# Why Greek pension [counter]reforms are not sustainable

Michel Husson, CADTM, 30 november 2016

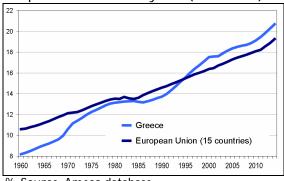
The Greek pension system has undergone many reforms since the beginning of the crisis, and the latest was extensively negotiated with the creditors. Rather than outlining the details of these reforms, the aim of this document is to highlight the specificities of the Greek pension system, in particular its redistributive function, and to show that the implementation of the reforms amounts to a programmed pauperisation of Greek pensioners.



### An aging population

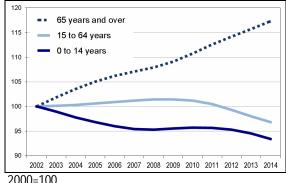
The analysis of the pension system must logically start with a review of demographic developments in Greece. The first observation is that the Greek population is an ageing population. The share of people over 65 increases since 1960, more rapidly than the European Union average (see Chart 1). The absolute number of people under 65 years has remained stable or has slowly declined over the last decade (see Chart 2).

Chart 1 Proportion of over 65 years (1960-2014)



%. Source: Ameco database

Chart 2 Population structure by age (2002-2014)

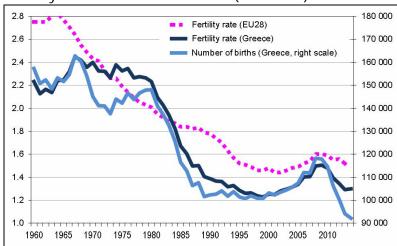


The demographic growth depends primarily on the fertility rate, which is the mean number of children born to a woman. Its long-term evolution in Greece is similar to other countries in southern Europe where the decline in fertility has been greater than the European average.

The fertility rate is at a high level until the early 1980s and then declines very rapidly, from 2.23 children in 1980 to 1.39 children in 1990. It continues to slow up until 2000. But from this date on, the higher economic growth in Greece and an improved outlook raised the fertility rate quite significantly: from 1.25 in 2000 to 1.50 in 2009. Then the crisis made it fall back to 1.3 in 2014 (see Chart 3).

The curve of the number of births follows more or less the same pattern. The number of births per year increased significantly between 1999 and 2009, from 100 000 to 118 000. But, with the crisis, the number of births falls down to 92 000 in 2014, a historical minimum (see Chart 3).

Chart 3 Fertility rate and number of births (1960-2015)



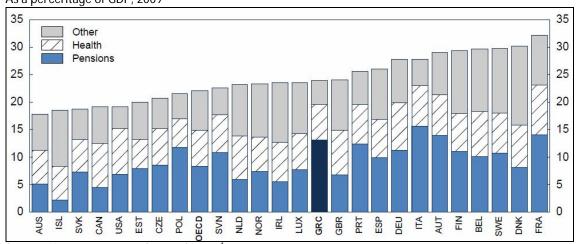
Source : Eurostat

# Are Greek pensions too "generous"?

The argument is widespread: Greece would have been too generous with its pensioners. A certain gutter press has even argued (against all evidence) that the living standards of Greek pensioners would be higher than that of German pensioners.

The demonstration is based on a comparison of pensions as a percentage of GDP between Greece and other countries. In 2009, public pensions reached 13.1% of Greece's GDP. This ratio was significantly higher than the average for OECD countries (7.8%) and was one of the highest in Europe (see Chart 4). Moreover, this proportion would have increased to an unsustainable level.

Chart 4
Public spending on social welfare
As a percentage of GDP, 2009



Source: Koutsogeorgopoulou et al., 2014<sup>1</sup>

But this demonstration is misleading for several reasons. First, it is based on a comparison between countries, such as Greece or France, where the share of private pensions is very low, with countries like the United States, Canada, where it is much more important.

Second, if the share of public pensions is higher in Greece than the OECD average, we observe that Greece is nevertheless within the average for all public spending on social welfare, with 24.4% of GDP in 2009.

It is therefore necessary to break down further the public social spending. Table 1 below shows that pensions in Greece are actually higher (as a percentage of GDP) than in Germany.

Conversely, the share of Greek GDP spent on health in 2009 was less than it is in France and Germany. And the gap is even greater for other categories of social spending (unemployment, family, housing, disability): they represent only 4.3% of GDP in Greece, against 7.9% in Germany and 7.3% on average in the OECD countries.

