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GREEK PENSIONS CRISIS: THE LAST ACT OF THE GREEK TRAGEDY?

- Greece's worker to pension ratio is an unsustainable 1.38 compared to UK's 2.75. This means there are just 138 people in employment for 100 Greek pensioners.
- Since 2000, the Greek pension system has received €216 billion in subsidies to prop up an unsustainable system.
- Pension funds were required to invest 77% of funded portion into Greek Government bonds, leading to catastrophic losses that had to be covered by Government subsidy.
- Pensions to former public utilities employees have cost the equivalent of 8% of total income tax receipts.
- €50 billion privatisation programme will take 100 years to implement at current rate of progress.
- New proposals aim to cut government support by €1.8 billion out of system distributing just under €30 billion.

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1. SUMMARY

The Greek pensions system, after decades of political exploitation, state interference and crony capitalism, is close to collapse. The system has been plagued by an unsustainable worker to pensioner ratio, endemic corruption along with major financial losses on investments in Greek banks and Government bonds. To sustain the unaffordable pension system, the Greek Government has plugged the gap with €216 billion of subsidies since 2000.

In the summer 2015, the "Troika" (comprising the European Commission, the European Central Bank and the International Monetary Fund) requested further reforms to Greek pensions in return for continuing its financial assistance via the bailout programme. The Greek Government has tabled a package of pension reforms, which is currently being scrutinised by European Ministers. It is probable that reforms to pensions will pass the Greek Parliament later this month, but the underlying deep-rooted problems will not be addressed. The reforms, although politically extremely painful, will do nothing to alleviate the Greek crisis.

2. THE ECONOMIC FUNDAMENTALS OF THE GREEK PENSION CRISIS

Greek unemployment stands at around 25 per cent and youth unemployment is at nearly 50 per cent. The huge increase in unemployment since the financial crisis has, in part, led to a crisis in the ratio between workers and pensioners. According to the Greek Statistical body ELSTAT, there are only 3.67m workers to 2.66m pensioners in Greece, leaving the country with a worker to pension ratio of just 1.38. For the purposes of comparison, the UK has a ratio of nearly double this at 2.75, with 31.3m workers and 11.4m pensioners.

Figure 1: Greek Pensioners and Pension Payouts

Pension Category	Number of Pensioners	Monthly Payments (€mn)
Ageing	1,996,881	1,937,977
Death	**402,353**	**279,594**
Handicapped	231,536	148,271
Non-insured Overaged Farmers (OGA)	31,046	11,174
No Indicative Category	1,529	1,191
TOTAL	2,663,345	2,378,208

Source: ELSTAT, data for July 2015

Domestic Greek data also provides an illuminating picture into a bloated system that is running out of control. Latest data show that the current Greek pension payments are about €2.4 billion a month, equivalent to €29 billion a year in a country with a GDP of approximately €216 billion in 2014 (see figure 1). It is also estimated that the Greek Government has subsidised the pensions system with €216 billion of funding since 2000, and over 417,000 people in Greece

– amounting to over 15% of Greek pensioners – have access to three or more pensions (see Figure 1).

Figure 2: Pensioners by Number of Pensions

Number of pensions collected:	Pensioners:
10	4
9	7
8	52
7	369
6	4760
5	14458
4	60612
3	336801
2	955327
1	1283617
TOTAL	2656007

Source: ELSTAT

3. THE GREEK PENSIONS PARADOX PARADOXES

Between 2010 and 2014 Greek pensioners faced an average cut of 27% across both State and private pensions, yet in 2012 Greece was still spending 17.7% of GDP on its pension system – the highest proportion of any EU country. Furthermore, both employees and employers continue to be harmed by the pensions system. It is estimated that compulsory pension contribution costs account for around 40% of an employer's wage bill. For example, for a business employing a single employee at the minimum wage of €517 a month, the company must pay pension benefits of 40%, equating to nearly €250 a month.

4. DISASTROUS PRIVATE PENSION INVESTMENTS

Until recently, there were more than 200 compulsory pension schemes, subdivided by profession or fiscal activity, with different costs and benefits for their members. From 1997, the pension funds were required to invest 77% of the funded portion into a common capital pool in the National Bank of Greece. These were then invested into Greek Government Bonds known as “T-Bonds”.

