Greek Pension Reforms: The Struggle to Build a Sustainable Bridge to Retirement

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Introduction

Just before the Rio–Antirrio Bridge on the road from Delphi to Nafplio, a picturesque coastal town on the hills that rise above the Argolic Gulf in southern Greece, stands a small bakery stocked with a variety of pastries dripping with honey. As delightful as the desserts are, it seems unlikely that the pastry chefs who make them have so dangerous a job as to justify retirement with full pension benefits at age 50 (USA Today, 2010). Yet before the 2010 Greek pension reforms, pastry chefs, along with radio announcers, hair stylists, supermarket cashiers—and more than half a million other people who worked in any one of 580 professions—qualified for early retirement because their careers were deemed hazardous and arduous (Ferliel, 2009).

Greece’s public pension system has come to be defined by such oddities and extravagance. In this paper I provide a historical overview of the Greek pension system, beginning with an outline of some of its central features, followed by an analysis of the foremost problems that have plagued the system. I then go on to describe the various attempts that have been made to solve these problems, and end by briefly discussing the challenges that Greece is likely to face in the future.

Overview of the Greek Pension System

The Greek pension system is difficult to describe for two reasons. First, Greece’s governance structure remains underdeveloped. Laws are passed but not implemented, and misleading information is distributed.\(^1\) Second, the Greek pension system has been a patchwork

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\(^1\) Modifying the budget numbers to secure entry into the European Union (Eurostat, 2004, p. 4) is not the first time that the Greek government has distributed inaccurate information. In 1975, the government did something similar in an attempt to influence inflation expectations (OECD, 1975, p. 28).
of schemes through most of the post-War era. The difficulties this arrangement introduces are further expanded upon in the section on Pension Fragmentation below. The summary statistics provided here conceal the true complexity of Greece’s pension system.

There are three categories of pensions in Greece: (1) the mandatory primary pension, which is the most important and makes up the majority of a standard retiree’s pension income; (2) the mandatory supplementary pension,\(^2\) which offers smaller payments to retirees and, established in the 1980s, is more recent than the primary pension (International Monetary Fund, 2006, p. 47);\(^3\) and (3) the private pensions, which are not as common as the first two, enrolling fewer than 1 percent of Greeks in 2008 (OECD, 2009, p. 202).\(^4\)

Primary pensions, established in the 1930s, are earnings-related, defined-benefit plans. Ιδρυση Κοινωνικών Ασφαλίσεων (Institute of Social Insurance—IKA) was originally the private sector pension fund, although it has since grown to become the government’s benchmark pension fund.\(^5\) In 2006 it enrolled 57 percent of insured workers and paid pensions to 51 percent of Greek pensioners (OECD, 2007, p. 68).\(^6\)

The majority of private sector Greek employees retire on the minimum pension,\(^7\) which is available to all and can be drawn after 15 years of contributions. The minimum pension entitlement is independent of contributions, and in 2007 the minimum monthly payment for a standard employee in the private sector was 70 percent of minimum wage (OECD, 2007, p. 73). In 2008 the absolute value of the minimum pension was €486.02 per month (OECD, 2011, p. 238). Before the 2010 reforms, monthly pension included a total of 14 payments, one for every month of the year and two additional holiday bonuses. The formula for the minority of Greeks who did not retire on the minimum pension was based on the average of the employee’s monthly salary over the five years prior to retirement. This average was multiplied by 2 percent for every year of employee contribution up to 35 years. The maximum monthly pension was four times the GNP per capita, which was €2,719 in 2008 (OECD, 2011, p. 237).

The pension system draws on funds that are almost all in deficit and thus effectively functions on a pay-as-you-go basis. The few that are not in deficit are subject to strict guidelines controlling the investment of their assets. Pension contributions from current workers are needed to pay the pension benefits of current retired recipients. Both employees and employers are required to contribute a percentage of employees’ gross earnings,\(^8\) with the government making up the shortfall between pension contributions and pension expenditures. Together, these contributions equaled 8.5 percent of Greece’s GDP in 2008 (European Commission; Economic Policy Committee, 2009, p. 37). Total pension expenditure in 2007 was 11.7 percent of GDP (European Commission; Economic Policy Committee, 2009, p. 34).

