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## The Europeanisation of the recent reformed Greek Pension System[1]

*Abstract*

*According to the Treaty on the Functioning of the European Union, only the Member States have the competence to implement the substantial and fundamental measures in the field of pension policy. However, their policy-making and legislation is influenced by the European Union's pension policy. In this paper I will show to what extent the reformed Greek pension system is consistent with guidelines of European Union. I first review the common objectives of the OMC on pensions, the main guidelines of the EU-Commission in the Green Paper towards adequate, sustainable and safe European pension systems, as well as the common principles driving European financial coordination. I then analyse which, if there are any, specific recent reforms took crucial step towards meeting the EU's requirements in the field of pension policy, and examine what kind of reforms have not been undertaken to meet the EU's common objectives by comparing with other Member States' pension reforms. In conclusion, I argue that the adopted pension reforms in Greece represent a major step to Europeanisation. Nevertheless, further measures should be undertaken, so that a better functioning of the multi-tier pension system can be achieved.*

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### 1. Introduction

*Radaelli* illustrates that, "European Policy is not a mysterious 'dues ex machine' but a result of conflict, bargaining, imitation, diffusion and interaction between national and European level actors".[3]

In the field of pension policy in Greece, the implementation of European policy, as it is described by Radaelli, has not been successful, despite continuous efforts of the Greek governments. Since the beginning of the 1990's a radical pension reform has always been part of the domestic policy agenda. However, no comprehensive pension reform had taken place until recently. There was always a difficulty of bringing the Greek model of pension provision in line with the policy goals of the 'European Social

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[3] Radaelli, in*: Featherstone; Radaelli*, The Politics of Europeanization, p.33.

Model'.[4] In 1990 and 1992, two laws were adopted, which, nonetheless, brought about parametric changes that were not the result of Greece's European integration but of the country's financial imbalances.[5] Europeanisation could only be traced in 2002 with the Reppas-Reform Law, named after the former Minister of Labour Dimitris Reppas, which reduced the number of the pension funds and established occupational funds based on capitalization.[6] Reasons for the weak Europeanization of the Greek pension system are various. According to *Featherstone* some features are the domestic impediments, the limited relevance of technocratic legitimization and the low levels of trust among social partners.[7]

Only in 2010, the Greek Parliament adopted a large-scale pension reform, under the pressure of the national financial crisis. The goal of the present paper is neither to analyse, which factors have influenced the adoption of the pension reform, nor to examine whether the reformed Greek pension system is an outcome of the interplay between domestic policy and European influences and nor if it is a result of the financial crisis. In this paper I will try to analyse, to what extent the new regulations of the Greek pension system are europeanised, namely, if they are adopted according to the lines defined at European level through the legal instrument of the Open Method of Coordination.

## 2. The European Union's initiatives and common objectives in the field of pension policy

In principle, the European Union through the European Monetary Union (hereinafter EMU) and the Open Method of Coordination (hereinafter OMC) consist "external stimulus for pension reform".[8] However, as *Becker* points out in his contribution 'The Social State in the European Union' (Der Sozialstaat in der Europäischen Union), social and political reforms have been forwarded at national and European level but the effect of the European Union alone is minimal.[9] In the field of pension policy, for instance, common trends can be observed. It is difficult, however, to assess, whether they are outcome of the OMC or not. *Becker* argues that internal factors seem to influence to a greater extent the pension policy of the Member States and that

[4]Vlachantoni, Greek pension reform and the 'change from within', p.1.; for the meaning of 'European Social Model' see *Blanke;Hoffmann*, Auf dem Weg zu einem Europäischen Sozialmodell (On the way to a European Social Model), KJ 2006, p. 134-150; see also *Adnett;Hardy*, The European Social Model, p.21-26 and p.198-212.
[5]Sotiropoulos, Journal of European Social Policy 2004, p.272.
[6]Ibid. p. 273.
[7]Featherstone, Journal of European Public Policy, p.734.
[8]Ibid. p.737.
[9]Becker, in: Becker/Hockerts/Tenfelde (eds.), Sozialstaat Deutschland – Geschichte und Gegenwart (Social State Germany – History and Present), p. 333.

possible pension reforms are discussed at a European Level, because the Member States face the same social and labour-market policy problems.[10]

