let alone a justification of terming such expenditure 'pension bonuses'. Finally, the cuts were also (implicitly) applied to *new* pensions being issued, whilst governments were studiously vague about whether the cuts were there to stay; the *names* of the cuts stressed the notion of 'solidarity' and their extraordinary nature and were obviously designed to keep hopes alive that losses would, somehow, be recouped in the future: Pension receipts received by all pensioners quarterly, itemise all cuts individually. In pension payment statistics, it is unclear whether pre- or post-cut pensions are being counted. (Helios 2013).

It is indicative of policy deliberation taking place in post-MoU Greece that the budgetary impact of these apparently unprogrammed, yet seemingly permanent, interventions was never made public or discussed. This applies *a fortiori* for their impact on long-term magnitudes such as on system viability. For instance, the authorities had officially communicated to the EU (EPC 2012) that long-term pension viability was assured on the basis of measures taken in 2010. When the retirement age was *further* raised by two more years to 67 two years later, the impact this had on long term magnitudes was never mentioned. Discussion of pensions appears to be destined to take place in a state of permanent fog.

³⁵ As part of the first bailout package in 2010 these had been replaced by fixed and equal amounts paid to all. These reduced payments were abolished in 2013 retrospectively from August 2012.

Figure 5: Cumulative falls of different kinds of pensions, 2010- February 2013



Source: Tinios 2013

Fiscal costs and insurance benefits: The case of auxiliary pensions:

Many of the issues affecting pensions can be seen starkly in the case of auxiliary pensions. In that case, a desire to neutralize them as a fiscal threat leads to a situation which undermines their basic utility.

Auxiliary pensions had originally little to differentiate them from primary pensions. Being less mature they had not generated the kind of deficits that necessitated extensive government grants to the primary sector. Indeed, the Greek state, in an argument directed to DGCOMP of the European Commission, had explicitly and formally stated that auxiliary pensions enjoyed an implicit state guarantee, which was, however, bounded (Tinios 2011). Nevertheless, in 2010 they were exempted on the grounds that they *ought* not to possess such a guarantee. That premise was the starting point of law 4052/12, whose provisions were designed to avert any fiscal threat from auxiliary pensions.

Zampelis (2013) examines those provisions in detail. He concludes that “the notion of an auxiliary pension as a steady and guaranteed source of income for the pensioner is lost. Instead, he acquires title to an uncertain and arbitrary redistribution... Any reciprocity is lost completely”. His argument relies on how the payments vary from year to year as a result of the ‘zero deficit rule’. The following paragraph explains how pensions result in the new consolidated auxiliary fund ETEA, comprising 90% of the total auxiliary entitlements.

A key distinction is between pensions as calculated for new pensioners by the legal provisions of the funds (‘entitlement pension’). Every year, the sum of all entitlement pensions is compared to the total contribution revenue for that year. If expenditure falls short, all pensions are reduced by an equal percentage, to balance the ETEA budget. Thus the pension *actually* collected (‘actual pension’) can differ from the entitlement pension. The formula further implies that pension adjustments are asymmetric – they can fall but cannot rise - in a kind of ratchet effect.

Entitlement pensions are calculated on the basis of *old* rules for the period up to 2001 (typically final salary defined benefit schemes yielding 20 per cent

replacement)³⁶. After 2001 they are calculated on an ostensibly 'notional defined contribution' basis. Contributions are collected in a notional account on which a technical interest rate is applied, equal to the realized increase in total remuneration of the sector. No smoothing is foreseen, so that a fall in employment in one sector can lead to a negative technical rate and a shrinking of the contributions pot. At retirement, the pot is converted to an annuity, while the contributor can choose whether to include a right to a survivor's pension or not.

Seen as a long-term measure this scheme has a number of implications:

- In the presence of ageing there will be a secular tendency for actual pensions to fall.
- The largest old auxiliary funds will be maturing rapidly in coming years, reinforcing the falling tendencies.
- The economic cycle will reinforce the tendency for pensions to fall from year to year.
- Problems in contribution collection will also lead to falling pensions.
- Fund property and reserves are not available to cushion the falls. ETEAM surpluses since the 80s were used up to pay primary pensions. Property of funds took a big hit as part of the 'haircut' of Greek state bonds in 2012.

Thus participating in auxiliary pension insurance is a one-way *downward* bet. Pensions can only drop. The extent of the fall will vary from year to year which adds to uncertainty. As time proceeds, these perverse effects become worse. The generation currently drawing pensions or nearing retirement is treated far more kindly the younger generation.

Recapitulating, auxiliary pensions after law 4052/12 can hardly be said to fulfil the basic design requirements of a functioning pension system – public or private. Following the law, they certainly do not pose any fiscal threat to the State, but, nor do they offer any benefit to their participants.

An acknowledged inability to perform the functions of a pension system

Pensions exist to promote old age income security; it is usually taken as axiomatic that once an award is made, the pension amount cannot be altered. Private pensions or private insurance payments enjoy increased protection and are subject to greater supervision once issued. It is true to say, that a private pension provider would probably be forced to go out of business rather than renege on a long standing contract. In consequence, cutting pensions that may have been issued decades ago, is a step that requires very thorough and specific justification and is not to be undertaken lightly. In other countries implementing crisis-related adjustment, e.g.

³⁶ Using NDC from 2001 was a device limiting cross-subsidisation of generous funds (some with replacement of 60%) from less generous ones. This feature was subsequently altered, as NDC started only from 2014, safeguarding high auxiliary pensions. The employees who gained most by this were customs and tax officials, whose tied tax, on which generosity was founded, had been abolished.

Latvia and Romania, reductions of pensions were deemed unconstitutional by their Constitutional Courts (ESCR 2010, BBC 2010). In Portugal the Constitutional Court ruled that the abolition of holiday bonuses selectively for pensioners and public sector workers and *not* for private sector employees violated the principle of equal sharing of burdens (Petroglou 2013).

In the Greek case, the repeated nature of the cuts had a further negative effect. As no justification was ever given for the incidence or extent of the cuts, it allowed a pervasive sense of insecurity to be entrenched. If pensions of 85-year olds can be cut without justification and no warning, then any other cut is conceivable. A number of plausible justifications could have been offered for the cuts: retrospective adjustments imposed due to delays in pension reform; as a claw-back of pension increases received in the previous years; or even as some kind of correction for accumulated pension privileges. Yet, in an effort to pin an unpopular decision on the troika, no explanation was ever sought, or offered. The chief unintended consequence of this blame avoidance was to 'take the bottom out of the pension promise'. If pensions are seen as insurance, their usefulness will be severely undermined. The premise that the post-2012 cuts were insufficiently justified was the rationale the Supreme Court used in March 2015 to declare that those (but *not* the earlier) cuts were unconstitutional.

Worse still, the way the pension system was administered since the bailout can be said to have 'thrown the baby out with the bathwater': the cuts amount to an acknowledged inability to perform the functions (old age income security), for which the system was set up in the first place. This leads to a vicious circle – a pernicious race to the bottom where the renegeing on commitments justifies and fuels disintermediation, which leads to a shrinking of the contribution base. This, in turn, may necessitate further cuts, which push the system on its downward spin.

A pension system is, in essence, a disciplined mechanism of giving out and maintaining promises. Contributing to social insurance differs from payroll taxation only insofar as it generates an expectation of consumption smoothing at retirement – 'buying peace of mind'. Unilateral abrogation of a long term contract without offering any justification threatens the very basis of pensions.

The renegeing of promises is evident in both the individual and the economy-wide scale. We saw that pensions fail to provide security for planning old age. This, for those young enough to plan their life, may mean a disincentive to participate and a reinforcement of the existing tendency to abandon the system. For those caught out, that is for pensioners and for those close to retirement, it must mean considerable hardship – in the form of sudden and abrupt falls in consumption. A further implication is the levelling of pensions which comes from the cumulative nature of the cuts (Nektarios 2012). Higher pensions suffered the most. The reason they were higher was because they reflected long contribution histories and higher contributions. Low pensions which could have been the result of career-long contribution evasion and had benefited from the high minimum pensions were those least affected. The social insurance character of the system thus suffered a heavy blow. Paying social insurance contributions will appear to the individual more and more like a tax on labour unrelated to any *quid pro quo*. The 2010 reform's declared attempt to boost voluntary compliance by boosting reciprocity was thus neutralised.

Taking a macro point of view and examining how the State pension system relates to the economy, we still have a system which is ‘too big’. If collection of contributions has to rely increasingly on compulsion, then it will affect the economy much as a tax on labour, which (unlike other taxes) is fully reflected in the price of exports. The pension system’s efficiency cost will thus be greater. Figure 2 showed that the public system for a full career of 40 years, still aims to a replacement close to 100% (primary+auxiliary) of total remuneration, which is large, even by European standards. , This means that public pensions will carry on absorbing a large fraction of total production³⁷.

The dysfunctional situations of the past – the primacy of pension claims on the distribution of income and the crowding-out of other social expenditure – are likely to return³⁸. It is possible that the medium term issues – disintermediation, encouragement of early retirement in the crisis, grandfathering - will never allow the system to graduate to the steady state anticipated in the long-term pension projections³⁹.

Have the reforms since 2010 addressed the Greek pension problem?

It is certainly true that the old habits of problem denial are back with a vengeance. Under the MoU, November 2014 was the time for reviewing developments and to assess whether corrective action was needed. However, all political parties decided that it was best that no pensions discussions take place. The then government parties claimed that the decisions taken in 2010 were more than sufficient; apart from technical details that do not involve major decisions, no one needs to worry. The then opposition was more complacent; they would prefer to roll back the changes and return to 2009. In order not to stoke discussion, the flow of data about the system was stemmed and information limited to press leaks.

Notwithstanding the dearth of statistics, the position of this report is that enough is known to justify the search for a new pension equilibrium in the direction of spreading risk away from the State and amongst all actors in society. The next section proceeds to outline such a new arrangement.

Data and pensions: Hidden Treasure?

The problem of pensions needs to strike the right balance between conflicting considerations. It involves equity between generations, between occupations, between rich and poor, between genders. It seeks the optimum way to apportion finite resources between competing uses. In this way, at the end of the line, and once the problem has been set up, it demands a quantitative answer.

Such a quantitative answer is currently not possible for this study, nor indeed for any study of Greece. This applies certainly to those investigations that are limited to

³⁷ The new system calculates replacement using a career average; this might lead to a reduction in actual replacement rates, the extent of which is open to question.

³⁸ Indeed, given that pensioners’ electoral weight will increase, restraining the share of pensions will be harder in future. Tinios 2003 projected that pensioners would form an absolute majority of voters in 2033, while the age of the median voter was set to rise by 10 years between 2000 and 2040.

³⁹ IMF 2013 acknowledges ‘implementation risks remain’.

using publically available data, which are open to scrutiny and verification. **The reason is that such information, though it demonstrably exists, is not released for public use.**

Open public discussion is not a mere academic 'quirk'. The process of open evaluation, monitoring and reasoned argument serves as a guarantee that matters are not swept under the carpet and acts as a kind of 'quality control' of political initiatives. Quantification adds a further dimension and forms the bedrock of evidence-based government. Indeed, the Open Method of Coordination in the EU is a specific example of this approach. In the field of pensions, the OMC proposes a consistent methodology for balancing some potentially conflicting objectives: sustainability of pensions systems (the credibility of the pension promise) and adequacy of pensions (the efficacy of pensions in meeting their social goals- prevention of old age poverty and avoidance of falls in welfare at retirement)⁴⁰.

In contrast, the use of data as secret rhetorical weapons with which to stun opponents has a long tradition in Greek political economy. Control of data ensures control of public discussion and ensures that no unpleasant surprises can arise in day-to-day governance. It also secures an advantage for the side possessing the data over the ones who are denied it. This advantage, however, can only be short-lived; reality will, sooner or later, make its presence felt. Belated retrospective adjustment is likely to be more painful for having missed all intermediate instalments- arguably what happened in the crisis years. So, though avoiding discussion may score temporary points, it arguably is responsible for some of the most pernicious and persistent failings of the Greek pension scene. Seen as a failure of 'reform technology', it gives an explanation of why discussion apparently does not move forward over time. It also impairs the ability to discuss alternatives, by systematically undermining trust⁴¹. If the key problem of pension reform is path dependence, data secrecy makes it far worse; it locks sides in positions from which it is increasingly difficult to disengage.

One aspect of this is the lack of access to special reports commissioned to chart alternatives. Those studies are known through press reports and oblique references to them in public discussion. Actuarial studies of auxiliary funds were conducted in 2011. The Bank of Greece commissioned to a consultant in 2013/4 a study of the feasibility of multi-pillar reforms, reportedly containing concrete proposals. Many documents are prepared in the context of participating in EU procedures; these become known after their publication in Brussels.

Lack of access to reports is only one aspect. Since 2010 both the quality and quantity of regular statistical information available have suffered. A (partial) list⁴²:

⁴⁰ Tinios 2012c takes a retrospective look at the pensions OMC after 10 years' operation.