### Problems with the Pension System

In recent decades, Greek pension authorities have struggled to cope with three somewhat contradictory issues. The first is pension fragmentation, the second is high pension expenditure, and the third is pension inadequacy. Each of Greece’s numerous attempts at pension reform can be understood as efforts to deal with one or more of these concerns. In order to understand these efforts, an adequate understanding of the three problems is important.

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\(^2\)Sometimes referred to as the auxiliary or secondary pension system.

\(^3\)Due to the lack of reliable information, the complexity, and the fragmented nature of the supplementary pensions, very little is said about supplementary pensions in this paper.

\(^4\)These are not discussed because of their relative unimportance in the broader Greek pension system.

\(^5\)It is the pension fund that, over the course of various reforms, the government has tried to get other pension funds to resemble more closely.

\(^6\)The rest of Greece’s pensioners were covered by a patchwork of other pension institutions.

\(^7\)63 percent in 2006 (International Monetary Fund, 2006, p. 64).

\(^8\)In 2007, the standard contribution rate for employees was 6.7 percent of their salary while employers contributed 13.3 percent (OECD, 2007, p. 73).
Pension Fragmentation

There are three main dimensions along which the Greek pension system has fragmented (Ministry of Economy and Finance; Ministry of Labour and Social Security, 2002, p. 8). The first is by occupational sector. Historically in Greece there has never been a unified public pension system that covers all individuals. Instead, the Greek system developed through the efforts of separate professional groups to create occupational-based pension schemes supported by the government. Even as late as 1997 there were 28 primary pension funds and over 200 supplementary pension funds (OECD, 1997, p. 67). The relationship between the pension funds and the government has been murky. While the pension funds resemble private occupation-based schemes, they have been administered by legal bodies of public law (General Secretariat of Social Security, 2002, p. 9) and have been regulated and monitored by different government ministries. The responsibility for overseeing the pension funds has itself been fragmented across various government agencies. Nine different government institutions were responsible for overseeing the 174 Social Insurance Funds that existed in 2004 (International Monetary Fund, 2006, p. 47). For most of their history, the pension funds have carried the implicit backing of the government and have periodically received cash infusions from the central budget. Despite governmental oversight, each has had its own administrative structure.

The second source of fragmentation is by type of social protection. Prior to the reforms of 2010, pension funds were embedded within wider social insurance funds. Each of these social insurance funds offered different levels of protection. In addition to offering pensions, some of the funds included a healthcare component, while others provided survivor’s benefits, and yet others awarded lump-sum payments upon retirement.

The third type of fragmentation groups pensioners by the dates they joined the workforce. In an effort to be politically acceptable, reforms have typically been staggered so that they apply only to workers who joined after a certain year. This arrangement mitigates opposition from those who entered the workforce before the cutoff date. As a result, even demographically similar employees in the same industry might have different pension benefits, depending on when they joined the workforce.10

Pension Expenditure

For over 28 years international organizations have been warning Greece that its expenditure on pensions is too high (OECD, 1983, p. 49). In 2007 the European Commission reported that Greece’s pension expenditure, at 11.5 percent of GDP, was the fourth highest among the EU-27 and was projected by 2060 to approach 25 percent of GDP—by far the highest projected estimate among the EU-27 (European Commission; Economic Policy Committee, 2009, p. 34). The bulk of the rapid expansion of pension expenditure, as a percent of GDP, occurred between 1960 and 1985. There are three main reasons for these increases.

First, the relative value of pension benefits to average income across Greece fell precipitously. Between 1973 and 1985, inflation averaged 18.6 percent per year (Hellenic Statisti-

They included the Ministry of Defense, the Ministry of Agriculture, and the Hellenic Parliament, among others.

An example of this fragmentation demonstrates the complexity of the system. In 1991, those employed in the public sector had a different pension benefit calculation depending on their gender, their marital status, whether or not they had children, whether or not they were classified as civil servants, and whether they joined the workforce before or after 1983. Differences in any of these characteristics could have significant impacts on contributions and benefit calculations (OECD, 1991, p. 96). This is one instance of fragmentation in one particular sector of the economy at one point in time. When aggregated across the multitude of schemes and instances of pension reforms, it becomes clear that the scope of the fragmentation is extreme. At one point, IKA, the largest of the various pension funds in Greece, reported having 800 distinct pension formulas (OECD, 2011, p. 95).