According to the Treaty on the Functioning of the European Union (hereinafter TFEU), the field of pension policy belongs exclusively to the sphere of the Member States.[11] The European Union (hereinafter EU) has no competence to act in this field and to adapt minimum pension standards through i.e. framework-directives. The Member States are exclusively responsible to form their pension system in such a way, in order to secure a sustainable and adequate pension system. The EU is only competent to adopt the necessary regulations or directives to coordinate the diverse pension systems of the Member States, so that it can facilitate the EU's internal market and to preclude national measures which "might place European Union's citizens at a disadvantage when they wish to pursue an economic activity in the territory of another Member State."[12]

However, the absence of EU's competence to legislate in the area of pensions did not prevent it from intervening. The TFEU stipulates that Member States "shall regard their economic policies as a matter of common concern"[13] and that Union 'shall implement measures … to maintain the competitiveness of the Union economy'.[14] Therefore, in regard of a Social Europe of economic growth, the EU has interest to monitor the financial and economic situation of the Member States. The influence of the EU on the financial budget of the Member States is obvious through the adoption of the single European currency (Euro).[15] The Euro Convergence Criteria[16] require from the Member States public financial discipline, with indirect consequences on welfare social expenditures,[17] so that economic growth and sustainable convergence can be ensured.

The Member States, and in particular the Members of the EMU, are obliged, therefore, to keep the revenues and expenses of their pension system in balance, since the pension system is closely related with the public budget of the Member States.[18] The pension system's expenses constitute a large part of the public budget given the fact

[10] Becker, OMK in der Alterssicherung (OMC in pension field), forthcoming.
[11] Articles 151 – 161 TFEU.
[12] ECJ, C-379/09, Casteels v. British Airways, 10 March 2009, para .21.
[13]Article 121 TFEU.
[14] Article 151 par. 2 TFEU.
[15] Featherstone, The limits of Europeanization: reform capacity and policy conflict in Greece, p.78.
[16] Article 140 TFEU; 1. Price Stability, 2.Budget deficit equivalent to no more than 3% of GDP, 3. Debt levels lower than 60% of GDP and 4. Low long-term interest rates.
[17] see supra n.15, p.56.
[18] Pension reform is a relevant factor in the context of the Excessive Deficit Procedure. See COM (2010), 'Public Finances in EMU 2010', p.19.

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that the largest annual overruns come from the social security funds of the statutory first pillar, which is tax-financed.[19]

The financial crisis of 2008 and the ageing population have led to significant increases on public pension spending creating excessive budgetary deficit.[20] Under these circumstances, there is a general trend of the Member States to reform their pension systems so as to avoid or to decline excessive public deficit. In order for the EU to ensure that large pension expenses will not lead to extreme public deficit or in order to encourage the Member States to decline the existing public deficits through reforming their pension systems, the EU has undertaken a number of initiatives.

In 1992 the EU had already set the subject of social security as an issue at European Level. On 28 July 1992 the Council published the Recommendations Nr. 92/441/EEC and Nr. 92/442/EEC, encouraging the Member States to organise a "systematic exchange of information and experiences and the continuous evaluation of the national provisions adopted".[21] According to these recommendations the state should take every measure to ensure 'the basic right of a person to sufficient resources and social assistance to live in a manner compatible with human dignity as part of a comprehensive and consistent drive to combat social exclusion'.[22] The European Council of Göteborg in 2001 recognized three main goals on the field of pension policy: i. safeguarding the capacity of systems to meet their social objectives, ii. maintaining their financial sustainability and iii. meeting changing societal needs.[23]

In March 2002 the European Council of Lisbon introduced the non-binding legal instrument of OMC on pensions.[24] However, the OMC as a political instrument was first launched in 2000 within the context of the Lisbon Strategy 2000.[25] Main objective of the OMC is to enable the Member States 'to share policy objectives, good practice and good governance'[26] and to create opportunities for windows of social policy,[27] such as the eradication of poverty. It provides an institutional framework for the

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[19]Trubek, D.; Trubek,L, European Law Journal 2005, p. 345.

[20]In the case of Greece future expenditures on pensions are estimated to reach 19,4% of GDP in 2035 and 24,1% in 2060. Source: EU- Commission, Pension Schemes and Pension Projections in the EU-27 Member States 2008-2060, Occasional Paper 56, 2009, p.129.