⁴¹ In the case of non-publically available data or when studies are not released, discussion can frequently appear to take place at cross purposes, leaving those who are not 'in the know' completely baffled. Examples from early 2015 are the actuarial studies commissioned for auxiliary funds in 2011, and the 2015 projections which were only partly leaked to the press.

⁴² Appendix 2 outlines the data requested in preparing this report.

- The Social Budget, which had been produced every year since 1962, has been discontinued. As a result, basic information such as total pensions is not available or needs to be obtained through external sources such as Eurostat – with a very long delay. Any long term comparisons requiring a long run of data (essential given the time lags of pensions) is not feasible.
- The new Helios system publishes data on pension outlays from 2013. However (a) no information exists on revenue (b) definitions are unclear (e.g. if pensions are reported before or after cuts) (c) coverage is sometimes uncertain. A comparison of 2013 and early 2015 data show that the total number of pensioners *had fallen*. This baffling result is completely at variance with all other information of what is happening to the pension system – yet has never been officially explained⁴³.
- The new ‘Ergani’ system charts contribution revenue; that information is not linked to the Helios disbursement data, with the result that the financial state of pension providers cannot be inferred.
- Information on how pensions are distributed by age and size which used to be published by IKA has been discontinued since 2008. In any case, fund consolidation introduces breaks in time series and precludes much analysis of trends over time.

4. What can be done still?

Greek pensions in 2015 are in the cusp of a change. The pension system is struggling to deal *both* with ‘legacy issues’ which had been inherited from pre-crisis days *and* with the complex post-crisis (and post MoU) political economy. Chief amongst the former are ageing and demography: the entry of the Greek baby boom into retirement coincides with the delayed effect of the 1980s fertility decline on labour market entries to cause a rapid deterioration, from 2015 on. The fall in immigration (and rise in emigration) exacerbates matters. The old habits of reform procrastination and unwillingness to acknowledge issues add to the impact of inadequacies in governance capacity. The problems of operating in a very tight fiscal environment only compound the legacy issues by making short-term operation far harder. The decision to pursue most changes on a ‘There Is No Alternative’ (TINA) basis is now taking its toll by placing in question the legitimacy of reforms pursued since 2010.

What has been sketched amounts to no less than a persistent downward spiral. Pension macro- and fiscal problems necessitate changes to the micro-social contract, which further devalue the social contract concerning pensions. Reversing the spiral should be the overwhelming strategic goal of societal choices in the fields of pensions.

⁴³ Two explanations are possible: new pension applications are not processed in order to postpone expenditure, thus creating a backlog of pension applications, *or* there are coverage gaps through some pension sectors not reporting information.

While the pension system is still preoccupied with its own unsolved issues, the environment around it is radically different from what was expected as recently as 2009. GDP per capita has fallen as a result of the crisis by a quarter, cancelling much of the growth since 2001 (Mitsopoulos and Pelagidis 2014). That alone implies that the same nominal pension amount will correspond to a burden on production larger by a *third*. Looking forward, most exit routes out of the crisis involve relying on improving competitiveness, signalling that the burden on non-wage costs necessary to finance pension will be more important in times to come. To add to this, technology and the spread of globalization imply that the global long term outlook of employment is towards greater labour mobility and work insecurity. Finally, long term public finances are already burdened by National Debt repayments which, after the 2012 changes, are due to take off in 2022. This means that the *moral* obligation to honour the pension promise coincides with the *legal* obligation to repay national debt.

Pension discussion to date has started sequentially: We began by looking at how the pension system will evolve over time. We then, in a second step, asked in what ways the economy can accommodate those expected changes. In other words, the implicit assumption was that the economy has to adapt to the pension system. In the radically altered post-crisis environment, such an approach is extremely dangerous. Taking in the bigger picture, the question to be posed has to be reversed: Placing the needs of the economy *first*, we must now ask in what ways can the pension system adapt to help production and the economy and *not vice versa*?

This report holds that thoroughgoing systemic change is the only way to avoid a downward social and economic spiral. What is needed is to rejuvenate the pension promise by proceeding toward systemic change. The remainder of the report is devoted to sketching how such a programme of structural change can be introduced and how it can be based on wide consensus.

Short to medium term: Buying time through parametric rationalisation

The evaluation of pension changes concluded that, while there was progress on long term viability affecting the period after 2030, in the short to medium term pensions remain an important ingredient of macroeconomic and social pathology. Unless the country can safely go through the short and medium term, it may never arrive to the planned long term.

First, a comment on the short term. As has been mentioned, pensioners were the group who gained most from the price stability that, in historical terms, was one of the main achievements of Greece's adoption of the euro. From 1973 to 1999 the major issue of pension policy was keeping pace with inflation. In the stabilization programme of 1990-1993 the average pension lost 25 per cent of its purchasing power – chiefly through inadequate indexation; this percentage was higher than the loss of pensions in the current, and far deeper, crisis. In the current crisis, nominal low pensions lost 14% because of the discontinuation of the 13th and 14th pensions, a loss partly recouped by the fall in the price level. Conversely, pensioners will be the group that will have most to lose should there be a return to inflationary conditions. If some fiscal adjustment could be the price of averting dramatic developments, it

would not unreasonable to seek a contribution from pensions to match contributions of other groups of the population.

Turning to the medium term, even if a new pension blueprint was ready in all its detail, it would be a mistake to implement before securing wider consensus. This can be secured through a period of calm and measured discussion. Thus, before embarking on the road to real change, **Greek society should try to ‘buy time’ to undertake the social dialogue that has not, to date, taken place.**

This implies that **medium term measures** must be prepared and gradually introduced. These measures could round off rationalisation initiatives begun since 2010 but not completed; they could equally demonstrate that adequacy of pensions remains a priority and could restore trust by emphasising some rights of the insured population. In general, if the old system is made to function more effectively, this could speed up the adjustment to any new system.

For an initiative to have an impact it must affect a large group of individuals. In this context, we must understand the issue of **vesting and vested rights**. Vesting is that point in an individual’s career where he/she has secured a right to a pension that may not be annulled. A common legal claim is that, once rights have been vested, they may not be changed by legislation. This can be understood as an issue in horizontal equity: as long as a person with given characteristics has secured a pension, a pension cannot be denied to someone sharing the *same* characteristics⁴⁴. Enforcing this principle could imply that any changes can be implemented *only* on non-vested rights. This would exempt virtually everyone, who is due to retire before 2020, with the result that most changes will not be felt in total outlays until well into the next decade⁴⁵. How absolute that protection is, cannot be answered in this report. However, an observation that can be made is that courts appear to make a distinction between entitlements (*whether* you receive a pension award) and the amounts received (the size of the pension). Even when upholding vesting, courts appeared more yielding in allowing reconsiderations of the amounts expected. In other words, legislation could introduce sizeable disincentives to exercising a vested right. Indeed, in recent years courts have upheld the retrospective downward adjustment of pensions-in-payment. Such disincentives could invoke horizontal equity considerations. For instance, tax funds to top up an actuarially calculated pension should be available to all on an equal basis. As long as farmers cannot retire before 65, the State may not subsidise someone to retire *before* that age in another fund. In any case, sound arguments, based on equity, could be found to counter the use of vesting as an absolute prohibition. This point can serve as a reminder of why pension reform must rely on a reasoned exchange of views between disciplines – in this case between legal and economic viewpoints.

⁴⁴ An obvious horizontal equity which the courts have not raised so far is that of generational equity. Strict enforcement of the vesting rule can be shown to place burdens on younger generations, which are already hard hit.

⁴⁵ The notion of vesting in the civil service does not include age but only years of service and is thus looser than in the private sector, which requires a minimum period of contribution *and* age. This introduces more inequities in how the law is applied.

Before embarking on a catalogue of measures, a note of caution must be sounded. Pension contributions from the start of the system had been collected together with **health insurance**. This was not accidental, but was borne of the appreciation that acquiring rights to short term benefits would encourage insurance for longer term benefits such as pensions. Health insurance confers an external economy to pensions. This feature, in addition to obvious administrative scale economies, explains the simultaneous collection of both types of contribution in most social insurance systems. Under the pressure of the crisis there is increasingly vocal concern for the loss of health insurance coverage of the long term unemployed. Similar concerns are voiced by cash-strapped small businessmen who would not mind taking temporary leave from pension insurance as long as they can retain their sickness cover. These concerns can be taken as indicative of a dysfunctional system of contribution collection, which takes insufficient notice of the economic cycle⁴⁶. They also over-dramatise the issue of lack of health coverage: health care is in all cases available through hospitals and in practice is seldom, if ever denied⁴⁷. If the calls for delinking health and pension coverage are heeded, a major blow will be dealt to pension contribution compliance. The real problems of difficulty in meeting obligations should instead be interpreted as indications of the need for a thorough overhaul of the system of contribution collection and the structure of contributions themselves.

A programme of medium term measures itself needs a period of preparation and discussion. What follows is a blueprint of the kind of initiatives that could be contained in such a medium term 'package'. Such a package could be completed with all outstanding issues cleared up in a period of a few months.

A. The Revenue side: An overhaul of contributions. The consolidation of benefit and entitlements calculation across funds (since 2013) has meant that a day's contributions leads to the same *new* entitlements in the form of accrual rates, no matter what the fund. However, contribution rates have *not* been equalised. Thus we have the obvious anomaly of the *same* insurance coverage being bought with wildly different contribution rates. (e.g. civil servants 6.67%, IKA 20%, National Bank 37.5%, PPC over 40%). The obvious course of action is the **reduction and harmonisation of contributions towards IKA rates**. This would entail using common definitions of insurable earnings, the same percentage contribution rates as well as common ceilings and floors across occupations⁴⁸. This would affect smaller funds and would aid competitiveness by curtailing non-wage costs of some large banks, larger industrial companies subject to the heavy and unhygienic work surcharge and the energy sector. Rationalising contributions would also include the special case of civil servants. Civil servants (with the exception of new hires since 2013) have their

⁴⁶ This applies especially to the self-employed where contributions are based on classes and hence are invariant to profits and turnover.

⁴⁷ Coverage of the unemployed and the uninsured is a standard feature of health insurance, usually through some kind of State supplied credits.

⁴⁸ The definition of insurable earnings affects the denominator through regulations such as the insurable status of overtime, responsibility and productivity bonuses etc. These matters differ across the original (pre-consolidation) pension providers. Differences greatly increase compliance costs, while also making the system difficult to understand for the participants.

primary pensions paid from a separate account of the Ministry of Finance, without the intermediation of a pension fund. Contributions are levied at the IKA rate only for the employee's contribution (6.25 per cent); the State does not charge itself the IKA employers' contribution (13.75 per cent). As the contributions collected from employees are treated as general revenue and not linked to pension payments, in effect the State charges itself on an annual basis all amounts exceeding employees' contribution; that amount however does not appear anywhere and must only be inferred⁴⁹. Bringing the State pension system in line with the basic principles of social insurance would thus be a major step in the direction of rationalisation and transparency. Currently only employees contributions are levied for primary pensions and these are not credited to a pension account: the State must levy contributions on itself as an employer.

The key issue to be faced has to do with those sectors which collected contributions greater than IKA. Given that entitlements have been brought in line with the lower IKA level, it is virtually unavoidable that their contribution rates will be brought down. However, as high contributions of current workers are used to finance higher benefits of pensioners and retained privileges of the older cohorts of workers, bringing down contribution rates will create a financing gap for the erstwhile more privileged sectors. This is an example of how privileges operate as a stranded cost. The equalization of all new entitlements under the 2010 law implies that that cost is bounded, as it refers to specific privileges enjoyed by a closed population – hence can be costed using actuarial techniques. Insisting (as currently) that these privileges should be paid by workers, who are not lucky enough to enjoy them, simply for historical reasons, is neither efficient nor equitable. Spreading the cost of older privileges to the wider contributor population (which would happen if contribution rates are equalized) is a slight improvement. The first-best solution is to actuarially cost privileges and discuss openly how that cost can be shared amongst the various categories of people involved (current workers, older workers, pensioners, employers, fund property), as discussed in the section on privileges.

An equivalent issue arises with tied taxes and other cross-subsidies that rely on contributions of wider society to cover greater generosity for specific sectors. Financing the resulting gap should not stand in the way of their complete abolition (which has been one of the more long-standing recommendation in pension reform). Financing the resulting financing gap and the way that cost should be shared amongst cohorts should concern each group affected.