This point is decisive: pensions in Greece are substitutes for other types of social expenditure. The difference is especially clear for unemployment. And it still exists: in 2015, only 105,000 among the 1.35 million unemployed are compensated.

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<sup>&</sup>lt;sup>1</sup> Vassiliki Koutsogeorgopoulou et al., "<u>Fairly Sharing the Social Impact of the Crisis in Greece</u>", *OECD Economics Department Working Papers*, No. 1106, 2014.

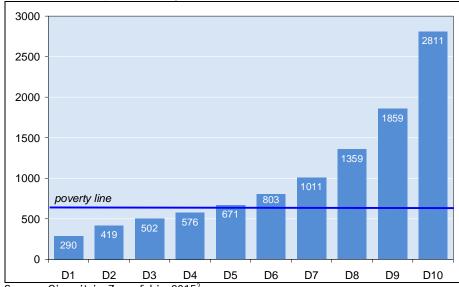
Table 1. Structure of social public spending As a percentage of GDP, 2009

	Total	Pensions	Total excluding pensions	Health	Total excluding pensions & health	Unemployment	Family	Housing	Disability	Other
Austria	28.1	13.4	14.7	6.9	7.8	1.1	2.9	0.1	2.5	1.2
Belgium	29.5	10.0	19.5	8.1	11.4	3.7	2.8	0.2	2.5	2.2
Finland	27.1	10.0	17.1	5.6	11.5	2.0	3.3	0.5	4.1	1.6
France	31.3	13.5	17.7	8.7	9.0	1.5	3.2	0.8	2.0	1.5
Germany	27.6	11.3	16.3	8.4	7.9	1.7	2.1	0.6	2.3	1.2
Greece	24.3	13.1	11.3	7.0	4.3	0.7	1.4	0.5	1.0	0.7
Ireland	22.9	5.0	17.9	7.0	10.9	2.6	4.1	0.3	2.4	1.5
Italy	27.6	15.6	12.0	7.2	4.8	0.8	1.6	0.0	1.9	0.5
Netherlands	22.5	5.3	17.2	7.9	9.3	1.4	1.7	0.4	3.1	2.7
Portugal	25.2	12.3	12.9	6.9	6.0	1.2	1.5	0.0	2.1	1.2
Spain	25.6	9.5	16.1	7.0	9.1	3.5	1.5	0.2	2.7	1.2
OECD	21.5	7.8	13.7	6.4	7.3	1.1	2.3	0.7	2.4	0.8

Source : Eurostat

The distribution of pensions shows that their average level is moderate: about 45% of pensioners receive pensions below the poverty line of 665 euros per month (see Chart 5).

Chart 5
Distribution of pensions by deciles, 2008



Source: Giannitsis, Zografakis, 2015<sup>2</sup>

More recent sources show that two thirds of pensioners received a pension lower than 1000 euros per month in May 2015. Highest pensions cover only a narrow segment of the population: only 2% of Greek pensioners received a pension higher than 2000 euros per month in 2015 (see Table 2).

<sup>2</sup> Tassos Giannitsis et Stavros Zografakis, "<u>Greece: Solidarity and Adjustment in Times of Crisis</u>", IMK, March 2015.

Table 2 Distribution of pensioners by total pension size, May 2015

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Pension	Population		Cumulative		
(euros/month)	(thousands)	Distribution	distribution		
< 400	356.3	13.4%	13.4%		
400-700	828.3	31.2%	44.6%		
700-1000	558.4	21.0%	65.7%		
1000-1500	552.5	20.8%	86.5%		
1500-2000	308.6	11.6%	98.1%		
2000-3000	47.9	1.8%	99.9%		
> 3000	2.5	0.1%	100.0%		
Total	2654.5	100.0%			

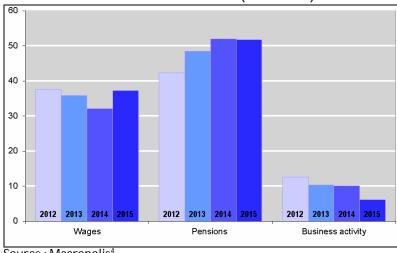
Sources: Helios database: Tinios, 2015<sup>3</sup>

#### Pensions as a redistributive mechanism

The Greek pensions system has played a specific role of redistribution especially during the crisis. A wave of early retirements allowed a fringe of workers to avoid a direct path to unemployment. We can speak of a (relative) cushion mechanism of the crisis.