**[21]Council of EU, Recommendation on common criteria concerning sufficient resources and social assistance in social protection systems, Nr. 92/441/EEC of 24 June, Part II point 1.**

[22]Ibid. Part I A.

[23]European Council, Presidency Conclusions of 15 and 16 June 2001, par. 43.

[24]European Council, Presidency Conclusions of 15 and 16 March 2002, par. 33.

[25]European Council, Presidency Conclusions of 23 and 24 March 2000, par. 37. The European Council defined as goals of the European Policy the sustainable economic growth, with more and better jobs and a greater degree of cooperation.

[26]COM (2005) 706 final of 22 December, p.2.

[27]Vanhercke, EIoP 2009, p. 1.

exchange of information among the Member States in fields where there is no explicit legislative competences at the European level. According to *Eichenhofer,* the OMC enable the EU to modernise the social protection.[28] Within the context of OMC the European Commission in cooperation with the Member States define the guidelines, objectives and indicators (benchmarks) for each strand of the OMC. Following, the Member States have to adopt National Plans,[29] in which they analyse which measures they have taken in order to achieve the objectives already defined. Lastly, the European Commission together with the Council monitors and evaluates the progress of the Member States in respect of their National Plans and Reports through a "Peer-Review" system.

As far as the EU's common objectives on the field of pension policy are concerned, the European pension strategy rests on three pillars: i. reductions of public debt, ii. later retirement and iii. pension reform.[30] In March 2006, the European Council established the OMC on Social Protection and Social Inclusion (SPSI),[31] which streamlined the OMC on social inclusion and on pensions together with the OMC on health and long-term care, in order to 'create a stronger process' and to 'sharp the context into which work on social protections and inclusion must fit'.[32] Because of the welfare diversity and the functional inter-dependence among the Member States, the EU does not propose any uniform social pension reforms.[33] Within the context of OMC on SPSI the Member States agree on **common objectives** for each strand and based on these objectives, they plan their national strategies for social protection and social inclusion. These common objectives as well as the indicators and benchmarks are not set in advance, but they are laid down and approved unanimously by the Member States and the European Commission during the Consultation-process.[34]

Both the Social Protection Committee in its communication supporting national strategies for safe and sustainable pensions[35] and the European Commission in its communication on streamlining the OMC on Pensions in the field of Social Protection and Social inclusion[36] have presented the following common objectives and guidelines applying in the strand of pensions, forming in this way a common framework for the pension reforms:

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[28] Eichenhofer, Sozialrecht der Europäischen Union (Social Law of European Union), p. 229.
[29] In the case of pensions, the Member States have to draw National Action Plans in Pensions.
[30] Callese, in: DRV (ed.), Open Method of Coordination on the fields of pension-quo Vadis?, p. 46.
[31] European Council, Presidency Conclusions, 23 and 24 March 2006, par. 69-71.
[32] See supra n. 26, p.3.
[33] Dawson, E.L.Rev 2009, p. 64; Blanke/Hoffmann, KJ 2006, p.148.
[34] Schulte, in: Becker; Kaufmann et. al (eds.), Alterssicherung in Deutschland, p. 679.
[35] COM(2001) 362 final of 03 July, p. 2.
[36] See supra n. 26.

a. Solidarity and fairness within the generations;

b. Guarantee of adequate retirement incomes for all (universal), so that people can maintain their living standard after retirement;

c. Sustainability of public and pension schemes by supporting longer working lives, ensuring an appropriate and fair balance of contributions and benefits and promoting affordability and security of funded and private schemes;

d. Transparent pension system, adjusted to the demographic ageing and according to the aspirations for greater equality of women and men;

e. The reforms should be conducted on the broadest possible consensus;

The common objective of adequacy of pensions has three goals: prevent social exclusion, enable people to maintain living standards and promote solidarity.[37] The common objective of financial sustainability of pension systems has five goals: raise employment levels, extend working lives, make pension systems sustainable in the context of sound public finances, adjust benefits and contributions in a balanced way and finally ensure that private pension provision is adequate and financially sound.[38]