The discussion on revenue could be generalised by rethinking the contribution base. At the moment, the contribution base for employees is the payroll, whilst for the self-employed and farmers contributions are based on 'classes' – i.e. arbitrary minimum amounts not related to any notion of ability to pay. This system is labyrinthine and encourages contribution evasion on the part of small businesses and the self-employed. During the crisis, as receipts plummet it becomes increasingly onerous and is one the main burdens small firms face. It is the reason behind the problem of unpaid contributions and mounting arrears for the Farmers' and the

⁴⁹ Given that the civil servants' system is more generous the extent of the employer guarantee involved would be considerably higher. This is counterbalanced by the lack of contribution evasion.

funds of the self-employed. This ‘system’ was traditionally justified as a second-best solution to problems of estimating taxable capacity in the business sector. The latter should be, presumably, much less of a problem after six years’ of improving tax administration. Thus the arguments for moving towards *ad valorem* contributions for the self-employed and farmers based on income declarations have become far stronger. This strengthens the overall case for moving from payroll to income⁵⁰ as the basis for a move towards levying the same **ad valorem** rate on the same definition of pensionable income for all sectors of production. In this case, broadening the tax base will only be the first step in a more thoroughgoing reform homogenizing pension entitlements across production sectors. If the principle of *caveat emptor* is applied, such as in underdeclarations by self-employed and farmers, the cost in pensions for expanding the system would be lower. In other words, people who (for tax purposes) have declared low income should not be in a position to demand pension income greater than the amounts declared before retirement. If tax declaration affects pension entitlements, a new incentive against tax evasion would be introduced.

Similarly, contributions must be paid *in lieu* of uncovered periods to pension funds by the State for people who retain the right to be covered (such as some unemployed, employees on parental leave etc) This change is an obvious move towards rationalisation and modernisation, but is quite likely to lead to a financing gap, if care is not taken. It is therefore imperative that it be accompanied by an actuarial study of what consolidation in rates could mean both for the overall level of contributions and in terms of fiscal magnitudes.

B. Fund Consolidation The actuarial study will undoubtedly bring to the fore the issue of how to treat differing contribution and entitlement rules *within* funds – the larger issue of what **fund consolidation** means and how to make fund consolidation as more than a simple cosmetic exercise. We have seen that in some cases (notably in the self-employed) fund consolidation has meant no more than a unified title on the doorbell. 17 years after the three self-employed funds were united into OAAE, the insured population (including new entrants) face radically different insurance conditions depending on their original fund membership.

Table 1 charts five key dimensions that fund consolidation can take. Such a table could be prepared for every case of fund consolidation. Consolidation by itself may not lead to any savings or improvements and can be a cosmetic exercises. To reap real benefits, there must be changes in at least one of the following dimensions:

⁵⁰ There could be some smoothing of income or exemptions of some kinds of income from the payment of contributions (e.g. rents).

Table 1: Five broad Dimensions of Fund consolidation

Categories of people affected	Revenue collection/asset	Rights & entitlements build up	Administration	Legal form / institutional
<p><i>Homogenised rules could exist for:</i></p> <p>Current Pensioners</p> <p>New pensioners</p> <p>Cohorts of contributors (born before x year)</p> <p>New entrants immediately</p> <p>New entrants in future</p>	<p>Contribution rate/ classes</p> <p>Definition of insurable income. Maxima/Minima or floors/ceilings</p> <p>Recognition of past service and other</p>	<p>How is pension calculated?</p> <p>How is it adjusted over time</p> <p>Retirement ages</p> <p>Special categories and exemptions – are they retained?</p> <p>Invalidity/survivors etc</p> <p>Special non-pension benefits</p>	<p>Communication of records (use of common identifier)</p> <p>IT systems can coexist</p> <p>Collection mechanisms</p> <p>Common services for insured</p> <p>Unified statistics (including retrospective to cover new population).</p>	<p>Unified management/planning</p> <p>Common internal structure (absence of duplication, personnel etc). MIS</p> <p>Common budget. Common property</p> <p>Common legal representation</p> <p>Staff and pay not differentiated by origin</p> <p>Automatic inclusion of all components in future legislation</p>

Table 2: Two examples. One of real consolidation (Printers into IKA) one of the ‘name plate’

	Categories of people	Revenue collection	Rights and entitlements build up	Administration	Legal form / institutional
TEVE and TSA consolidated into OAEE (1998)	Still different even for new entrants.	Classes differ even for new? Common collection?	Separate calculation	Some unification? ? IT systems? Do they operate AMKA? No statistics published. Separate funds hidden in budgetary total	Common management. Common legal representation New staff (post 1998) not separate
TAT (printers) into IKA (1970s)	Pensioners and those with vested rights grandfathered.	After consolidation all TAT pay IKA rates?	Vested rights could be pensioned. TAT years treated differently (?) New entrants not distinguished. Some privileges retained (heavy occupation + glass of milk for lead exposure)	Unified in manual system. TAT given IKA number. Transition complete after x years	

1. **Consolidation in insurance:** Are risks pooled or do they remain separate? How are the different cohorts treated and how long before they start behaving as a single fund? - columns 1-3
2. **Consolidation in business:** Are economies of scale reaped? If so are there any missed out? – column 4
3. **Consolidation in planning.** Are common statistics and budgets kept? Is planning made for the new unit or simply adds up the old? Columns 5.

Too frequently in the past consolidations were seen in purely legal terms (finding a successor organisation) with the result that benefits to society were either greatly postponed or missed altogether. If a consolidation exercise is to lead to tangible benefits, these (and possible other similar) types of consideration must be explicitly faced.

C. Pension privileges as stranded costs. A common problem in any rationalisation exercise is how to pay for larger benefits of older cohorts, which younger contributors have no longer any claim to. For pensioners the issue is slightly different and a justice-based argument (built on cost sharing) could be used to justify some pension reductions. A similar issue was dealt with in auxiliary pensions of banks in 2005. Pension rights in excess of IKA were costed; sums to pay for the excess were transferred by *employers* to State bodies (ETAT and the main auxiliary provider ETEA). This created a flow of funds to the public sector. (Tinios 2011). The crucial idea in this approach is to define a set of ‘general entitlements’ which are common to all; ‘privileges’ are defined as any entitlements over and above those general entitlements, whether due to earlier retirement or more generous replacement rates. These amounts were costed by actuarial calculations for the closed population of current workers and retirees leading to a total amount (using International Financial Reporting standards). When the insured population was moved to State responsibility, the sum corresponding to the privileges was also transferred⁵¹.

This idea has also been applied to pensions of commercial banks in Portugal, as part of an equivalent project to consolidate them in the main pension provider. In all the cases mentioned above the privileges involved were kept largely intact and were fully financed by cash-rich employers. The general idea could be adapted in the case of large oligopolistic employers with assets to transfer to State (PPC, ELPE, some banks), which would thus be able to finance the switch. Property of pension funds *could* play a role, as that could be used to pay for older contributors’ privileges. This answers a valid point about the special characteristics of pension fund holdings; there can be no objection to using their property to benefit fund members who had played a part in accumulating it. Even if there do not exist cash-rich employers or property, the idea can still be used in negotiating maintaining privileges: Accepting some co-responsibility of the insured themselves, the insured population (and perhaps even pensioners) could share in the cost of their pension privileges *either* by paying extra contributions *or* by accepting some pruning of benefits⁵².

⁵¹ Banks had a strong incentive to participate, as under IFRS, they would have had to carry the cost of pensions on their balance sheets anyway. That incentive would be weaker for other enterprises.

⁵² The provisions in force for auxiliary pensions assign all responsibility to pensioners; compared to that the system of co-responsibility is an improvement.

A special kind of privilege are the 'Heavy and unhygienic occupations' (retirement 5 or more years earlier for 40% of IKA insured, mostly in industrial occupations) . Seen as a contribution to health, the system is totally perverse: It encourages and rewards continued long term exposure to (supposed) health risks rather than containing them or minimising any possible ill effect. Seeing this matter as a health issue, justifies a radical approach, implying more rapid change. In contrast, the procedure chosen for reform of the system in 2013 has adopted a far more gradual approach, whose impact in economic (and presumably in health terms) is in the medium term almost negligible⁵³. A more drastic approach could involve full abolition for all people aged below a certain age; cost sharing for older. It goes without saying the surcharge on contributions should also be abolished. Even if that were to mean a fiscal loss in the short term, its medium term benefits should easily outweigh the loss⁵⁴.

The last major category of 'privilege' is that accorded to women. Women (and especially mothers) are entitled to a wide range of 'privileged treatment' leading to early retirement. The latter for most will prove a double-edged sword, as retiring early on a low pension, virtually guarantees old age poverty and continued dependence on male partners or children (Greece has among the widest gender pension gaps in the EU – Betti et al 2015). An argument for rapid discontinuation of such 'privileges' can easily be made on grounds of securing equal independence between men and women. Even so, the argument for subsidising women using general revenue, so that they can earn the right to be poor and dependent in their deep old age is very odd indeed.

D. Streamline contributions and tax collection. In the US and other jurisdictions, social security contributions are collected by the same body (IRS) and on the same income concept as personal taxes. In order to emulate this, we must greatly simplify the definition of pensionable income and tie it to tax categories and to income declared. Such a system could use either the VAT or Personal tax infrastructure, each of which has pluses and minuses. Either would provide a key incentive against contribution evasion⁵⁵. Streamlining would abolish the need for separate collection mechanism of pension providers, as well as limit compliance costs of employers. Nevertheless, the shift would need to be managed in such a way as not to threaten the flow of information and record keeping about contributor behaviour, which would still be needed to base entitlements. Given that pension systems are information mechanisms processing contributions and matching resources to needs, the question to be answered is whether payment through a system no longer exclusively dedicated to pensions would still collect the information needed for to function smoothly.

⁵³ A third of occupations were withdrawn from the list. However, all with more than ten years' tenure were exempted. So, no expenditure falls will be recorded for more than 15 years.

⁵⁴ If there are any residual health effects they would reinforce the switch.

⁵⁵ The way they would do that is by allowing to cross-check with data sources where the incentives are opposite to paying contributions – e.g. a large payroll limits VAT liability but brings to the surface incomes on which contributions can be levied.

The pension fund staff who would become supernumerary could either be redirected to handling the benefit side, retrained as tax officers or (in preparing for a multi pillar reform) redeployed in second pillar bodies. A key decision to be faced is whether the contribution base should be broadened. Shifting away from a payroll tax could allow the social insurance tax base to be considerably broadened: it could include income of pensioners; it could easily bring in income from capital (profits) or land (rents); it could capture for social insurance purposes people who keep multiple jobs, contributions for which are frequently avoided. Base broadening would allow a fall in rates, but could loosen the link with insurance: pensions would no longer strictly replace incomes from work, as profits and rents would continue after retirement. Linking with mobile factors of production could hurt competitiveness and create deadweight loss. Nevertheless, given that around a third of total fund revenue comes from government grants, increasing the explicit contribution of taxation would be a step in the direction of transparency.

E. The Adequacy challenge: Minimum pensions. Minimum pensions were the key response in the 1980s to poverty, allowing rapid reaction (which, however was insufficient to avert pensioner poverty). Given administrative potential at the time, it was a means to tackle quickly the low pension problem (greatly exaggerated by inflation). In doing so, minimum pensions turned the system away from reciprocity, which led to serious side effects. In practice, minimum pensions favoured a major redistribution in favour of early retirees and contribution evaders. However, since the 1980s other mechanisms of low pension protection have been introduced: EKAS in 1996; other means tested benefits followed. As far as the new 2010 system is concerned, the basic pension in the new system coexists uncomfortably with the minimum as they are both oriented to the same need.

Pensioners in IKA and other large funds such as NAT (sailors) are entitled to an '*organic pension*' which results from the application of entitlement rules to number of years of contribution and the final salary. Those funds follow the 'Final Salary' concept: First the final salary is calculated (typically a five-year average of incomes on which contributions are levied). The second step is the application of a replacement rate depending on the number of years of contributions. In the case of IKA the second step is more generous towards lower pensions, embodying what is known as 'class solidarity' – lower insurance classes are more generous than higher ones. This complex process leads to an amount which is 'organic', in the sense that it expresses the original social insurance concept embodied in the charter of pension providers. Once the organic pension is computed (which may take months), the result is compared to the minimum pension; if the latter is higher, the pensioner receives the minimum pension. However, the minimum was set so high (or the organic pension so low) that this process censors and nullifies all the calculations that entered the organic pension: 70 per cent of the stock of pensioners and 60 per cent of new pensioners all receive the minimum pension. This alters the character of IKA as social insurance: in practice a proportional tax on earnings finances uniform entitlements. This process affects virtually all of IKA pensions with the exception of minor cases where there is no right to the minimum protection; these are recipients of foreign pensions, or others who are drawing a second pension (and have thus already exercised this right once already). Auxiliary pensions are subject to a similar minimum, resulting from a similar process. The sum of minima for primary and

auxiliary pensions comes perilously close to 100% replacement for those on low pay. The penalty for earlier retirement is low or in many cases non-existent, nor is the amount subject to any kind of means test⁵⁶.

Is there still a rationale for a minimum pension in social insurance? Many systems have a minimum pension as a kind of occupational hard luck cover. But if so, it should be much lower in relation to earnings than it is in Greece. Given the very large numbers of individuals affected, it is the area where intervention would have most effect. The direct fiscal effect will be reinforced by limiting an effective subsidy to early retirement. Treating the difference between the organic pension and the minimum pension as a welfare benefit would act to rationalize the system⁵⁷. This could act as a powerful incentive to nudge behaviour towards more productive directions. It could also create the possibility of incorporating the operation with other welfare benefits, in the context of widening the application of means tests or the operation of the EKAS low pension supplement.