Pension expenditure is defined as: “pensions and equivalent cash benefits granted for a long period (over one year) for old-age, early retirement, disability, survivors (widows and orphans) and other specific purposes which should be considered as equivalents or substitutes for above-mentioned types of pensions.” The entire 247 word definition, which includes clarifications and exceptions, can be found in the References (European Commission, 2011, p. 157).

18.9 percent according to the OECD (OECD, 2012).
cal Authority, 2012), yet pension benefits were not indexed to inflation. The government substantially increased the number of direct financial injections into the Social Security Funds (OECD, 1975, p. 49) and increased pensions several times over the years to help restore their purchasing power. Second, in 1962 the government expanded pension coverage to farmers. Over the decades the benefit paid out to farmers was increased substantially (OECD, 1997, p. 75). While the pension itself was low, the large proportion of farmers in the population caused the government’s pension bill to increase rapidly. Third, low eligibility requirements meant that the number of pension payments began to exceed the number of people over age 65, as individuals were eligible to draw upon multiple pensions due to the fragmentation of the system. The government lowered eligibility requirements because, in the 1970s, increasing numbers of farmers went to work in the cities. Pensions were not portable across professions, however, which meant that accumulated pension rights were lost as urbanization increased (OECD, 1997, p. 80). At the same time, the government also wanted to encourage mobility during periodic labor shortages (OECD, 1976, p. 41). The government dealt with these problems by easing restrictions on pension qualification.

Pension Inadequacy

Despite the high expenditure on pensions, Greeks widely regard pension income as meager and inadequate. Statistics support this view with Eurostat estimating that 21.3 percent of those over 65 are at risk of poverty—substantially higher than the 15.9 percent average seen in the EU-27 (European Commission, 2012). There are two main reasons for this paradoxical outcome.

The first and most important reason is that, while the pension benefits relative to pension contributions are high, the absolute values of the individual pension payments are low. This situation is especially true for the minimum pension. The high benefit-to-contribution ratio means that the majority of Greeks retire on the minimum pension. Greeks contribute just enough to their pension schemes to qualify for the minimum pension and then evade subsequent contributions (International Monetary Fund, 2010, p. 40). While the rate of return on the minimum pension is high, which makes it attractive, the pension itself is low.

The second reason for high pension expenditure and low levels of pension benefits is that Greeks collect pensions for a large number of years. While the official retirement age is 65, in 2007 men and women exited the labor force at ages 61.6 and 60.5, respectively (European Commission; Economic Policy Committee, 2009, p. 76). This is because, even until 2010, it was possible to retire with full benefits at the age of 57 (OECD, 2011, p. 21). However, at age 57, Greeks are expected to live another 24 years, highest in the OECD after Turkey (OECD, 2011, p. 29). On average, therefore, Greeks start collecting pensions at an earlier age than people in most other developed countries, and collect them longer as well. While the absolute value of each individual pension is low, aggregated across the entire lifespan of the pensioner, the total pension benefits are unsustainably high.

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12A category of workers that, in 1981, made up close to 31 percent of the employed labor force (The World Bank, 2012).
13There are two speculative factors that might also have contributed to the government’s decision to increase expenditure on pensions: First, despite rapid increases in welfare spending (including, in addition to pension expenditure, health care and survivor benefits), even as late as 1982 the OECD estimated that overall welfare spending was a smaller proportion of GDP in Greece than the OECD average (OECD, 1982, p. 45). This discrepancy may have led the government to believe that pension benefits could be safely expanded, although the government had also been aware that, while overall welfare spending as a proportion of GDP was low, pension expenditure as a proportion of GDP was well above the OECD average (OECD, 1993). Second, in the 25 years before the 1980s, Greece’s GNP growth was second only to Japan within the OECD (OECD, 1992). The Greek government might have grown accustomed to such high rates of growth and might have expected them to continue indefinitely. Such an expectation might have led the government to commit to higher pension outlays because the costs of such promises are not realized until several decades into the future.
15Defined as those with an income less than 60 percent of the national median.
16Sixty-three percent of pensioners covered by IKA drew the minimum pension in 2006 (International Monetary Fund, 2006, p. 64).
17€486.02 in 2008 (OECD, 2011, p. 238).
18The OECD average is 18.5.
Some analysts, however, have disputed the notion that pensions are really as inadequate as is widely believed and the poverty numbers suggest. Specifically, these analysts argue that, while the value of an individual pension might be low, a pensioner is likely to be eligible for multiple pensions. The payment from each may be small, but, summed across pension accounts, pension income is not as low as headline numbers would suggest (Pelagidis and Mitsopoulos, 2011). Critics of the notion that Greek pensions are inadequate make two further arguments. The first is that, because so much of Greece’s commercial activity goes unreported as part of the underground economy, pensioners likely have other sources of income (Tavlas, Garganas, and Bryant, 2002). The second is that family solidarity is prevalent, with a high proportion of older Greeks living in extended families, and thus sharing expenses. Yet the possibility that pensions are not as inadequate as they first appear remains an academic debate that is neither widely known nor resolved.