Guidelines in the field of pension policy were also proposed through the Green Paper of the European Commission 'towards adequate, sustainable and safe European pension systems'. The Green Paper was published in July 2010, in order to be launch, at a European level, a debate about how the pension system could 'enable individuals to maintain, to a reasonable degree, their living standards after retirement'.[39] As it has already been stated in the paper, its purpose is not to suggest 'one ideal one-size-fits-all pension system design',[40] but to underline common principles that the Member States should take into consideration, while reforming their pension system. In particular, according to the Green Paper, it is crucial for the Member States to 'provide sufficient opportunities for complementary entitlement', in order to ensure adequate pension income[41] and sustainable pension systems by limiting the increase in public pension spending.[42]

Within the context of the Annual Growth Survey,[43] the Commission proposed even more specified measures on pensions. The main line of the Annual Growth Survey is that Member States with excessive public deficit must take the necessary and

[37] De la Porte, Nanz, Journal of European Public Policy 2004, p. 275.
[38] Ibid.
[39] COM (2010) 365 final of 07 July, p.2.
[40] Ibid.
[41] Ibid, p. 8
[42] Ibid.
[43] COM (2011) 11 final of 12 January.

appropriate measures in order to acquire a sustainable economy, by i.e. reforming the pension systems. In its communication, the Commission focuses on the need for higher effective retirement age, which should be indexed according to the rates of life expectancy, on stricter eligibility criteria for early retirement, on promotion of life-long learning and employment in old age and lastly on development of complementary private savings.[44]

Lastly but not least, the reformed EU fiscal framework – strengthened with the 2005 reformed Stability and Growth Pact (SGP) and with the Medium-term Budgetary Objectives (MTOs) - rests on three aspects of pension policy.[45] First of all, the EU fiscal framework outlines the need to strengthen the role of private tiers, so that they can provide an adequate supplementary income to the statutory pension. Secondly, it underlines the importance of the establishment of minimum retirement income and of setting up stricter eligibility criteria for getting retired. Lastly, it suggests a definition of the pension systems parameters before and after retirement (accumulation and valorization of pension rights, and indexation of pension benefits after retirement).

To sum up, the common objectives of OMC on Pensions, as they are launched through the OMC on SPSI, and the guidelines that are derived from the EU's documents mentioned above launch certain policy alternatives in the field of pension policy. First of all, the Member States should undertake the appropriate measures in order to ensure the **adequacy of the pension income**, through , for instance, establishing universal minimum pension income and strengthening the function of the private funded schemes. Secondly, the Member States should ensure **the sustainability of the pension systems**, for example, through raising the retirement age, restricting the conditions for early retirement and the creation of an automatic adjustment mechanism linking the retirement age with the increase in life expectancy.

## 3. The design of pension arrangements in Greece

In May 2010 the socialist Greek government PASOK signed a loan facility agreement with the Member States of the Euro-Zone along and with the International Monetary Fund (IMF) due to the excessive Greek's public debt, budgetary deficit and loss to market access.[46] The financial assistance will be disbursed in quarterly tranches subject

[44] Ibid, p.7.
[45] EU-Commission, Interim EPC-SPC Joint Report on Pensions, (2010)221924-REV of 31 May, p.55.
[46] Loan Facility Agreement between Greece and the Euro Area Member States of 08 May 2010, available at http://www.minfin.gr/contentapi/f/binaryChannel/minfin/datastore/30/2d/05/302d058d2ca156bc35b0e268f9446a71c92782b9/application/pdf/sn_kyrwtikoimf_2010_06_04_A.pdf.

to periodical review.[47] In order for each tranche to be released, Greece is made dependent on compliance with measures consistent with the Council decisions (on the basis of 126 par. 9 and 136 TFEU)[48] and laid down in a Memorandum of Economic and Financial Policies (MEFP), Memorandum of Understanding on Specific Economic Policy Conditionality and Technical Memorandum of Understanding.[49] MEFP is an economic and financial programme which commits Greece to implement specific retrenchment policies during the period 2010-2013[50] in order to reduce public spending and preserve financial stability.[51] One of the policies that Greece is obliged to implement is to strengthen the social security programs by reforming its pension system,[52] which is characterized by heavy deficit.