For instance a good argument on social justice could be made so that minimum pension protection would be granted only after a particular age. Before that age there would be entitlement only to the 'organic' part of pensions. It is not equitable that a public subsidy should be given to some and denied to others who have the same age, but who happen to belong to less privileged funds. More obviously, given that the minimum makes it redundant, the complex non-linear system of pension replacement (class solidarity) could be greatly simplified and replaced by a simple linear system. A reduction of current minimum pensions could open the door to introducing new means-tested benefits – possibly linked to housing costs (focused help to tenants) or long term care expenses⁵⁸.

F. Other parametric non-systemic changes. The nature of parametric changes is that they can be multiplied *ad infinitum*. Indeed, some changes tagged on to a dysfunctional system may actually push it in the wrong direction. Such a case is, arguably, the question of **minimum vesting** – i.e. the requirement that at least 15 years' contributions are needed to secure the right to an old age (though not an invalidity) pension. Its rationale partly would be to deal with the issue created by vested rights being excluded from reforms. Such a decision would target women more than men (due to broken careers) and exacerbate the already wide gender pension gap. Its key problem is that, by denying pension rights to those with less than 15 years, it would erode trust further; it is thus trust that is in shortest supply. If minimum retirement ages stipulated were adhered to strictly, the average number of years of contribution would rise in *any* case (the system would be self-correcting). So, the question returns to the issue of how to offer disincentives for early retirement; withholding all subsidies until the age of 65 would most likely do the trick. It is possible, though, to approach the matter the other way: If *additional* benefits are dependent on a long career that would also act as an incentive to

⁵⁶ Some categories of pensioner – notably those who receive two pensions can only collect one minimum pension. They receive only the 'organic portion' of the second pension.

⁵⁷ Another possibility is that indexation would be offered to organic pensions only after age 65.

⁵⁸ The latter in anticipation of fully developed long term care system.

postpone retirement⁵⁹. Indeed defining such incentives could form the basis of constructive dialogue.

Other parametric changes could include:

- Incorporate *all* civil servants in IKA (including those employed before 2013), making sure the State pays contributions as employer. Privileges of civil servants could be costed and included as stranded costs.
- Re-examine the issue of family bonuses. Family bonuses in many cases are granted twice, once as part of pensionable income and once more as family bonuses.
- Re-examine survivors' pensions in the context of individualising entitlements. This could extend to a re-examination of survivors pensions in payment (including rights of unmarried and divorced daughters) with a view to progressively curtailing them based on income and earnings criteria.
- Re-examine benefits other than pensions. Such as holiday camps for children, interest free loans, housing help, other non-insurance benefits (if they still exist).

G. Trust and the quality of service. A pension reform should not just be about consolidation. The pension system is not just a mechanism to replace income, but also a vast administrative machinery which comes into frequent contact with individuals – contact which is frequently traumatic. Considerable improvements could be made on how the insured interact with the pension system. An example would be improvements in the **handling of information**. There are many questions about how AMKA functions as a unique identifier system: Are there still classes of the population yet to be brought into the system? Are the information systems of older separate funds ready to adopt the unique identifier⁶⁰? Does it correlate with tax collection machinery? Another example is the **simplification and codification of legislation**. It is important to design active and functional links with statistical information and not see it as only a legal exercise. Such an exercise should start where there is most need, in the sense of volume of business, and abolish irrelevancies. It should also include a mechanism of updating the end product so that it does not become outdated. Finally, it is important to stress citizens' rights by introducing mechanisms to aid trust. Such could be a Charter of insured rights or perhaps instituting the possibility of legal aid for social insurance disputes with State bodies. Both the latter were ideas explored in 1998 as part of the social dialogue (INE-GSEE 1998) but never implemented.

H. Extraordinary levies to be collected while the period of social dialogue is in operation. The period since 2010 has seen a number of surcharges and pension levies, ostensibly imposed for the duration of the crisis. The calculation of pension

⁵⁹ In practice the current system attempts to do that by specifying that the minimum pension varies slightly with years of contributions. For the incentive to work, it would need some more substantive rights – such as unlocking the right to long term care benefits.

⁶⁰ Almost all pension funds operate two system in tandem – one based on their old identifier and another on AMKA.

amounts still obeys the convention that ‘real entitlements’ are those defined by funds’ own regulation; on these the successive reductions imposed since 2010 are imposed one by one. At the same time, it is unclear to what extent these reductions have been incorporated in projections. Rather than subjecting pensions to the uncertainty of annual reductions (such as those applied to auxiliary pensions), pensions could be guaranteed for the duration of the period necessary for social dialogue and technical preparations. To ensure fiscal balance, all extraordinary measures and all medium-term rationalizations would be costed to formulate a medium term cash-flow plan. How much will be needed depends on the breadth and impact of medium term measures, chiefly the disincentives to exercising vested rights. **Should there be a financing gap, this could be collected by a combination of a contribution surcharge and a pension levy – to last only until the new system is implemented.**

5. A risk- spreading cooperative solution in outline

General desiderata of a systemic reform

A thorough systemic reform like the one proposed must be consonant with and complementary to the overall reform process the country needs. This carries a number of implications both for the ends of the reform and the means to be employed.

As far as *ends* are concerned, the reform must take on board that the economic possibilities to support any given pension system must adjust to the fact that the economy has shrunk by a quarter since 2008; similarly other key features of the economy (e.g. the tax capacity, relative importance of sectors etc) have altered irrevocably since 2009. A partial analysis treating pensions independently of the economy would entail putting the cart before the horse. Pensions should support production and not *vice versa*.

This general observation can be broken down to three considerations:

1. The pension reform should support (and not undermine) economic recovery. It should help adjust the *overall* public sector size to post-crisis fiscal realities – most notably in long term national debt sustainability. We cannot ignore that public pensions constitute a large and rising part of general government expenditure.
2. It should provide a definitive resolution of the ‘pension problem’. This means that it should remove pensions as an issue around which opposition to economic policy is rallied. Pension promises given out must in all cases be honoured.
3. It should restore trust to the system and reaffirm its organising principles. For younger contributors it should re-establish a credible link to contributions. For older contributors, it should offer a different type of reassurance – that cuts to pensions have reached their maximum and that in this way system promises can, once again, be taken seriously. This translates to providing a convincing quantitative justification for those pension cuts that must be

retained and those that are in principle reversible. This justification must be based on ideas of horizontal and vertical justice and should be applied retrospectively to the cuts since 2010; it should provide a bridge between aggregate magnitudes and the way these are shared out amongst individuals⁶¹.

Another way of seeing the three desiderata is that **the new system should promote generational justice**. It should not place the interest of some generations over others. In particular, it should balance the rights of the 'Polytechnic generation' currently facing retirement with those of the 'Crisis generation' facing employment insecurity together with the ageing challenge.

As for **means**, the key idea is to call for a partnership between the state, individuals and firms. This, as contrasted to the current monolithic system, must allow individuals and the private sector (through occupational solidarity, individual saving and more work) to finance a greater share of the overall benefits they will themselves draw as pensions. In other words, the reform will encourage a kind of public-private partnership to meet the costs of ageing and to recover from the crisis, through new structures for cooperation and joint resolution of problems.

This overall adjustment will be based on two key contributions. Firstly, on **pension system design**. By encouraging more affluent individuals (or occupations) to finance and bear the risk for a greater share of their own retirement, we allow a concentration of public monies additional to contribution revenue where there is greater need (poorer individuals, interrupted careers, insufficient entitlements). In such a way, by drawing pensioner guarantees from two (or more) separate directions, risk, as compared to a system relying exclusively on the State, is dispersed. Rather than the State subsidising and guaranteeing all pensions, it concentrates its efforts on poorer individuals.

Secondly, on **employment adjustment**. A key contribution to viability is to emphasise the positive incentives for working longer. At the very least the system should not encourage early abandonment of paid employment, as is invariably the case in the current system. The individual deciding to work longer must be able, at the very least, to derive immediate gain from the gains that he confers to the system as a whole – in the form of a higher pension. It is as well to recognize, though, that working longer is not simply a matter of being willing to supply labour for longer. Equally important are the demand for labour on the part of employers, as well the content of work and other issues connected with the quality of work (Munnell and Sass 2008).

If a society succeeds to lengthen the actual period of contributions, this can act as a kind of fourth pillar of the pension system⁶². This means prolonging active life as an individual- level contribution. In Greece, it would also mean increasing women's

⁶¹ The same aggregate impact might result from different apportioning of adjustments to individuals, depending on the considerations the algorithm will reflect.

⁶² Indeed, the Geneva Association of Insurance economists explicitly calls working longer a fourth pillar of the pension systems – in the sense that it can act as a support for greater expenditure. Geneva association 2012.

labour participation from its current low state to the kinds of levels encountered in Northern Europe; i.e. from 56% participation to a closer to 80% (Tinios 2010). Enabling more child care services to be offered, will raise women's labour participation and will lead to a permanent addition to pension system contributions, whilst also avoiding a future problem of inadequate pensions for women⁶³.

Sketching alternative 'three and a half pillar systems' for Greece

The pension design envisaged can be encapsulated for the steady state by means of a 3 ½ pillar system. The current system relying on the State exclusively would be replaced by a system where total income replacement would come from *three* different sources and means of finance. What follows is a sketch of 'system architecture', and possible systemic alternatives, leaving discussion of individual problem areas to section 6.

Details such as the relative size of pillars, the exact replacement rate of each, the extent of state subsidy and the speed of transition must remain open. They must result from public deliberations and open discussion once a menu is constructed. The information to construct such a menu is not currently available; collecting, validating and processing this information is one of the key tasks ahead. However, even if such information *were* readily available, a decision would have to wait for discussion to take place. That discussion would first have to contend with the general issue of the feasibility of the broad outline, before delving into details, technicalities and complex quantification.

The **First pillar** would consist of public pensions, in the sense of being financed and provided by public bodies on a Pay-as-You-Go basis. It would thus replace and consolidate *primary, auxiliary and separation* fund bodies. These pensions will be two-tier. In order to leave space for the other pillars, the replacement offered at the steady state must be considerably lower: a possible order of magnitude could be replacement of between 30 and 50 per cent - a little over half of today's. This range is similar to the share of public pensions in systems such as the Netherlands or Denmark and higher than the UK. Depending on the maximum replacement, and the extent of general taxation support, this can be accompanied by a substantial reduction in the contribution rate (currently 26 percentage points for IKA members). This reduction could be as much as half (depending on actuarial work to be done).

This total replacement would result from the addition of two components: a means tested pension collectable at the age of 67; and a notional defined contribution (NDC) pension for the remaining replacement (Holzman et al 2006, 2012). The means- tested pension will be designed to prevent old age poverty and will serve as a safety net, replacing the current system for the uninsured and the minimum IKA pension. The difference with the current 'new' system is twofold: the basic pension will be means tested and the reciprocal pension would be based on notional defined contributions and individual accounts.

Notional defined contributions systems, as in Sweden and Italy, finance current pensions from current contributions; pensions of individuals, though, are based on

⁶³ Greece has one of the largest gender gaps in pensions in the EU – Betti et al, 2015.

the logic of adding contributions to an individual (notional) account. The amount collected in the individual's account has to finance his/her retirement; the individual decides when to retire taking into account that later retirement yields a higher pension. The NDC pension may be collected after the age of (say) 63 and is completely neutral as to postponing retirement. In contrast to the 'system' currently applied to auxiliary pensions, considerable smoothing will be enforced: pensions, once issued, will not be altered; the technical interest rate would be based on system revenue for a long period of time. The key advantage of NDC lies in communicating to young workers that their involvement in social insurance is immediately and individually credited. The annual 'orange envelope' sent to all participants in Sweden containing particulars of their individual account was enormously popular and was symbolic of a change of course for the system. If the new system is to succeed, it must pass the test of regaining the trust of younger workers.

On the supply of pensions, *all* current old age providers would be replaced by single state provider. All separate social insurance contributions and collection systems will be replaced with a single system to collect contributions. This may be collected as part of income tax, as in the US or may (at least initially) be collected by a single body well integrated with the payment systems of banks⁶⁴.

The system as described comes close to what may be called the 'European norm', where the State deals with poverty prevention but continues to supply some income replacement and to collect contributions based on earnings. For systems with a social insurance tradition (the Netherlands, Italy, Poland) this has the advantage of familiarity. However, other ideas could also be examined. Denmark has a general-taxation financed means-tested national pension and leaves all income replacement to the mandatory second pillar⁶⁵. Australia and New Zealand are the countries that have gone further in that direction. The public systems there are elaborate means-tested mechanisms delivering adequate pensions tailored to need and supplemented by mandatory and compulsory occupational second pillar insurance.

The **second pillar** would consist of mandatory occupational pensions on a defined contribution pre-funded basis. These funds will accumulate assets, which they will invest and will, in this way, finance annuities to their members adding to the first pillar. It should be noted that the institutional framework already existing for occupational funds could be used with relatively minor additions⁶⁶.