Pension Reforms

Starting in 1990, there have been six distinct attempts to reform the pension system. Each of these reform efforts has targeted different problems of the pension system and has varied considerably in both scope and effectiveness. They are examined here in chronological order.

1990–1992 Reforms

The first set of reforms addressed the problem of high pension expenditure and would be the most successful reform effort in the ensuing 18 years. By 1990 the Greek government grew alarmed at pension expenditure, which stood at 15 percent of GDP and 50 percent above the OECD average (OECD, 1993, p. 45), and decided to pursue a two-stage pension reform strategy. Moderate reforms were passed in 1990, followed by a deeper overhaul of the pension system in 1992. These reforms are often considered jointly as the 1990–1992 reforms. Implementation was to be staggered over many years, some measures as late as 2007 (OECD, 1993, p. 46). Three main categories of employees were created: those hired before 1987, those hired between 1987 and 1992, and those hired after the bill passed in 1992. The reforms emphasized raising revenues over cutting benefits, even though it had long been known that Greek social security contribution rates were already high and that the proper balance must be achieved through benefit reduction (OECD, 1983, p. 49).

Efforts were made to limit the number of payments that pensioners received. In the private sector, workers were required to contribute to their pension schemes for 15 years in order to qualify for the minimum pension upon retirement. In the public sector, it was raised to 25 years for almost all employees. The minimum retirement age for those hired after 1983 was raised from age 43 to 60 for men, and from 33 to 58 for women.

Other rules were changed to make pensions less generous. Pension contribution rates were increased across both public and private sectors. The government expanded its contributions to workers’ pension schemes. The standard used to calculate private sector employees’ pension benefits was extended from the average of the final two years of salary preceding retirement to the final five, indexed for inflation. Private sector pensions were also indexed so that their real value fell over time. The replacement rates—the pension benefit as a percentage of income upon retirement—for

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19In 2002, the Greek Ministry of Economy and Finance reported that only around 3 percent of older Greeks live in homes for the elderly or other similar institutions (Ministry of Economy and Finance; Ministry of Labour and Social Security, 2002, p. 13).

20Both the Greek people (OECD, 1998) and the Greek government reject it (Ministry of Economy and Finance; Ministry of Labour and Social Security, 2002, pp. 13–22).

21There were two exceptions. Women with children who were hired before 1983 required just 15 years of contributions to earn the right to a pension. Women who were hired after 1983 and had three children were entitled to a pension after 20 years of contributions.

22Civil servants, for example, had to pay pension contributions for the first time.

23This reduction was achieved by indexing private sector pensions to the pensions of civil servants. The government made cost-of-living adjustments to civil servant pensions based on how it wanted to influence inflation expectations. This generally meant that civil servant pensions rose more slowly than the rate of inflation, causing the real value of civil servant pensions—and any pensions indexed to them—to fall.
primary pensions were capped at 80 percent of pre-retirement income. The replacement rates for supplementary pensions were to be capped at 20 percent. The maximum pension for public and private sector employees was set at 300,000 Drachma per month (OECD, 1993, p. 99). This limit was to be raised in line with the average increase in civil servant pensions, and a progressive tax was placed on high pensions.