Within this legal background, the Greek Parliament adopted two pension reform bills, on 15 and 21 July 2010, for the private and public sector respectively.[53] The reformed pension system actually establishes a new pension structure from 2015 with the aim of not only declining the public expenses but also creating a sustainable pay-as-you-go system (hereinafter PAYG) and facing the demographical changes.

As I have already mentioned in the first section of this paper, one of the common objectives of the OMC on pensions is to provide pensioners with adequacy of the pension income, so that they will be able to live in dignity and to preserve more or less the same living conditions as they had before retirement. In order for the Greek government to meet this objective, it introduced a tax-financed means-tested basic pension income. Despite the fact that it is characterized as a means-tested social benefit,[54] it is almost universal, as the number of recipients is large. The basic pension is available without any further prerequisites to all pensioners that receive an earnings-based pension. For citizens that have paid contributions less than fifteen (15) years to the social system, and therefore they do not have the right to an earnings-based pension, this social benefit is payable only when they have reached the statutory retirement age, they have been residents of Greece for at least 35 years but

[47] EU-Commission, The Economic Adjustment Programme for Greece, Occasional Paper 61, May 2010, p.26.
[48] The Council has adopted until now the following decisions: 2010/320/EU of 10 May 2010, 2010/486/EU of 7 September 2010 and 2011/57/EU of 20 December 2010.
[49] See supra n.47, preamble point No.6.
[50] IMF, Greece – Memorandum of Economic and Financial Policies, Washington, May 2010, p. 4.
[51] EU-Commission, The economic adjustment programme for Greece, May2010, p.49; EU-Commission, The economic adjustment programme for Greece – third review, February 2011, p.1.
[52] See supra n.50, para. 13 and 25.
[53] Law 3863/2010, Nr. 115 Official Journal of 15 July 2010 and Law 3865/2010, Nr 120 Official Journal of 21 July 2010.
[54] EU-Commission, The Economic Adjustment Programme for Greece- First Review, Occasional Paper 68, August 2010, page 36.

have not sufficient income. In cases of early retirement, or disable and survivor pension the full rate of the basic pension is being reduced. This new flat-rate basic pension differs from the tradition of Bismarckian earnings-related pension scheme[55] and promotes a multi-tier pension system, which is launched by the European Union. The introduction of a basic pension income constitutes a general tendency in EU as it has been introduced in a more or less similar way also by other Member States of the European Union.[56] The question, whether this new social benefit can actually ensure an adequate pension income is, however, not subject of this paper. Nonetheless, it could be characterised as a positive step forwards.[57]

Besides the establishment of the basic pension income, the Greek government, in order to combat poverty in old age and to ensure adequate pension, introduced a further means-tested social assistance (EAS). Receivers of this supplementary income are only the lower-income pensioners and it is financed from the high-income pensioners, whose monthly pension exceeds 1700 euro. By this way this measure promotes the inter-generational equality as well as the alleviation of poverty, as it distributes the financial burden and the benefit is weighted towards the higher pension earners. Additionally, it endorses the common objective of a closer link between contributions and benefits.[58] A similar measure had already been introduced in 1996 from the socialist government PASOK, with Prime Minister Kostas Simitis, but it was withdrawn, as the Supreme Court of Greece declared that it was not compatible with the Greek Constitution.[59]

Besides the steps for an adequate pension income, the new pension law includes also a series of important structural reforms, in order to meet the second objective of the OMC on pensions, namely the objective of sustainability. The Greek government has undertaken a series of measures to decrease the generosity of benefits, most of which have been adopted also by the majority of the European countries, as well.

First of all, in order for the prolonging of working life to be achieved, the criteria for eligibility of normal and earlier retirement are much stricter. In particularly, the age of statutory retirement has been extended to 65 years and the early retirement age to 60

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[55] Matsaganis; Leventi, Pathways to a universal basic pension in Greece, p. 10.
[56] Denmark, Finland, Hungary, Sweden, United Kingdom etc.
[57] However, Paparrigopoulou-Pechlivanidou argues that the basic pension ‚contravenes the contributory principle and equalises different categories of insured people.’: The distinction between basic and contributory pension, p. 58.
[58] Schmähl, in: Becker; Böcken Winfried et al. (eds.), Reformen des deutschen Sozial-Arbeitsrechts im Lichte supra- und internationaler Vorgaben, p.38.
[59]Sotiropoulos, Journal of European Social Policy 2004, p.11.

years, both for men and women.[60] In addition, the requested years of contribution for a full pension system are raised from thirty-five (35) to forty (40) years. Furthermore, in order the expenditures in social benefits to be reduced, it has been introduced a special social contribution paid by pensioners below 60 years old with monthly pensions above 1.700 euro.