Politically motivated pressures for pension funds to invest in Greek Government bonds and Greek banks led to disastrous consequences, including:

- Workers and pensioners suffering losses of around €10 billion in the debt restructuring of March 2012, when the value of some Greek bonds were cut by 50%. That sum is equal to 4.6% of the country's GDP in 2011.

- Pension funds also suffered losses from the collapse of bank shares. For example, the civil engineering pension fund invested in the recapitalisation of the Attica Bank with €374 million. Attica Bank's share price collapsed by nearly 30% on one day in August 2015. Furthermore, the share price of most Greek banks has also collapsed: the National Bank of Greece has seen its share price fall from €21.75 12 months ago to €0.29 cents today, while those of Piraeus Bank have fallen from €95.50 to €0.24 over the same period.

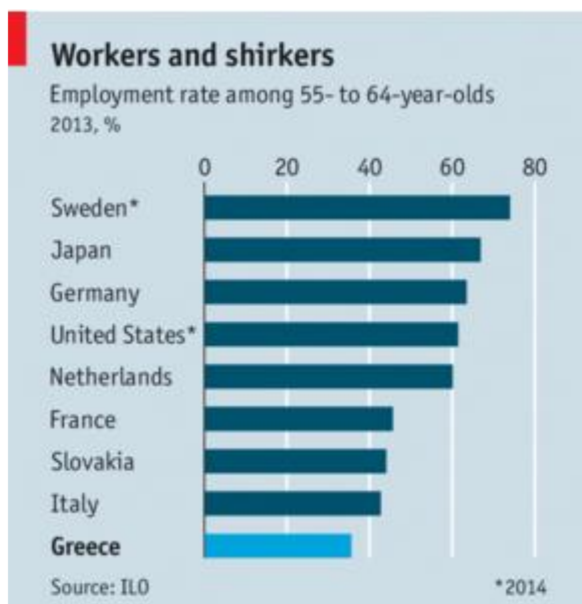
5. CORRUPTION AND STATISM

Corruption and statism have also been a major problem for the Greek pensions system. For example, over the last decade, the Greek State has subsidised pensions for the Public Utilities fund with €600 million for approximately 22,000 pensioners, with an equivalent cost of 8% of income tax collected annually. There is also the example of the public telecoms company OTE – where the Greek Government incorporated the cost for the retirement of 5,500 staff, of which 2,500 retired at an average age of 48 years, resulting in a loss to the state pension fund of around €1 billion. Similarly, the redundancy of a large number of bank staff who retired following politically mandated mergers was palliated by the state taking on €3 billion of pension obligations.

6. EARLY RETIREMENT

Despite previous reforms to Greek pensions, it is still relatively easy to retire early. Figure 3 shows how the percentage of people from 55 to 64 working in Greece was just 36% in 2013. This is around half the level observed in Sweden.

Figure 3: Employment Rate among 55 to 64 year olds, 2013 (%)



Source: The Economist

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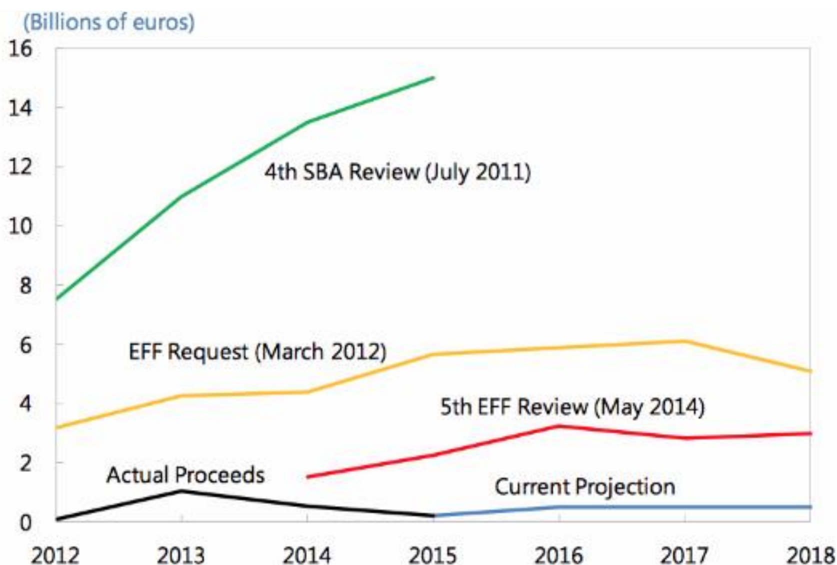
7. THE FAILURE TO IMPLEMENT REFORMS