The proportion of retirees on the invalidity pension had increased to 26 percent by 1991, causing the government to press for reforms, so qualifications were retroactively tightened. The government committed to reassessing all individuals on invalidity pensions within two years of the passage of the reform bill. Verification criteria were changed, and those who were drawing multiple pensions were now required to make all pension contributions without employer or government support for pensions supplementary to their primary pensions.

The reforms had several positive impacts. Contributions rose by 1.5 percent of GDP after the reform. The share of those on invalidity pensions fell to 15 percent. But there were negative impacts as well. In anticipation of the reforms, a record number of employees retired in 1990 to take advantage of existing pension regulations (OECD, 1991, p. 43). The increased contributions caused Greece to have among the highest non-wage labor costs in the OECD (OECD, 1997, p. 85). Furthermore, the real values of private sector pensions declined by 20 percent, causing the government to intervene and index minimum pensions to the CPI as well as begin providing a means-tested supplement for low-income pensioners (OECD, 1997, p. 128).

Overall, while the reforms were moderately successful, they had come too late and were unable to ensure the future viability of the pension system (OECD, 1997, p. 11). Moreover, the government subsequently suspended some of the reform measures. For these and other reasons, further reforms would again be necessary in the years to come.

1998 Reforms

In 1998 the government announced plans to reform the pension system with the aim of reducing fragmentation. As a result, expenditure on pensions rose. The government announced its initial 1998 reform as the first part of a two-stage pension reform process. The initial, smaller reform was to pass first, and then a larger, more sweeping reform was to be proposed at some unspecified point in the future (OECD, 1998, p. 78).

The initial reform was composed of several measures. The government suspended indefinitely the provisions of the 1990–1992 reforms that were scheduled to come into effect in 1998 (OECD, 1998, p. 79). Moreover, the new modifications that the government aimed to carry out under the second round of reforms were projected to increase pension expenditure. The Greek government decided not to reduce the pensions of any individuals during the process of consolidation. As the pension funds were merged, existing pensioners would either see no change in their pension incomes, or would see them gradually rise so that it converged with the level of benefits offered by the dominant fund within the newly consolidated pension funds (OECD, 1998, p. 78). The government also boosted the pensions of several groups of people. While there were some arguably good reasons for boosting the pensions of those groups (OECD, 1998, p. 79), the government lost an opportunity to use these pension increases as a bargaining chip to demand wider, more comprehensive reforms. Yet the 1998 reforms did have some important positive impacts. In addition to consolidating over 60 pension funds, the reforms also made significant strides in increasing the autonomy, for the few funds that weren’t in deficit, that the pension funds had in their investment decisions (OECD, 2001, p. 45).

2002 Reforms

During the 1998 reforms, the government had suspended some provisions of the

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24Approximately US $1,710. This amount was about three times Greece’s per capita GDP at the time.
25In the top tier of the tax, those with a monthly pension in excess of 100,000 Drachma had to pay 5 percent of the pension payment in tax.
26While this is the framework followed by the 1990–1992 reforms, it was a risky strategy, especially by a government that had just opted to suspend the reform commitments of the 1990–1992 administration.
1990–1992 reforms. In 2002 the government went beyond that and actually reversed some of the earlier reforms. The 2002 pension reforms aimed to combat the perceived inadequacy of primary payments. In particular, the government attempted to restore equality between generations by balancing the treatment of all employees, regardless of when they joined the workforce (Ministry of Economy and Finance; Ministry of Labour and Social Security, 2002, p. 20). In practice, this meant offering younger workers the more generous pension benefits enjoyed by the older generation. In 1992 the government had fragmented the system so that new reforms did not affect those close to retirement age. Rolling back this provision was one of many steps in the wrong direction.

The government also took the odd step of abandoning the idea that there should be a strong link between pension contributions and entitlements. In practice, this move did not change anything: it merely established formally the legality of what the government had been doing all along. There had never been a strong link between contributions and benefits in Greek public pensions. Yet before this change the government had at least paid lip-service to the idea that the pension funds should maintain some veneer of sustainability. Instead, the 2002 reforms made it a matter of policy for the pension system to be an instrument of income redistribution from the current working generation to the retired generation, with the government now legally obligated to make up the shortfall between revenues and expenditure27 (Ministry of Economy and Finance; Ministry of Labour and Social Security, 2002, p. 5).