Membership would be compulsory by occupation, with a *minimum* contribution rate of 3 to 5%. The law would specify a minimum contribution rate. Contributions over and above that minimum could be encouraged by envisaging matching contributions by the employer (as is the case in systems where membership is voluntary such as

⁶⁴ It is important that all current state or quasi state bodies be folded in the new systems. This will include all primary funds and all supplementary funds. Separation funds as organizations can join the new provider, yet their contribution rates and property can be added to the second or third pillar – as most notably happened in the Dini reform in Italy.

⁶⁵ Denmark thus has no payroll tax, which helps competitiveness, but has correspondingly high income tax rates.

⁶⁶ The limited spread of occupational pensions was due to the generosity of state pensions and was not due to design flaws in the legislation governing occupational pensions.

the US). A similar role could be played by tax exemptions (up to a maximum). These pensions would thus absorb any desire by an occupational group to have higher pensions than those guaranteed by the first pillar. Their governance can provide a valuable field for cooperation between employers' organizations and trade unions, which can have important beneficial impact to industrial relations in general. Similarly, these funds are likely to accumulate sizeable assets in a relatively short time and, as long term investors, are likely to exert a benign stabilizing influence in capital markets. Labour mobility would be facilitated if second pillar pensions are defined contribution, such that there exist an individual account which would follow the worker should she decide to change jobs⁶⁷.

The second pillar in Greece could include a provision to absorb 'privileges' gradually, by folding the cost of privileges into the new funds, in the form of separately financed pension bonuses. Different older cohorts entering the new funds could be entitled to different amounts corresponding to some of the privileges they enjoyed in the old primary and auxiliary funds⁶⁸. It could be possible for individuals to opt out in order to direct their contributions to third pillar pensions, provided they still paid the mandatory minimum contribution rate (as has happened in the UK). Separate rules could govern the possibility of early drawing down of contributions. Finally, to keep continuity with social insurance, the tax treatment of second pillar contribution should be comparable (tax exempt contributions, fund income untaxed taxable annuities).

The exact size and replacement rate of second pillar funds depends partly on the provisions they would be called to replace. The intention would be to split current primary plus auxiliary plus separation funds into the two pillars. Given that the first pillar is PAYG, all old pension fund property can be directed to the second pillar, possibly financing pension bonuses corresponding to privileges. This would allow continuity to previously privileged sectors, an idea also implemented in Italy (where separation funds were absorbed in the second pillar).

The **third pillar** refers to individually tailored provision, akin to personal saving or indeed life insurance. This in the Greek context can be assigned roles which are strategically very important: We have seen the 2010 reform abruptly changed public entitlements. While younger participants will have the time to substitute private savings to make up for the losses, the time available to today's 40-year olds is unlikely to be sufficient. They, thus, face the prospect of entering old age with grossly inadequate pensions. That middle generation will be worse off both from their predecessors (who will be grandfathered to a larger extent) and their followers (who will have the opportunity to benefit from the new system). The third pillar could play the crucial role of enabling the middle generation 'caught out' to accumulate finance in order to partially make up the gap (see section 6). The third pillar will also allow individuals whose careers do not follow common patterns (e.g.

⁶⁷ Minimum vesting requirements could complicate this process; however these issues are already to an extent dealt with the existing Community legal framework for supplementary pensions.

⁶⁸ These privileges are concentrated on pre 1992 employees, most of whom are approaching retirement; those employed between 1993 and 2011 have reduced differences; those employed since 2011 have exactly the same entitlements.

expatriates, occupationally mobile individuals, women moving in and out of the labour force) to fashion their own provisions. It is for these reasons that an argument can be made for a privileged tax treatment for third pillar contributions, as is common in many countries, including the US.

The ‘third and half’ pillar would be a conscious attempt to integrate working longer into system design as a putative ‘4th pillar’⁶⁹. Working more could mean delaying retirement for those already working; increased employment opportunities for working mothers and the possibility of enticing recent pensioners *back* to the labour market, possibly with new flexible types of labour contract. The possibility of ‘re-contracting retirement’ could be a Greek innovation designed to give an opportunity for baby boomers (primarily women) who retired early as a result of the crisis from 2010 and, in consequence, face the prospect of living through the next decades on very low pensions. If they regret what in many cases may have been a rash decision (as will be likely when the recovery starts), allowing them back to the labour market can be considered a net gain.

Some aspects must be *sine qua non* features of the new proposals and would clearly differentiate them from the current approach:

A fast transition. The 1992 reform introduced new regulations which were applied to those who *started work* after 1993. The 2010 reform was more decisive. All work offered after 2011 yielded credits under the new system and pensions were calculated in a pro rata basis. Even then, the speed at which the new system spread was very low – the steady state will not be approached until the 2030s. For the pension changes to have an impact on society and economy, the speed of transition must be much higher. A lower speed of transition translates to the necessity of making up the gap with other measures that can affect the medium term. Arguably, this is the key *caveat* faced by the 2010 reform.

All *current* pensioners necessarily remain under the old system; their position would be improved, as they will receive new guarantees supported by actuarial studies. Not only new entrants, but all those born *after*, say, 1980 (currently 35 years’ old), would be obliged to enter fully in the new steady state from the first day. The advantage of systems relying on individual accounts, such as NDC, even when they do not accumulate reserves, is that the individual participant can be made *immediately* aware (through the existence of individually-credited accounts) that something has changed in his/her relationship with the pension system. Showing that something has changed on the benefit side requires more time. In essence, what is being faced is a race against time: A faster transition implies bringing in to the new system more individuals who will have less time to accumulate the entitlements to make up for the public systems that are being supplemented. In this way a form of the adequacy-sustainability trade-off is repeated.

This dilemma can be answered in two ways: Firstly, a smaller size to the funded pillar would allow matters to advance faster. Secondly, and more importantly, there exist techniques for crediting old system contributions in order to transfer rights acquired under the old system to the new. The most common such technique are ‘**recognition**

⁶⁹ Use of the term 4th pillar to mean working longer has been popularized by the Geneva Association of Insurance Economists.

bonds'. These bonds correspond to the contributions that would have been made to the new system and are supplied on an individual basis to each individual and are credited to his/her individual account.

In this way, intermediate generations would be allowed to choose. Crediting the NDC system which is based on PAYG would not be a major obstacle (it is chiefly a matter of recovering information). For those joining the new system, either voluntarily or obligatorily, there must be a provision corresponding to the 2nd pillar contributions they have *not* made to prefunded schemes. The mechanism that has been utilized to answer are recognition bonds. Section 6 approaches the transition period in greater detail, including the key problem, i.e. that the transition generation has to pay both for the pensions of today's pensioners and for (part of) its own pensions.

Need for new institutions. A social policy institute would be needed to collect and collate all information from old funds. It must be responsible for system governance and will take over social policy and social planning, a role now dispersed among a number of actors. The new 2nd and 3rd pillar pensions need to be supervised by a new body. Finally, there must be a major investment in financial literacy. A switch from today's paternalistic structure where all major decisions are taken centrally by the State, to a situation where the individual takes control of key decisions, presupposes that individuals are in a position to take advantage of such freedoms.

However it may be, the policy toolbox of multi pillar reform and other innovative pension structure is much fuller than is generally thought in Greece. It is remarkable that past proposals received little attention. For instance the use of recognition bonds to speed up transition to prefunding was already advocated by Tinios 1995, while the Spraos report 1997 and Börsch-Supan and Tinios 2001 sketch the transition to a multi pillar system. Nektarios' writings on such a reform stretch over a decade (Nektarios 2000, 2008, 2012). Zampelis 1998 has also been an early advocate for a systemic transition. Karavitis 2011 is well argued, while the Bank of Greece (Bank of Greece 2013) is, apparently, a late convert to the cause. Xafa and Tinios 2014 examine an idea to move immediately to a variant of the 'National Pension' and comment that this needs to be supplemented by a fully functioning second pillar; unless such a pillar results from reform, the private sector is unlikely to be able to cope with income replacement⁷⁰.

In comparison to previous times, public opinion may be more receptive to new ideas. One of the advantages of the rapid deterioration and disappearance of trust in the system is that the population may be more open minded. Any functioning system which delivers old age income security may compare favourably with the arbitrariness of much that has taken place since 2010 – may appear more attractive.

⁷⁰ That proposal entailed the sharing out of all 2009 total public grants to pensions amongst all citizens aged 67; it did not explicitly consider what would replace current pensions, nor the transition period.

6. The way ahead: Signposting five problem areas

The Transition period and recognition bonds

The Achilles' heel of multi-pillar schemes is the transition period. The main obstacle is the '*Double payment contention*': During the transition, individuals of working age will have to pay *both* for their own *and* for their parents' pensions.

Panageas and Tinios 2016 (on which this proposal is largely based) took on the challenge by examining transition in detail. They calibrated illustrative calculations of a full transition in an explicit analytical model containing two generations. Their bottom line is that *there is nothing in the theoretical case to prevent detailed examination of a transition to a multi-pillar system as a practical proposition*. They examine the issue in a gradually more complex model of overlapping generations where a previously existing PAYG pension system is replaced completely by a prefunded system. A further simplifying assumption of the model is that entitlements of the old system are all honoured. Key to the design is the use of 'recognition bonds' to transfer rights from one system to the other, in order to speed up transition. Financing these bonds and the effect that has on the economy is the crux of the problem.

The conclusion they draw is the following: The transition problem is indeed a difficult one to solve. However, there exists a relatively straightforward way to do that, without requiring an increase in external debt, nor further cuts of existing retirement benefits. In essence the system works because *new* needs for saving instruments are met by the supply of new paper, i.e. by recognition bonds. The issuance of new bonds does not necessitate new external borrowing, as it can be financed internally as part of the pension reform process. The key to obtaining any net benefits from such a transition, however, is a careful design of the transition system, so as to enhance labour supply incentives (working longer). It goes without saying that the transition problem is eased if retirees shoulder part of the cost in the form of curtailed benefits.

In addition to theoretical objections an application in Greece must also tackle more pragmatic problems: The rise of borrowing that is likely to follow will, most likely, breach the Maastricht Treaty limits; unless changes are made to that legal document, a shift to funding is ruled out. However, even in simple analytical models, though the stock of debt will be larger, the *capacity* to service it will also rise, as the new savers will be in search of instruments to finance their new prefunded pensions. In this way, *this* rise in debt is in essence different from the kind of obligation the Treaty was mindful to avoid. Intuitively, this reform does not generate new debt. What it does is to bring into the open an obligation to future pensioners which no one seriously denies. Thus what it does is make explicit and open, an existing obligation which was previously implicit and contingent. It thus does *not* add to societal obligations, but only makes them more transparent.

The transition in Greece would also have to deal with the practical issue of the **fate of auxiliary funds and other special arrangements**. The higher generosity was in the case of independent funds was met by outside guarantees (the State or oligopolistic employers), while internal differentiation was borne by the less fortunate contributors. Currently, most privileges are typically retained through

grandfathering. The logic of recognition bonds can be adapted to approach their phased withdrawal. This idea could be adapted to deal with privileges in the new system, treating them as a 'stranded cost', adapting the idea already used by banks in Greece and Portugal (see above section 3). Privileges based on different behaviour of occupational groups (e.g. later retirement for the professions) could justify their retention even for the steady state. In this way previously privileged groups could rise to their responsibilities, while heterogeneity could be justified through appeal to general principles of equitable burden sharing.

In any case, an important point to note is that most transition problems are technically far more manageable as a result of changes that have taken place since 2010. For example, the burden of higher pensions is much reduced, while most of the parametric changes greatly ease the transition problems compared to what they would have been in 2009.

Issues to be faced: The Starting point, Savings, Idiosyncrasies, Governance

One of the lessons that aspiring reformers have learned over the years is not to underestimate problems in implementing a reform project. However, this is exactly the kind of area where economists can most help out. They can chart problems, signpost difficulties and provide guidance. In the context of the pension reform, we have singled out open questions from four problem areas.

Problem Area I: Characterising the Starting point. Three issues must be mentioned: First, *have post-MoU cuts already paved the way?* We have seen that pensions for the higher paid have already been reduced, far from their purported values (up to 50%), while retirement ages were increased further to 67. Whilst the abruptness and the lack of justification of the cuts have exerted a pernicious influence, to expect them to be restored is totally unrealistic. However, there remains the job of justifying these cuts, *albeit after the fact*. The question of how to deal with vested rights and their precise content must also be approached. What is needed is to clarify the differences in pension entitlements and contributions between the different cohorts and to deal explicitly with generational justice (Tinios 2014b). This is also equivalent to finding and defining in a convincing manner the floor beyond which pensions cannot fall. This action is the key for confidence, and may well be the factor that convinces many people to sign up to new system.

The *second* issue is to do with timing, and how that is related to the crisis. We must take on board that setting up pre-funding would follow a period of major destruction of asset values, whether these are bonds, real estate, or possibly other real assets such as small businesses. Whilst the political risk of a future government raid (as in Argentina or Hungary) cannot be ruled out, coming in at the bottom of a rising market could imply the possibility of gains. Depending on the exact timing, a pension reform generating demand by institutional investors could act as part of a virtuous circle aiding recovery.