On pension reform, the Troika demanded that pension funds should have a deficit of no more than €750 million in 2015 and a zero deficit for 2016. However, the pensions deficit currently stands at €1.6 billion for 2015 and is projected to be €2.19 billion in 2016. The Greek Government's failure to implement the Troika's demands on pensions follows a series of other failures. For example, the Troika has demanded a €50 billion privatisation target, but the progress towards achieving this goal has been painfully slow (see Figure 3). Up to the first quarter of 2015 receipts from this fund stood at a mere €3.2 billion, according to the International Monetary Fund. Based on this rate of progress, it would take 100 years to raise €50 billion from privatisation.

Figure 4: Projected Annual Privatisation Proceeds



Source: International Monetary Fund

The reform of Greece's tax collection system has also been poor. It was estimated in 2009 that non-collected tax revenues were €36.8 billion or 15.9% of GDP, according to the Annual Report of the Greek Public Council. The Greek Government pledged to tackle this problem by embarking on a simplification of the tax code . Since then, however, tax complexity has greatly increased, not reduced. In the paper "Five Years of the Greek Crisis", the Greek Liberties Monitor points out that accountants would have had to implement one new directive from the Greek Finance Ministry every working day since 2011.

8. THE GREEK GOVERNMENT'S PENSIONS PACKAGE

As can be seen above, the Greek pension scheme is effectively bankrupt, very expensive and yet is paying out less and less to those who have been forced to contribute significantly over many years. It is against this background that the Troika's reforms must be considered.

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As a condition of the Memorandum of Understanding, Greece is required to pass pension reforms that reduce government spending by a further €1.8 billion. The Greek Government's proposals have been submitted to the European Union and are currently being considered.

These are initial proposals from the Greek Government, and the Greek Finance Minister is expected to hold meetings with European counterparts ahead of the Eurogroup meeting on Thursday, 14 January. The Greek Government is expected to table the reforms to parliament between 20 January and 25 January.

Leaks of the proposals indicate that there will be significant problems. These include excessive burdens being placed on the self-employed, huge increases in contributions for farmers and the lack of a cost-benefit analysis for the proposals. The proposals are therefore likely to be significantly watered down before being officially put to the Greek Parliament. On top of that, further popular unrest against any further cuts has already broken out and can be expected to get worse.

However, will the Troika accept any dilution of the reforms? It is assumed that the Troika is, understandably, concerned about the absence of any feasibility study accompanying the proposals. Its substantial concerns include the burdens proposed on new pensioners, the continuation of the supplementary pension that is considered an unaffordable luxury, the protection of specific pension interest groups, and whether the €1.8 billion savings will be recognised. At the same time, a degree of unreality pervades these discussions: the Greek Government is saying that the reactions of the Troika have actually been positive.

Whether the Greek pension schemes can ever be restored to anything close to sustainability must be open to question – not least because of the absence of any political leadership over the need and direction of reform allied with the extreme unpopularity of proposals for further cuts to current and future payments.

9. CONCLUSION

The economic fundamentals of Greece continue to make for uncomfortable reading. Along with the pension crisis, the debt pile stands at nearly 180% of GDP, foreign direct investment has halved since 2008 and non-performing bank loans stand at nearly 50%. The social consequences of unemployment remaining at around 25% and youth unemployment at 50% make for an even bleaker picture. Businesses are also taking flight – it is estimated that 60,000 Greek businesses have set up in Bulgaria since June of last year.

The current Greek Government has a majority of just three seats and opposition parties are opposed to the proposed reforms. Despite this, analysts believe that a compromised Pension Reform Bill is likely to be passed by the Greek Parliament. However, Greece's economic fundamentals and stalled reforms mean that the crisis is far from over and the country's future inside the Eurozone remains in doubt.

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Greece remains between Scylla and Charybdis. Logic would suggest that Greece should exit from the Euro with a simultaneous major devaluation. However, the immediate consequences of a Euro exit could be disastrous. For example, Greece has a huge over-reliance on imports for raw materials and a trade deficit of $27 billion – something difficult to sustain with a devalued currency that would make imports more expensive.

There is also the question of who the Greek people trust less: its own politicians or the Troika. The final question must be how an economically unsustainable status quo, which is politically impossible to reform, will be resolved. That will be the underlying theme of the last act in today's Greek tragedy.

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