Also, the minimum pension was tripled. These measures combined to ensure that the 2002 round of reforms, like the 1998 reforms, was actually projected to increase pension expenditure (International Monetary Fund, 2003, p. 14). This despite the clearly established and longstanding need to cut pension expenditure. The only significant cost-cutting measure in the 2002 reforms was the reduction from 80 percent to 76 percent of the maximum replacement rate for public sector employees. This cutback brought the replacement rate for public sector employees in line with that of private sector employees (OECD, 2007, p. 73).

While these reforms might have helped accomplish the government’s stated goal of increasing the fairness of the pension system, the actions revealed a worrying denial of the significant threat posed by unrestrained pension expenditure. Most of the cost-cutting provisions of the 2002 reforms were scheduled to go into effect between 2008 and 2017. The European sovereign debt crisis began in 2009.

**2008 Reforms**

The 2008 pension reforms were the first set of reforms in 18 years that were instituted to cut government expenditure. Over one hundred pension funds were merged into five basic funds. The numerous supplementary funds were consolidated into six supplementary funds and two welfare funds. These mergers were, for the most part, imperfect, with many of the individual funds retaining their autonomy and their varied contribution and entitlement regulations. However, even these imperfect consolidations vastly expanded the government’s control over the pension system. Unique social security numbers for pensioners were also introduced (OECD, 2009, p. 73).28 While the retirement age remained unchanged, the government modified the provisions for early retirement so that the average effective retirement of approximately 62 (OECD, 2009, p. 83) moved closer to the official retirement age of 65.29 Final pension benefit calculations were also altered to incentivize working beyond retirement age (OECD, 2009, p. 75). Greece also created an “intergenerational solidarity fund” and earmarked funding revenues from privatizations, the value-added tax, and social security contributions. The fund was to accumulate resources and begin distributing them in 2019 to share more equally among generations the burden of unsustainable expenditures (OECD, 2009, p. 53).

27Choosing to use primary pensions as an instrument of redistribution is in itself neither unreasonable nor necessarily a problem. However, it does become an issue when it leads to unsustainable increases in pension expenditure.

28This policy has yet to go into effect as of 2012 (Government of Greece, 2011, “Greece: (Fifth) Memorandum of...” p. 78).

29The gap between effective and official retirement age is made possible through the utilization of early retirement.
Not all the measures cut costs. The government did increase pension expenditure on mothers (OECD, 2009, p. 75), but it did so in hopes of encouraging more women to enter the labor market by allowing them to maintain pensions comparable to those received by non-mothers. This pension expansion could conceivably have paid for itself through economic growth. Overall, when compared to the other two pension reforms carried out in the previous 18 years, the 2008 reforms were ambitious and wide-ranging. As courageous as the reforms were, however, they did not restore financial viability. With just a few months left until the beginning of the European sovereign debt crisis, Greece’s pension system continued to require significant structural reforms.

2010 Reforms

In February 2010, the incoming government sharply raised its approximation of the overall 2009 government deficit from 5 percent to 12.7 percent of GDP (The Economist, 2010). Eurostat would eventually estimate that the true level of the deficit was 15.8 percent of GDP. In April, rating agencies downgraded Greece’s credit rating to junk status, and in May the Greek government formally sent letters requesting a stand-by arrangement from the IMF and financial assistance from member states of the European Union. In the memorandum of economic and financial policies attached to the letters, the government committed to carrying out pension reforms within the year.

The reforms contained several long-overdue provisions. The number of primary pension funds was reduced to six (OECD, 2011, p. 97); the healthcare components of the individual funds were separated; and the government outlined plans to merge them into a single, unified healthcare fund by December 2012 (International Monetary Fund, 2010, p. 39). While six managerially distinct pension funds continued to exist, the benefit formulas and retirement ages of all but one were equalized. The number of annual pension payments was reduced from 14 to 12 through the elimination of bonus payments (Government of Greece, 2010, p. 47). The accrual rate was reduced to between 0.8 percent and 1.5 percent a year, depending on years of service, to encourage Greeks to stay in the workforce longer.\(^{30}\) Pension payout calculations were reformulated to include lifetime earnings instead of only the final years of work (Ministry of Finance, 2011, p. 15). Greece equalized the official retirement age for men and women at 65. Those who retired after 60 but before 65,\(^ {31}\) without 40 years of contributions, saw their pensions reduced by between 6 percent and 30 percent. The reform made retirement prior to age 60 very difficult.