The issue of recognition bonds could complicate matters. If those are issued during the crisis, they are likely to need to offer very high yields, so the cost to the State of issuing them could be high. This challenge, however, could be handled in a way that could promote the reform and signal the EU's commitment to the pension reform process in Greece. This could be done by taking advantage of the special nature of recognition bonds as financial vehicles embodying the switch to a new sustainable

and trustworthy pension system. Recognition bonds could be guaranteed or even issued by the EU (for instance by the European Stability Mechanism). In this way the EU would gain the right to oversee/participate in the design of the reform and monitor its implementation – a further boost to trust and confidence. This process may even make the issuance of guarantees (seen to be circumscribed in the specific task to speeding pension reform) politically more palatable for certain EU member states: For the EU as a whole, issuing of this partial guarantee would be the price for contributing to set up a sustainable pension system in conformance to repeated EU declarations about coping with ageing societies. It would thus be a win-win proposal: the problems of the Greek pension system are by now an Eurozone wide problem that will only be solved with the partners involvement (directly, via the mechanism proposed here, or indirectly via a post-MOU package).

Third, the inadequacies of data after 2010 have been mentioned. Characterising the starting point would necessitate being able to track changes since 2010 and to be very clear about the relative contribution of demographic factors, medium term reform impacts and short term crisis effects. In the latter an area to be investigated is the extent and duration of scarring left by the crisis period. Finally, sustainability of pension systems which examines how well the *moral* obligations to pensioners can be met has many points in contact with debt sustainability, which looks at how the *legal* obligation to service and repay the debt can be exercised. Both sets of claims – moral and legal – have to be met out of current production (GDP) over the next decades. The two exercises must be seen in tandem and related to general issues affecting ageing societies. For example, in addition to impacting on pensions, ageing has a major influence on health, affecting both care but also the capacity to work longer and the quality of life of the aged population. Similarly social networks and informal solidarity play key supportive roles, especially in Greece and in Southern Europe. Dealing effectively with these matters requires a multidisciplinary approach encompassing a variety of policy areas, going far beyond a simple actuarial or financial exercise.

Problem area II: Savings. Can Greece save enough? Greeks have been used to heavy doses of paternalism in pensions. Though individual provision (through life insurance) has always been available, few have taken it up. Private cover is seen as competitive to public provision (Tinios and Poupakis 2013). Therefore, relying on households' own initiative may face major obstacles. One of them is the limited ability to understand complex financial relations – i.e. the question of financial literacy. Can we 'nudge households' in the right direction? A Greek reform must factor in a number of features of the local landscape. In a country with very large number of small family businesses, the business is likely to play a key part in saving; it is more likely that someone will invest in that, rather than buy shares in a joint-stock firm. This will be helped by the fact that Greek families plan at the household level – as the prevalence of gifts *inter vivos* between parents and offspring proves. All these fields are cases where insights from behavioural economics can point to subtle changes 'nudging people along' in particular directions, sometimes in conflict with the expectations of orthodox economic theory. (Cass and Sustein 2008, Clark et al 2012).

The other side of the equation – the financial infrastructure for savings - must also be a source of concern. Is the financial sector in a position to offer the services and

products needed? In Greece annuities are almost unknown. But even across the EU (barring the UK) they are expensive and stand in the way of private savings being able to compete with public pensions on an even playing field (Geneva Association 2012). Though demand on a large scale will help the provision of services, the transition would be smoother if there are initiatives preparing the supply side to respond.

Problem Area III: Fine tuning the reform to Greek idiosyncrasies. Greece has a number of idiosyncrasies, not all of which pose problems. Indeed, some such idiosyncrasies could be used to allow a reform to bypass some bottlenecks. We saw, for instance, how pension privileges have gradually been eroded so that now they refer to a closed and shrinking population. Equally, many of the emergency measures of the crisis could smooth the way of reform initiatives by reducing the expected cost. The existence of cohesive families could also be incorporated to an extent to pension planning. The new pension system must redefine the place of the state in a hybrid welfare system which relies on the family to a far greater extent than in Western Europe. (Lyberaki and Tinios 2014). The reform may be able to be fine-tuned to take advantage of special characteristics of Greece and thus provide inventive solutions to problems. Two examples may merit investigation:

First, it is well known that Greek households, especially those over 50 years of age, have high holdings of illiquid real estate (ECB 2013, Nektarios and Georgiadis 2009), whilst maintaining very low holdings of financial and other assets. This feature could be utilised to aid and speed up the transition to the new system. It might provide a solution to the problems caused by the abruptness of entitlements for those cohorts 'caught out' by the latest reforms; it would allow 40-year olds essentially to trade real estate holdings for pension rights. Individuals rich in property but with few contributions could use a variant of 'reverse mortgages' to purchase pension rights using real estate as collateral. In this way they can transform illiquid real estate into an annuity (or perhaps even rights for long term care - as is increasingly the case in the US)⁷¹- Nektarios 2012. This proposal could conceivably set in motion an orderly run down of real estate holdings by allowing the planned and smooth transfer of real estate. This could be preferable to a housing market meltdown, which could result as ageing cohorts liquidate their holdings to pay for property taxes or to cope with retirement. (A process which, arguably, has already started). In this way pension policy could exploit synergies by helping to managing the real estate market.

Second, we saw that early retirement may have appeared to many as a short term solution in the crisis, but is only storing problems for the future, both for system viability and for pension adequacy. While the low participation rate for men and especially for women between the ages of 55-64 was a constant feature, there is evidence that matters are deteriorating. This is added to overwhelming evidence

⁷¹ The issue of illiquidity of real estate holdings is a more general concern. This can be helped most notably by changes in the legal and town planning status of properties, as well as by changes in taxation – such as reduction or abolition of transaction taxes – that severely limit the size of the real estate market.

that early retirement took off after 2010⁷². Indeed, if this is combined with a tendency on the part of immigrants to return to their countries of origin, it is possible that the recovery may stumble due to developing labour shortages. In this context initiatives aimed at boosting the labour supply potential of older workers could be assigned an important role. One could even think of an ordered ‘recall’ of early retirements as a major source of pension funding for the medium term. For example, a person under 65 who retired early could be enticed back to the labour market: in exchange for (part of) the pension being suspended, he/she could ‘recontract’ and receive a higher pension at the normal retirement age. Variants of this idea could allow part-time work on the part of recent retirees. The issue of attracting pensioners to the labour market has many points in common with the issues of designing ‘in-work benefits’ in the context of making work pay in Western Europe: many of the ideas exploited (say) in the UK or elsewhere could be applied to working pensioners. All these initiatives would reduce the pension bill in the medium term as well as offer a new source of labour when the latter may be in short supply.

Problem area IV: Governance and implementation Issues. A pension reform contains a host of measures whose implementation may not be taken for granted. For example, stating the importance of means testing is easy – it allows a kind of ‘social leverage’ by directing scarce public funds in those areas where they have greater social benefit. Establishing who will be the beneficiary, ensuring that this does not inflict undue violence to incentives, and preventing fraud are all matters that demand governance capacity. Australia and New Zealand are two countries that rely on means testing to an extent far greater than other EU countries, combined with extensive private annuities (Bateman et al 2001). It is possible that an antipodean-style discretionary system, may be more attuned to the Greek situation than the European variants and could warrant intensive study to adapt ideas to the Greek framework. Similarly any lessons learned from the pilot project of minimum guaranteed income instituted in 13 municipalities under the technical assistance of the World Bank between November 2014 and May 2015 should be invaluable – provided the experience and the problems it encountered are suitably analysed⁷³.

However, there are a host of other administrative and governance preconditions, on which the success of the reform will be intimately related: What will happen to pension fund employees? Will there be competitiveness gains on the parts of enterprises (compliance costs, transparency) and gains in labour mobility? Will insurance companies (currently severely circumscribed), be allowed a role in occupational provision? What kind of second pillar provision can cover the large SME sector⁷⁴? Simply enumerating the issues underlines the point that any reform must be carefully considered and tailored to the precise needs of the country; simply lifting a successful model from abroad will not do.

⁷² In the US, with the incentives going in the opposite direction, Coil and Levine 2009 find that on balance the recession is also favouring an exodus from the labour market.

⁷³ The pilot project followed an admonition to set up a social safety net in the first MoU. Unfortunately the budget available for ex-post evaluation of the pilot project was severely cut, while the spread of the project beyond the pilot phase is highly uncertain.

⁷⁴ That could mean a larger ‘third pillar’ such as UK-style ‘stakeholder funds, whilst allowing the self-employed to opt out of occupational funds.

7. Preparing for a new social contract

A key enigma of the track record of pensions in Greece is the ineffectiveness of repeated reform efforts. This ineffectiveness has, apparently, returned in a slightly altered form in the crisis period. A common thread running through the two periods and stressed in the preceding analysis has to do with ‘reform technology’, the political economy of pension discussions. In short, past attempts at pension reform came to nought because they failed to communicate their intentions. They convinced Greek society neither of the benefits of change, nor of the inherent dangers of inaction. As a result pension reform became hostage to path dependence and languished for a very long time. Forced reform in 2010 was conducted in such a way as to confuse the matter even further: The anxiety on the parts of proponents to distance themselves with what they were proposing in order to shift the blame on to outside forces undermined the new reform. This stance allowed what happened to pensions to be confused by some with the package of measures to aid macroeconomic stabilization and to be included by others as part of an ideological project to abolish the welfare state.

The low quality of open pension discussion may be seen to lie behind the confusion pertaining to the future course of pensions in early 2015. Public opinion is ill-informed, and appears unsure about the nature and extent of the ageing challenge to pensions, the role of advance funding, the operation of pay-as-you-go systems and other matters that affect decisions on pensions. As points of fact are raised to ideological importance, the complacency of some is contrasted by a kind of autism in others. Introspection allows blind spots to develop in areas of critical importance: Such are the relationship between the very long term and medium term viability, or the need for strategic reorientation to respond both to changes to the economy since 2008 and to the changed post-crisis international outlook.

To counter the deepening confusion and uncertainty, this report recommended an overview of the state and prospects of pensions starting from first principles. A cool appraisal of these matters should provide the basis of detailed proposals aiming at regaining trust through a systemic overhaul of the pension system – a new social contract for pensions. To succeed in this undertaking what is needed is a period of time for technical preparations away from the glare of publicity and for calm deliberations free from tight deadlines.

A thoroughgoing pension reform needs a **full information pack** to accompany discussion. This is necessary to illustrate both the benefits of reform and the drawbacks of non-reform. Such an information pack should, at a minimum, contain data derived from three *technical* exercises: (a) New sustainability and adequacy figures to incorporate the effect of the crisis on employment and factor in the impacts of reforms, including the pension reductions; (b) a detailed medium term cash flow to cover the following ten years. (c) microsimulations illustrating the distributional impact of both the ‘no reform’ and ‘post-reform’ scenarios to individuals belonging to different groups and generations. In a country like Greece, where the question of debt sustainability is central, the issues of pensions and debt cannot be considered independently.

Pensions obligations, like bond repayments, are obligations that need to be planned for in the very long term. The only difference is that the obligation to repay bonds is legal, whereas the obligation to honour pension promises is moral and is more diffuse in society. Whereas a great deal of made of debt sustainability, the equivalent issues of pension sustainability and adequacy are addressed independently and (seemingly) with a lesser urgency. Given that ageing will colour all macroeconomic developments in the coming decades, *both* need to be examined in the context of the economics of ageing. The appendix contains a proposal for an **Institute for the Economics of Ageing and for Fiscal Issues of the long term**. Such an institute will provide a focus for scientific study of the ageing process in Greece and how that relates to the economy, to growth prospects but also for planning to fulfil long term obligations, both legal and moral. It can serve the social need to conduct research and inform policy makers and public opinion to allow cool appraisal, timely identification of challenges and charting of available options. It has the potential of playing a useful role in handling technical tasks and informing public discussion.

One should not underestimate the complexity of the overall task. Other countries in similar positions had set in train deliberations which spanned the time of more than one parliamentary period – in order to insulate preparations from immediate economic, financial and political pressures; such a hiatus also allowed positions to be rethought and reformulated. The existence of an independent body, such as the one proposed, could also help. The lesson learnt from international experience is, that once a a society decides that it really needs to turn the page, then that page is turned quickly and effectively.

ADDENDUM (January 2016)

An outline of pension developments in 2015⁷⁵

The second adjustment programme was to end in December 2014, with pension changes at a critical juncture. The report documented that a key action, an evaluation of where things stood and what, if anything needed to be done, was due in November 2014, yet was never released. The new Government came in office in late January 2015, committed to renegotiate many aspects of adjustment.

