<u>NON-PAPER ON THE REFORM OF THE GREEK PENSION SYSTEM</u>

The chapter on pension reform in the agreement of July 12th, 2015 (Chapter 2.5.1) between the Hellenic Republic and the institutions stipulates that "the authorities commit to implement fully the existing reforms and will also proceed with further reforms to strengthen long-term sustainability targeting savings of around ¼% of GDP in 2015 and around 1% of GDP by 2016".

Greece has fully abided by the agreement and is committed to implement it without derogation from the letter or spirit of it. The Greek government has elaborated a reform plan which transcends the commitments set out in the agreement of July 12th, 2015. A structural reform which sweeps out the old regime. A reform whose social and economic sustainability only this government can guarantee by aligning social partners with the broad social majority that supports SYRIZA.

The agreement of July 12th, 2015 targets savings on pensions expenditure as a percentage of GDP. It does <u>not</u>, however, require cuts in main pensions as the means to achieve those targets.

The Greek government has, on repeated occasions, pointed out that the July 12th, 2015 agreement with the institutions does <u>not</u> mandate new cuts to pensions. In that context, the government will not reduce main pensions for a 12th time, thereby fuelling recession, which undermines the sustainability of the pensions system, as it happened in the past. That because the basic reason for the currently high ratio of pensions expenditure to GDP has been the abrupt and significant decline of the GDP by 25% due to the successive Memoranda implemented during the period 2010-2015.

In that respect, the pertinent proposals of the Greek government aim at ensuring the rationalization of pension expenditure via a new architecture of the pension system rather than via recessionary - hence, ineffective - new main-pension cuts. By setting fair, harmonized and uniform rules for all insured.

In consultation with the institutions, the Greek government has outlined a two-pronged strategy to reform the pension system:

On the one hand, it is the requirement for cumulative savings of 1,25% of GDP during 2015-2016. We achieve that in two stages: the first stage, involves permanent savings of 0,6% of GDP, mainly through five interventions, which have been voted by the Hellenic Parliament last July, with the positive vote of the main opposition parties, and have already been implemented: a). increase in the retirement age, b). elimination of early retirement, c). increase in health contributions to 6% on main pensions and application of health contributions of 6% on supplementary pensions from July 1st, 2015. The adjustment resulted in savings of €355 million in 2015, while, for the year 2016, estimated savings will be in the order of €711 million, d). reduction of beneficiaries of the solidarity grant (EKAS), and e). integration into a single entity (the single fund for supplementary insurance - ETEA) of eleven supplementary-pension funds, which is exclusively financed by its very own contributions. The second stage concerns permanent savings of 0,4%, that is of approximately €700 million. The main source of savings lies in the rise of employer social security contributions on supplementary pensions by 1% in conjunction with the rise in employee contributions by 0,5%.

It has to be underlined that the proposed modest rise in employer social security contributions by 1% corresponds to ¼ of their overall reduction during the last three years (reduction by 1,1% since 01.11.2012 and by 2,9% since 01.07.2014).

Moreover, the four associations representing Greek employers issued a joint announcement after their meeting with Prime Minister Alexis Tsipras on Thursday 07.01.2016, stating that they were not opposed to a small and temporary increase in social insurance contributions.

The statement was signed by the respective Presidents of the National Confederation of Commerce and Entrepreneurship, of the Hellenic Federation of Enterprises, of the Greek Tourism Confederation and of the Hellenic Confederation of Professionals, Craftsmen & Merchants.

The announcement said that they had an extensive discussion with Prime Minister Alexis Tsipras on supporting the competitiveness of Greek businesses, while sustaining employment and social cohesion.

"In this framework, it was decided that there should be close cooperation between the government and the social partners for the implementation of immediate measures to stabilise the economy and attract investments," they said, noting that the priorities will be a stable and gradually more attractive tax framework, a business-friendly environment and incentives for growth and investments.

"On these terms and taking into account the proposals that will be tabled for sundry improvements to the government's proposal for pension system reform, the social partners do not adopt a negative position on a small, temporary increase in social insurance contributions," they concluded.

<u>On the other hand</u>, is the sweep out of the old regime and the introduction of a new pensions system.

The mandate for reform of the country's social security system sets the challenging goal to introduce for the first time uniformity in rules, contributions and benefits, thereby developing a framework of equal treatment and fair enjoyment of the rights by all system beneficiaries.

We accordingly introduce:

a. **A single main pensions fund for everyone**
b. **Uniform rules for calculating insurance contributions and pension compensation (exemptions provided only for special cases)**.
c. **National pension for everyone who has at least 15 years of insurance at the age of 67 or 40 years at the age of 62.** National pension is set at 60% of average income which is equal to the relative poverty threshold (amounting to € 384), and is fully financed by the state budget, taking into consideration the GDP growth rate.

There will be no reduction in main pensions. Furthermore, a recalculation of all current pension compensations shall take place, while there will be a personal replacement rate that will cover the difference between the current and the recalculated pension.

Under the new status, the total compensation shall be equal to the national pension plus the amount of the main pension, which shall be calculated based on staggered replacement rates for the whole insurance lifetime. To this point, the pension reform ensures the public, universal and redistributive nature of the social security system.

Pension contributions are set to the 20% of actual income. Thus, there will be no significant changes for employees. On the contrary, self-employed shall be affected as their contribution will be calculated on the amount of their actual income. In addition, farmers' contributions and pension benefits shall be equalized with those of the rest insured, leading to their full integration into the social security system. The reforms concerning employees and self-employed shall be put in place by January 1st, 2017.

Interventions planned for 2016

With a view to achieving the 2016 savings target, the Greek Government has laid out a pension reform which includes:

- As aforementioned, an increase in employer social security contributions on supplementary pensions by 1% and in employee contributions by 0,5%.The expected savings amount to €300 million.
- The consolidation of pension funds, including the remaining harmonization of contribution and benefit payment procedures across all funds.
- A series of measures reducing one-off lump sums in early retirement cases. The expected savings amount to €78 million.
- The elimination of the top 20% of beneficiaries of the solidarity grant (EKAS). The expected savings amount to €223 million.
- The gradual increase in contributions to the agricultural fund (OGA). The expected savings amount to €102 million.
- The harmonization of contributions rules for all pension funds with the structure of contributions of the main social security fund for employees (IKA). The expected savings amount to - €26 million.
- The provision of social solidarity benefit to uninsured elderly. The expected savings amount to - €62 million.