A survey by the IME (Small Enterprises' Institute) of the Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) shows that pensions are the main (not the only) source of income for about half of Greek households and that this proportion increased between 2012 and 2015 (see Chart 6).

Chart 6 Main sources of household incomes (2012-2015)



Source: Macropolis<sup>4</sup>

Wages and pensions are the main sources of income. Nevertheless, the income distribution has changed dramatically between 2008 and 2012. These changes have been analyzed with great detail in a study (Giannitsis, Zografakis, 2015).

<sup>&</sup>lt;sup>3</sup> Platon Tinios, <u>Employment and social developments in Greece</u>, European Parliament, September, 2015.

<sup>&</sup>lt;sup>4</sup> Macropolis, "More than half of Greek households rely mainly on pensions", January 28, 2016.

We use its main results. First, the share of wages has decreased from 40% in 2008 to 28.2% in 2012 in the lowest-income 50% of households (see Table 3), because of the rise of unemployment. Conversely, the share of wages (and pensions) in the highest incomes increased mechanically due to the decline in interests and dividends.

The most important finding is the increased share of pensions in household income. And the authors rightly emphasize the implications of their finding: "It is evident from this table that a future pension crisis would affect more the households in the middle and lower income brackets, for which pensions are a relatively important source of income".

Table 3. Changes in the income distribution 2008-2012

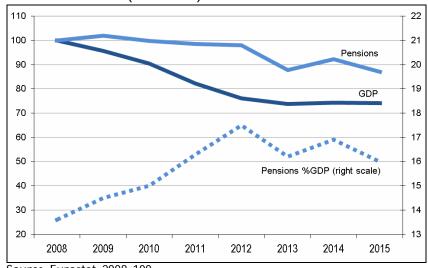
	Total	Total	Deciles 2008				Deciles 2012					
	2008	2012	1-5	6-7	8-10	1%	0.1%	1-5	6-7	8-10	1%	0.1%
Wages-Salaries	39.6	37.2	40.0	41.9	<b>3</b> 8.9	17.5	7.5	28.2	38.1	39.5	32.3	18.4
Pensions	21.3	31.1	32.8	27.7	16.8	2.6	0.4	36.6	39.5	27.1	4.1	1.1
Agriculture income & subsidies	2.5	4.1	4.2	3.6	1.8	0.5	0.1	5.1	4.4	3.7	2.5	0.9
Commercial activities	7.7	5.2	5.0	7.4	8.5	8.9	3.4	4.8	4.0	5.7	8.9	5.6
Independent activities	3.7	3.4	2.1	2.0	4.5	6.2	1.8	1.7	1.5	4.5	9.1	5.5
Rental income	7.3	7.6	6.6	6.4	7.8	7.8	3.9	7.0	<b>5</b> .8	8.2	9.4	6.2
Dividends-Interest	13.5	8.1	5.0	6.1	17.5	54.3	82.1	4.3	4.0	10.3	32.4	59.4
Other	0.2	1.6	0.5	0.5	0.1	0.3	0.3	4.3	1.7	8.0	1.4	3.0
Imputed income	4.2	1.7	3.8	4.5	4.1	1.9	0.5	8.0	1.0	0.1	0.0	0.0
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Giannitsis, Zografakis, 2015<sup>5</sup>

It must therefore be understood that the increase in the ratio of pensions to GDP between 2008 and 2015 does not result from a slippage of pensions. While total pension payments increased slightly in 2009 (due to early retirement), it declined over the entire period, but less than GDP.

The ratio of pensions to GDP has therefore increased to 2012, but has since fallen (Chart 7). This mechanism is important to understand because it shows that pensions have contributed, at least initially, to dampen the social effects of the crisis.

Chart 7 Pensions and GDP (2008-2015)



Source: Eurostat. 2008=100

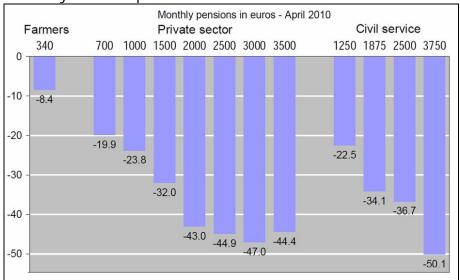
<sup>&</sup>lt;sup>5</sup> Tassos Giannitsis et Stavros Zografakis, *op. cit*.