Political developments. In February an extension of the programme to June was agreed. Despite attempts from all sides, that deadline passed and the programme lapsed. The most immediate impact was on the banking system: A bank closure, and extensive capital controls, were announced in late June. The period of extreme uncertainty ended with the agreement in July for a third bailout. The agreement committed the Government to legislate immediately prior actions before negotiating a three-year ESM financing programme, accompanied by a new MoU. Greece thus became the only EU country to enter a third bailout programme. The MoU was passed by the Greek Parliament with cross-party consensus. The elections of September returned the Governing party with a mandate to implement adjustment.

Pensions in the period of negotiation. The scheduled implementation of the 2010 and other laws were put on hold. This affected new pension awards from January and subsidies to avert falls in auxiliary pensions. When the Supreme Court decided that the 2012/13 pension cuts were unconstitutional, no action was taken to reverse the cuts. Certain measures were announced to take place after the period of negotiations, the most prominent being restitution of Christmas bonuses to low income pensioners. The intention was announced to restart social dialogue in the autumn of 2015, with the aim of reviewing changes legislated since 2010.

The prior actions returned to the overall pension strategy, with urgent action to put an end to early retirement. Minimum retirement ages were increased so that all separate ages would converge by 2022, to 67 years of age for a full pension and 62 years of age for an actuarially reduced or full service pension. For many people this involved steep increases in eligibility ages, affecting all who did not already have vested rights. To eliminate incentives to retire early, access to minimum pensions was limited to new retirees aged over 67. Given that 70 % of all private sector pensioners draw the minimum, this would eliminate a major incentive to retire early. As a public finance measure, pensioners' health care contributions, were increased to bring them into line with employees.

The Memorandum of Understanding. The MoU is a 29-page reform agenda containing detailed actions subject to quarterly reviews. In the preamble it stresses the need for ownership of the reform, as well as *'the need for social justice and fairness, both across and within generations'*, placing pensions and social protection

⁷⁵ The role of reforms of social policy is outlined in 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](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563468/IPOL_STU(2015)563468_EN.pdf)

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, to take place within a tight fiscal framework. First among these is “Pension reforms ... to remove exemptions and end early retirement”, followed by “to get people back to work”, and “Improve the design of the welfare system, so that there is a genuine social safety net”.

On **pensions**, consolidation is planned to lead to savings from 0.25 % of GDP in 2015, rising to 1 % in 2016. The MoU contains a detailed blueprint for reforms to be legislated by October 2015 and implemented by December 2016. These changes take action in areas that had been left aside since 2010. These include organizational change, 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 MoU also mentions a comprehensive Social Welfare Review, and a gradual nationwide rollout of guaranteed minimum income to start by April 2016. This is ultimately to include pensioners as beneficiaries. In the meantime, the existing separate safety net benefit for pensioners (EKAS) should proceed to savings affecting the 10% beneficiaries who are better off.

Crucially, the MoU mentions that the authorities can propose alternative parametric measures of equivalent effect, *‘provided they are submitted during the design phase and are quantifiable’*. Indeed, the Government is pursuing this course. The Minister of Labour made public the Greek Government’s proposals in January 2016; these proposals are currently under discussion.

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. Gov't declares 'Greece is buttressed against the crisis'.
	Oct. 2009	New PASOK government. 'Greek Statistics' episode ushers in the Greek crisis
First Programme	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.
Second Programme	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 Programme	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 <i>after</i> 2012 are unconstitutional, for being insufficiently justified.
	June 2015	The Government only has enough cash to <i>either</i> pay pensions <i>or</i> 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 3 rd adjustment programme despite referendum result.
	July 2015	Prior actions passed increasing retirement ages drastically to apply immediately and increasing pensioners' health insurance contributions.
	Aug 2015	3 rd 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 quantification. Negotiations with the institutions and with domestic bodies
	Febr 2016??	New pensions Law?
Mar 2016??	Implementation	
???	End 2018	End of 3 rd adjustment programme.

REFERENCES

- Bank of Greece, 2013 May, Monetary Policy 2012-2013 Report of the Governor
- Barr, N. and Diamond, P.A. 2010, *Pension Reform: A short Guide*, OUP
- BBC 2010 "Romania Pension Cuts Ruled Illegal", <http://www.bbc.co.uk/news/10421118>
- Becker G., 2012, The insurance industry's role in addressing longevity funding issues: opportunities and limitations, in Liedtke P.M. and K.U. Schwartz (eds), 2012, *Addressing the Challenge of Global Ageing – Funding Issues and Insurance solutions*, The Geneva Reports, Risk and Insurance Research, number 6, June 2012, Geneva.
- Boeri, T., Börsch-Supan, A., and Tabellini, G. (2005), How would you like to reform your pension system? The opinions of German and Italian citizens' in Brooks, R. and A. Razin, *Social Security Reform: Financial and Political Issues in international Perspective*, Cambridge, pp. 333-352.
- Betti, G., F. Bettio, T. Georgiadis and P.Tinios, 2015, *Unequal Ageing in Europe: Women's Independence and Pensions*, Palgrave Macmillan, NY.
- Bonoli, G. and T. Shinkawa, 2005, 'Population ageing and the logics of pension reform in Western Europe, East Asia and North America, in G.Bonoli and T.Shinkawa, *Ageing and Pension Reform Around the World. Evidence from Eleven Countries*, Cheltenham, Edward Elgar, pp1-23.
- 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. Tavlvas, *Greece's Economic Performance and Prospects*, Bank of Greece and Brookings Institution, pp.361-443
- Busch, K., C.Hermann, K.Hinrichs and T.Scholten, 2013, 'Euro Crisis, Austerity Policy and the European Social Model. How crisis policies in Southern Europe Threaten the EU's Social Dimension, Friedrich Ebert Stiftung, International Policy Analysis, Berlin.
- Clark, G.L., K.Straussa and J.Knox-Hayes, 2012, *Saving for Retirement. Intention, Context and Behaviour*, OUP< Oxford.
- Coil,C. and P.B.Levine, 2009, 'The Market Crash and Mass Layoffs: How the current Economic Crisis can affect retirement, NBER Working Paper Series 15395, National Bureau of Economic Research. Washington DC
- Commission of the European Communities, 2012 *Pension Adequacy in the European Union 2010-2050*, Report prepared jointly by the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission and the Social Protection Committee, ec.europa.eu/social/BlobServlet?docId=7805&langId=en
- Drassi 2012, *Proposal on pensions*, <http://www.drassi.gr/asfaleia-syntakseis.html>
- Economic Policy Committee (EPC), 2009, *2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-2060)*, *European Economy*, 2 [.http://ec.europa.eu/economy_finance/publications/publication14992_en.pdf](http://ec.europa.eu/economy_finance/publications/publication14992_en.pdf)
- Economic Policy Committee (EPC), 2012, *2012 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2010-2060)*, *European Economy*, 2 (http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf).
- ESCR case law database, 2010, Latvian "Case No. 2009-43-01 On Compliance of the First Part of Section 3 of State Pensions.." in ESCR net 2014 <http://www.escr-net.org/docs/i/1285934>
- European Central Bank – 2013 The Eurosystem Household Finance and Consumption Survey: Results from the first wave, Statistics Paper Series, 2, April 2013
- Featherstone, K. And D. Papadimitriou, 2008, *The limits of Europeanisation: Reform Capacity and Public Policy in Greece*, Palgrave Studies in European Union Politics, Palgrave Macmillan, Basingstoke

Featherstone, K., Kazamias, G. and Papadimitriou, D. (2001) 'The limits of External Empowerment: EMU, Technocracy and the Reform of the Greek Pension System', *Political Studies*, 49, 3, 462-480

Fernandez-Villaverde, J, L.Garicano and T.Santos, 2013, 'Political credit cycles: the case of the Eurozone', mimeo, NBER, pp1-43

Holzmann R.and E.Palmer (eds) 2006 Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) schemes, The World Bank, Washington DC

International Monetary Fund (IMF), 2010, *Greece: Staff Report on Request for Stand-By Arrangement*, IMF Country Report No. 10/110, Washington,DC.,

Joint Report on Pension, 2003, Adequate and sustainable pensions, European Commission.

International Monetary Fund (IMF) 2013, Greece: Ex post evaluation of Exceptional Access under the 2010 Stand-by Arrangement, IMF Country Report 13/186, June 2013.

Katroungalos,G. and C.Morfakidis, 2011, Law in Books and Law in Action: Uncertainty in the implementation of Social Insurance Law after the pension reform of 2010-2011, *Epitheorisis Dikaiou Koinonikis Asfaliseos* (EDKA), 9/628, pp657-671.

Lyberaki, A. Tinios, P and Th. Georgiadis, 2010, "Multidimensional Poverty in Greece: A deep, persistent grey?", *South Eastern European Journal of Economics.* , 8, 1: 87-110

Lyberaki, A. Tinios, P, 2012, Labour and pensions in the Greek crisis: The Microfoundations of Disaster, *Südosteuropa. Zeitschrift für Politik und Gesellschaft*, (60) 3 , pp 363-386.

Lyberaki A. Tinios, P., 2014 "The Informal welfare State and the family: Invisible actors in the Greek drama", *Political Studies Review*, 2014 VOL 12, 193–208.

Mackenzie, G.A, 2010, *The Decline of the traditional pension. A comparative study of threats to retirement security*, Cambridge, CUP.

Matsaganis, M, 2011, *Social Policy in hard times. Financial Crisis, fiscal austerity and social protection*, Kritiki, Athens.

Ministry of Labour, 2013 *Unified system of Control and Payment of Pensions 'Helios'*, http://www.idika.gr/files/4th_ekthesi_HLIOS_SEPTEMBER.pdf

Mitchell, O.S. and S.P.Zeldes, , 1996, "Social Security Privatization: A Structure for Analysis". *American Economic Review*, vol86, 2, pp 363-367

Mitrakos and Tsakoglou 2012 "Inequality, poverty and material well-being: From 1974 to the current crisis, in Bank of Greece, *Social Policy and Social Cohesion in Greece under conditions of economic crisis*. Bank of Greece, pp 173-215 (in Greek).

Nektarios, M., 2012, 'Greece: The NDC paradigm as a Framework for a Sustainable Pension system, στο R.Holzmann, E.Palmer and D.Robalino (eds), *Non-Financial Defined Contribution Pension Schemens in a Changing Pension World, Volume 1: Progress, Lessons and Implementation*, Washington DC, World Bank pp 259-277.

Nektarios, M. 2008, *Pension reform with consensus and transparency*, Papazisis, Athen

OECD 1988, *Reforming Public Pensions*, OECD Social policy studies no. 5, Paris

OECD 2011, *Economic Surveys: Greece;*, Paris.

Panageas, S. and Tinios P., 2016, Pensions: Arresting a race to the bottom, in C.Meghir, C.Pissarides, D.Vayanos and D.Vettas, (eds *Reforming the Greek Economy*, MIT press

Parliament, 2010, Law 3863, preamble, www.parliament.gr

Pelagidis, Th and M.Mitsopoulos, 2014, *Greece: From exit to Recovery?*, The Brookings Institution Press, Washington DC.

Petroglou A, 2012, 'Pension cuts from 1.8.2010 to 1.6.2012', *Epitheorisis Dikaikou Koinonikis Asfaliseos*, 2/633, σελ 239-245

- Petroglou, A. 2012b, 'The constitutionality of pension cuts in periods of financial crisis, according to the Council of State and the Portuguese Constitutional court', *Epitheorisis Dikaiou Koinonikis Asfaliseos* (EDKA), 6/637, pp 900-907.
- Pierson, P. 2000, "Increasing Returns, Path Dependence, and the Study of Politics", *The American Political Science Review*, Vol. 94, No. 2 (Jun., 2000), pp. 251-267.
- Samuelson, P.A., 1958, "An exact Consumption-Loan Model of Interest with or Without the Social Contrivance of Money", *Journal of Political Economy*, vol 66, pp 467-82.
- Social Dialogue Committee, 'The Dialogue Reports', in INE-GSEE, *The proposals of the Social Dialogue on Social Insurance, Ta Tetradia tou INE*, March 1998, pp 65-149.
- Spraos Committee (Committee for the Examination Economic Policy in the long term), 1997. *Economy and Pensions: A contribution to the social dialogue*, National Bank of Greece, Athens
- Stergiou A and Th. Sakellariopoulos (eds) 2011, *The Pension Reform: Findings, Proposals, Articles*, Dionikos, Athens
- Sunstein, C.R. and R.H. Thaler 2008, *Nudge: Improving Decisions about Health, Wealth, and Happiness*, Yale University Press
- Tinios, P. and S. Poupakis, 2013, "Knowledge is power": Public attitudes and the stalling of pension reform in Greece, *Journal of Population Ageing*
- Tinios, P., 2005. "Pension Reform in Greece: 'Reform by Instalments' – A blocked process?," *West European Politics*, Vol 28, pp 402-409,
- Tinios, P., 2010. *The pension problem: A method to decipher*, Kritiki, Athens. (in Greek)
- Tinios, P., 2011, Accounting Standards as Catalysts for Pension Reform: Greek Pensions and the Public/Private Boundary, *Journal of European Social policy*, Volume 21 Issue 2, May 2011, pp164-177
- Tinios, P., 2012b '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., 2012c, The Lisbon Agenda and its value added for Pension reform, in P. Copeland and D.Papadimitriou (eds) *Ten years of the Lisbon Agenda*, (provisional title) forthcoming, Palgrave Macmillan.
- Tinios, P., 2013, *Pensions and the economy after the Memorandum of Understanding: towards a strategy spreading risk*, ELIAMEP Crisis observatory Research Publication,1, ELIAMEP, http://crisisobs.gr/wp-content/uploads/2013/03/Ερευνητικό-Κείμενο_1_Π.Τήνιος2.pdf
- Tinios, P 2014, Social Insurance and competitiveness: a neglected link in M.Massourakis (ed), *Union of Greek Banks*, pp139-153
- Tinios, P. 2015 (forthcoming) "Off-the-Shelf Reforms" and their blind spots: Pensions in post-memorandum Greece", in R.Gerodimos and G.Karyotis (eds) 2015, *The Politics of Extreme Austerity: Greece beyond the crisis*, Palgrave.
- Tompson, W. with R.Price, 2009, *The Political Economy of Reform: Lessons from pensions, product markets and Labour Markets in ten OECD Countries*, OECD, Paris
- Triantafyllou, P., 2006, "Greece: Political competition in a majoritarian system", in Immergut, E.M., Anderson, K.M. and Schulze (eds) *The Handbook of West European Pension Politics*, Oxford, pp 97-149
- Zampelis, P, 1998, *For a New Model of Social Insurance*, Athens
- Zampelis, P. 2013, The new calculation of Auxiliary pensions of ETEA and separation payments of provident funds, *Epitheorisis Dikaiou Koinonikon Asfaliseon*, 2013