The government also worked to guarantee the future of the pension system. In a surprisingly forward-thinking move, the 2010 reform bill provided for governmental power to alter the parameters of the system if actuarial analysis determined that the reforms failed to meet the target of reducing future increases in pension costs to 2.5 percent of GDP. This stipulation was called the “safeguard clause” (International Monetary Fund, 2010, p. 11). Furthermore, the government committed to reviewing the list of professions designated “heavy and arduous,” although every pension reform bill since 1990 has promised this measure. Finally, the 2010 reform committed to reducing the number of retirees on the disability pension.

The reforms themselves were well received; the IMF went so far as to declare that the reforms “might be among the most ambitious undertaken by any country in one step” (International Monetary Fund, 2010, p. 19). They were successful in finally bringing long-term fiscal sustainability to the primary pension funds. But the euphoria soon began to fade. Several of the deadlines, including the timetable for the reform of disability pensions and the revision of the list of heavy and arduous professions, were missed (Government of Greece, 2011, “Greece: Memorandum of . . .” p. 49). The 2010 reforms exclusively targeted the primary pension system. The auxiliary pensions, unchanged, continued to operate at unsustainable deficits and would have to be reformed to restore balance to the entire pension system.

\(^{30}\)This was a significant improvement over accrual rates that could be as high as 3 percent before the reform (OECD, 2011, p. 97).

\(^{31}\)A mechanism was put into place so that the anchor ages of 60 and 65 would rise with life expectancy (International Monetary Fund, 2010, p. 11).
Reforms Beyond 2010

The 2010 reforms had been carefully designed with pre-determined benchmarks and a stipulation requiring a report from the National Actuarial Authority on their potential impact. In contrast, subsequent reforms of the system, as of this writing, have been comprised of stopgap measures that fail to consider long-term ramifications. The international pressure created by other Eurozone states and the IMF, combined with domestic pressure from opposition political parties and widespread discontent from the people—including, in one case, a suicide (BBC, 2012)—has forced the government to make cuts wherever they can be readily made. Thus far, they include an extension on the freeze of the nominal level of pensions (Government of Greece, 2011, “Greece: (Fourth) Memorandum of . . .” p. 78), as well as cuts of up to 40 percent on pensions (Government of Greece, 2011, “Greece: (Fourth) Memorandum of . . .” p. 6).

Unresolved Challenges

Despite strides that have been made since the first reforms in 1990, there remain five unresolved challenges that Greece must still address. First, despite the reforms, projections released by the Ministry of Finance in 2011 indicate that public pension expenditure will be 14.9 percent of GDP in 2060 (Ministry of Finance, 2011, p. 14). In contrast, the projected average for the EU-27 is 12.5 percent (Ministry of Finance, 2011, p. 14). Greece would do well to bring its pension expenditure in line with the rest of the EU-27. Second, after the most recent round of pension cuts, the perception of inadequate pension payments has likely become reality. The social safety net for the elderly will have to be strengthened. Third, while the number of pension funds has been reduced from several hundred to just six, there is no clear reason for the six to continue as independent entities. The current fragmentation introduces inequalities and inefficiencies. Fourth, there still exists a fragmented auxiliary pension system that has not been reformed effectively and continues to operate at unsustainable levels (International Monetary Fund, 2011, p. 12). Finally, due to the generosity of public pensions, Greece has not been able to develop a private pension system (OECD, 2009, p. 202), though a robust private pension system is widely considered crucial for developed economies (OECD, 2002, p. 25).

Despite current uncertainties, Greece has some reason for hope. The cashier at the bakery next to the Rio–Antirrio Bridge might have to work longer and retire later, but in that time she will continue to contribute economically to her community and her country. The famed longevity of the Greek people makes it likely that she will live long enough to watch other countries struggle with some of the same pension reforms that Greece has already instituted.

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32It is unknown how the cuts after the 2010 reforms affect pension expenditure projections.
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