### The impact of pension reforms

This role of shock absorber of pensions has been only transitory. All pensions have fallen between 2010 and 2015 (see Chart 8).

Higher pensions have decreased by more than 40%. But the cuts mean a race to the bottom for all pensions. For instance, someone who received 700 euros in 2010, receives only 561 euros in 2015 (see Table 4).

Chart 8 Cumulative reductions of different kinds of pensions from May 2010 to September 2015



Source: Tinios, 20166

Table 4

Evolution of pensions 2010-2015

April 2010	September 2015					
700	561					
1000	762					
1500	1020					
2000	1140					
2500	1378					
3000	1590					
3500	1946					

Euros per month. Source: Tinios, 2016<sup>7</sup>

#### The worst is to come

The European Commission regularly publishes its *Ageing Report* with economic and budgetary projections for the EU-27 Member States (2008-2060). Comparing the 2009 report - completed before the crisis - and that of 2015<sup>8</sup> is instructive and highly worrisome

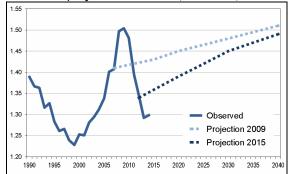
<sup>&</sup>lt;sup>6</sup> Tinios, op. cit.

<sup>&</sup>lt;sup>7</sup> Platon Tinios, "Misperceptions, Misstatements, Misunderstandings. Technical clarifications on Greek pensions", Hellenic Observatory, LSE, 15 January 2016.

The projections are based on various assumptions including changes in the fertility rate. In the 2009 report, the European Commission could not observe the decline caused by the crisis. The report starts with the last known year (2007) and assumes the continuation of the upward trend of the fertility rate, at a slowed speed. At that time, it was a reasonable assumption.

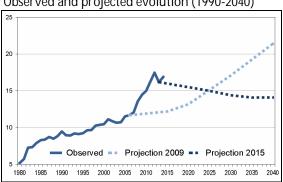
In the 2015 Report, the Commission had knowledge of the decline in fertility rates generated by the crisis, since it had the information for the year 2012. But it takes no account of this new information and assumes a further growth of the fertility rate, even faster than in the 2009 report, so as to recover approximately the same level in 2040 (see Chart 9).

Chart 9
Fertility rate
Observed and projected evolution (1990-2040)



Source: European Commission, 2009 and 2015

Chart 10
Pensions/GDP ratio
Observed and projected evolution (1990-2040)



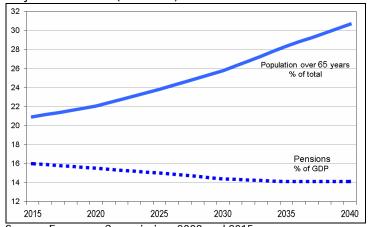
This hypothesis is based on a denial of reality comparable to unrealistic economic forecasts combining a recovery of growth despite a continued austerity. Similarly, it assumes a recovery in births despite an economic and social environment permanently degraded.

Between the projections of 2009 and 2015, there are huge differences in the ratio pensions/GDP. The fall in GDP explains most of the difference for 2015. But the most striking difference is that the ratio was rising in the 2009 report, while it is expected to decline in the 2015 report (see Chart 10).

The proportion of people over 65 years is expected to increase from 21% to 24% between 2015 and 2025, but the share of pensions in GDP is expected to fall from 16% to 15% in the same period (see Chart 11).

<sup>&</sup>lt;sup>8</sup> European Commission, "<u>Ageing Report: Economic and budgetary projections for the EU-27 Member States</u> (2008-2060)", European Economy 2|2009; "<u>The Ageing Report: Economic and budgetary projections for the EU-27 Member States (2013-2060)</u>", European Economy 3|2015.

Chart 11 Pensions and pensioners Projected evolution (2015-2040)



Source: European Commission, 2009 and 2015

### Conclusions

This analysis leads to three main conclusions

- ▶ Austerity policies have challenged the sustainability of the system, including by discouraging births and by encouraging emigration.
- ▶ The cuts in pensions are hitting the ultimate instrument for a minimum income support. In this sense, the effects of successive reforms will become more and more socially unsustainable.
- ▶ The fiscal austerity imposed by the creditors makes it impossible to find a new sustainability of the pension system.