APPENDIX 1: Proposal for a research body

Institute on the Economics of Ageing and Fiscal Issues of the long term

General Idea: Set up an independent Institute for research on the economics of long term contingent fiscal claims as a complement and monitoring mechanism for long term National debt sustainability. This institute can monitor policy developments in the fields of pensions, long term care, insurance, health care, education and gender; it can update projections and study sample surveys; it can produce position papers on policy alternatives; it can survey good practice; it can provide policy advice and technical assistance on particular matters; it can serve as a conduit for the utilization of technical assistance.

The issues to be resolved

Debt sustainability for Greece is an issue to be discussed intensively in the last six months of 2014 and on. The discussion does not bring into the picture the existence of large contingent claims on the public sector in the long term. These are chiefly pensions, though health care, long term care, social assistance also play a part; education and active labour market policies also enter less directly. These categories of expenditure, as currently organized, feed directly into the dynamics of primary expenditure. They are to a large extent driven by ageing, but are also potentially susceptible to policy-driven changes.

Demography. Ageing in Greece is likely to accelerate in the middle of this decade. This is the result of a combination of a later baby boom together with a drastic fall in fertility in the early 1980s. The shortfall was largely made up by immigration from the Balkans and Eastern Europe in the 1990s and 2000s; this compensation can no longer be counted on. Emigration since the crisis makes matters worse. Thus demography is likely to play a more important role in the economy, which currently is insufficiently understood.

Assessing the impact of ageing on economy and society. At the moment discussion in Greece proceeds as if pensions were the single impact of an ageing society. However, ageing is a multidimensional challenge that affects production, society and health care, where each aspects feeds into the overall picture. Keeping abreast of scientific developments in the multidisciplinary study of ageing has the potential of identifying problems and pinpointing solutions tailored to the specificities and idiosyncrasies of Greece.

Policy advice – counteracting fragmentation. The Greek social protection system remains heavily fragmented; no part of the system has the width of responsibility, or the capacity to proceed on system-wide planning. Strategic thinking placing all the parts of the jigsaw together cannot easily find a venue. Such policy advice should combine research on sustainability with that on the quality of life, aspects which now are treated separately.

The paucity of policy formation and discussion. Ministries are concerned with managing day-to-day developments and feel besieged by short term media pressure. As a result they are not the ideal places, in which to consider long term challenges and prepare reactions to them. The media spotlight is such that, once a problem is acknowledged, its solution is demanded immediately. In such a situation it is best not to acknowledge issues in order to avoid media attention. From there to a

situation of never being adequately prepared is a very short route. What is needed, is a locus for investigating ideas and policy alternatives 'as a matter of course' without needing to censor thinking.

Monitoring of developments. Greece has one of the least transparent and idiosyncratic social protection systems; it is also the system that has been tried most sorely by the financial crisis – most notably the pensioner population who have seen their pensions cut 10 times since 2010. However, it also seems to be unaware of the need to know what is going on. Whilst being a member of the Survey of Health Ageing and Retirement in Europe (SHARE) of people over 50 since its start in 2004, Greece was (for bureaucratic and not financial) reasons unable to participate in SHARE w4 (2011) and w5 (2013). It will participate in SHARE w6 (2015), using finance from the structural funds plus a grant from DG EMPL⁷⁶. Financing for subsequent waves remains uncertain.

Public awareness and debate. Very little public debate takes place. As a result the public appears unaware of major societal challenges ahead as well as the alternatives for meeting them. Reform takes place in fits and starts and is most often justified as due to pressure from outside. A striking example is pensions, where even though the general outlines of the 2010 reform have been known since the 1950s, it was still presented as an outside imposition, the competent minister stating that he '*had to act against his conscience*' in reforming pensions.

A lever for the EU and the member states to reintegrate Greece into the European mainstream. The rescue of Greece since 2010 is possibly the single largest joint solidarity endeavour for the EU and each member state taken singly. At the same time, there is widespread recognition that the depth and length of the crisis could partly be blamed on problems of the European institutional architecture. Consequently, the success of the overall enterprise is seen as a test for European resolve and institutions. There exists a great deal of good will and willingness to help Greece out of its troubles by facilitating reforms that will allow it to re-enter the European mainstream. The rationale of the Task Force for Greece is born from this recognition.

This good will is often frustrated by the non-existence of institutional counterparts that can take advice and technical assistance and translate them into implementable proposals.

Greece as a test case. The field of ageing, is a major European long term fiscal challenge. Greece can be seen increasingly as one of the first victims of the fiscal issues accompanying ageing: pre-existing debt only makes ageing-related developments more difficult to resolve. Many of the future adequacy and sustainability dilemmas are being faced in Greece as pressing current issues. Thus, the way things resolve in Greece will probably have much to teach other member states which will be facing ageing related pressures in the future.

⁷⁶ For SHARE see www.share-project.org. SHARE is now run by an European Research Infrastructure Consortium (ERIC) based in the Netherlands.

The proposal

Investigate setting up a **small institute independent of Government and of the social partners** to concentrate on the economics of ageing and long term public finance challenges. It will not only serve as an observatory and a locus for scientific research but also as a mechanism producing policy analysis and advice. The institute will house economists, statisticians, social scientists, political scientists, and lawyers.

Activities

- Monitor developments in the fields of pension viability, adequacy, old age poverty
- Conduct independent scientific research on ageing the economy and society.
- Produce a report every two years.
- Produce a newsletter covering developments worldwide.
- Produce position papers for economic policy in the medium term.
- Repository of proposals
- Supervise the collection and regular analysis of SHARE data
- Liaise with other equivalent institutions, research bodies and universities
- Organise and implement technical assistance.
- Organise conferences and workshops on relevant issues.

Fields

- Ageing trends and developments
- Economics of ageing
- Pensions – public, occupational, private. Asset management.
- Sociology of family solidarity.
- Economics of health care
- Insurance Economics.
- Survey management and econometrics (SHARE and possibly other surveys)

Finance⁷⁷

- Greek official sources: Government and Bank of Greece (+ consolidation of funds from other bodies⁷⁸)
- Structural funds
- Research grants (EU, international and member states)
- Private research grants for individual projects (e.g. insurance industry, banks)
- Contributions and exchanges with equivalent bodies that exist out of Greece

Legal status – to be investigated. Options include:

- University Research Institute. An existing body (such as the Panteion University Institute for Human Resources) could be adapted for use by changes to its constitution. This could save time and effort.

⁷⁷ The size of the operation influences the finance to be needed. The minimum feasible size could be relatively modest, allowing gradual introduction.

⁷⁸ For instance, SHARE w6 is being financed by structural funds and is being run by Panteion University in cooperation with SHARE-ERIC. Other such research functions could be assigned to the new institute.

- Status similar to Foreign Archaeological schools?
- Subsidiary of existing European body?
- Bank of Greece?? (possibly in association with the ECB)

(note: there have been a number of attempts in the past that have foundered on this issue. E.g. setting up of a government funded institute for social security in the mid-90s which was exclusively focused on legal matters, and had to be closed down three years later, with almost nothing to show for its operation. Institutes linked to the social partners operate as extensions of negotiating strategies. Outside supervision/funding is essential to retain the original objectives).

Precedents:

The closest precedent to be cited is the **Munich Centre for the Economics of Ageing**. <http://www.mea.mpsoc.mpg.de/index.php?id=213&L=2>. It was set up initially as part of Mannheim University and is now part of the Max Planck Institute. Its mission statement:

“MEA, the Munich Center for the Economics of Aging, was founded to help evaluate, anticipate and accompany the micro- and macroeconomic aspects of demographic change. The aim of MEA is to develop and administer empirical models that predict these developments. These models base on German, European and global data. In addition to predicting future developments, these models shall be also used to analyze policy measures that affect these developments. From this, MEA shall be able to derive sound empirical advice for economic and social policy. The work of MEA is addressed towards decision-makers in politics and business and shall provide information of public interest.”

The forerunner of such institutes could be held to be the National Institute of Aging in the US. <http://www.nia.nih.gov> , set up in 1974. In contrast with MEA, the NIA also covers medical and biological aspects. Social science is covered by the Division of Behavioural and Social Research. A number of US research bodies are involved with the economics of ageing, e.g. the RAND Institute (<http://www.rand.org/topics/population-and-aging.html>).

APPENDIX 2 The Question of public information

General note. Part of the problems to be overcome in social insurance is that of unavailable information. A scientific evaluation of the prospect of pensions will be of far greater use if it uses all available information.

In Greece according to press and other reports certain bodies of administrative data and official reports exist, which are *not* in the public domain. What follows is an incomplete listing of data and reports access to which would have undoubtedly improved the conclusions reached.

1. Official reports prepared by the Greek Authorities. A number of reports have reportedly been prepared by the authorities. Parts have been leaked to the press. Most notably they include: (a) the **KEPE report** on reforms of the pension system due to be submitted in November 2014. (b) the report prepared by consultants and given to the **Bank of Greece on occupational pensions** (c) Actuarial studies and other work on pension sustainability prepared by the **National Actuarial Authority**⁷⁹. (d) Investigation and other reports on **Heavy and Arduous Occupations, Disability pensions, Fraud, codification of legislation** are often mentioned in the press, yet no open information exists.

2. Information submitted to EU bodies in the context of the EU Open Method of Coordination is only available when these reports are finally published. In particular:

- **EPC Ageing Working Group.** Expenditure projections submitted to the **2009, 2012 and 2015 rounds of Ageing Working Group** projections by the Actuarial authority and published by the EU. The published data are national averages, whereas the projections are based on separate projection *by pension fund* (IKA, Civil servants, OAEE, OGA,) and by type of protection (primary, auxiliary, separation funds).
- **Social Protection Committee.** Information submitted in the preparation of the 2009, 2012 and 2015 pension adequacy report, (e.g. most importantly synthetic replacement rates for the new post 2010 pension system).

3. Time series Aggregate information on the pension system, allowing time series to be completed for the period after 2009. The book Platon Tinios (2010): *The pension problem: A method to decipher*, Kritiki publishers (Ασφαλιστικό: μια μέθοδος ανάγνωσης), contained time series on total pensions (by type of pension), total insurance contributions, total government grants etc for the totality of the pension system. This aggregated information from the Social Budget (from 1970-), adding some individual pension funds, civil service and military pensions and funds supervised by ministries other than Labour. Given the Social budget has apparently been discontinued, it is not possible to update time series after 2010. In cases where total pensions are mentioned (as in OECD) publications, it is not possible to verify the coverage of the data. **What is required is the possibility to build a consistent time series covering the years 2007-2015.** Data from the **Helios system** could be used, provided its coverage and definitions are made clear and an annual time series is

⁷⁹ These reports often use data which is not available in the public domain, such as insurance fund data, distributions etc.

cleaned and produced. Budgets, both planned and executed, of all social insurance bodies are indispensable to see how ageing is affecting the economy.

4. Times series data on arrears and budget data. An important issue is the extent to which social insurance income is collected. It is seldom clear whether aggregate data is on a cash or accruals basis. On a similar basis, according to press reports social insurance arrears are mounting up, yet no information documenting this is available.

5. Distributional information *from the pension system*. Age, gender and size distribution of pensions (for new pensioners and the stock of pensions) used to be published for IKA, but for other funds. Even the IKA publication ceases in 2008, To see what is happening to pensions, it is important to track size of pensions and the distribution of pension ages through the period of the crisis.