Moreover, some regulations have also been adopted to meet the objective of EU to strengthen the link between contributions paid and benefits received. In particular, the link between contributions and pension is closer as the replacement rate of the earnings-related pension is reduced from 75% to 60%, of wages and the calculation of the pensionable earning is extended from the last best five (5) years to the entire lifetime earnings. Furthermore, the upper limit of pensions is declined and the pensions indexed to consumer prices. Besides, the pension award formula in the contributory based scheme is amended from an average annual rate of 2% per year to an average of 1,2%. Additionally, the new legislation reduced pension expenditures by merging the various main pension funds into three. According to the new law, there are three pension funds organized in occupational line, namely, the pension fund for employees in the public and private sector (IKA), the agricultural pension fund for farmers (OGA) and a pension fund for the self-employed (OAEE).

Last but not least, the reformed pension system has introduced an automatically-adjusted mechanism, which links the retirement age to increases in life expectancy, in order to cope with the shift of demographical changes. From 2021, the statutory and early retirement ages will be adjusted according to the data in changes in life expectancy every three years. This measure complies with the guideline of the EU to regulate the pension system according to the demographical changes.

## 4. Evaluation of the undertaken pension reform - Discussion

The initial aim of the reform is to stabilize the pension expenditure and guarantee the budgetary balance of the pension scheme in the medium and long run. Through the above mentioned reforms the Greek government aims to reduce the public sector pension spending from 13% of GDP to under 2,5% of GDP until 2060.[61] The IMF projected that the reform could potentially reduce pension expenditure in 2050 by 8,5%.[62] In case it is projected that the public pension expenditure exceeds the limit of 2,5%, the main parameters of the pension system provided by Law 3863/2010 shall be

[60] The equalisation of the pensionable ages complies also with the following judgment of the ECJ, C-559/07, Commission v Greece, 26.03.2009.
[61] See supra n.50, p. 6.
[62] IMF, Greece: Staff Report on Request for Stand-by Arrangement, 2010, p.41.

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revised.[63] Consequently, in order the Greek government to achieve this goal, it increased the contribution rates and undertook all those necessary measures to reduce the amount of pension benefits. Actually, the measures that were adopted constitute parametric and not structural reforms. The reforms are based on the existing PAYG, since the pension system will continue to be financed on a PAYG basis and the only innovation is the establishment of an almost universal flat-rate basic pension.[64]

The Greek government, however, did not undertake those necessary measures so that it could compensate for the loss of pension benefits; measures such as the strengthening of supplementary pension income or the occupational and private schemes. In Germany, for example, this can be achieved through the Riester-subsidy, [65] which took its name after the former Minister of Labour and Social Security Walter Riester, and its aim is to promote voluntary occupational and personal pensions.[66] Moreover, in the east and central European countries, a mandatory or voluntary capital-funded pension schemes has been introduced [67] and the second pillar (occupational pension schemes) or a part of the first pillar is provided from private pension funds, which invest the contributions of each member to the capital market and each member has its own individual account, financed on an earnings-based scheme. The Greek government, nevertheless, in order to compensate for the decline of the pension benefits, introduced only flat-rate elements in addition to earnings-related elements. It avoided, actually, adopting any further measures to strengthen the supplementary pension income or to take any necessary measures to enforce the second and third pillar (the occupational and private pension scheme respectively), which in Greece are still not well-developed.[68]

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[63] Greece, Memorandum of Understanding on Specific Economic Policy Conditionality – fourth update, 02 July 2011, p. 9, available at: http://www.minfin.gr/content-api/f/binaryChannel/minfin/datastore/58/33/f4/5833f491b7eab345921ef31cc7696fa947cddae4/application/pdf/MoU+2011-07-07.pdf.

[64] However, Schmähl is arguing that the distinction between parametric and structural pension reform may be misleading, as a 'parametric' reform, which reduces the benefit level in a public scheme and therefore makes private saving much more necessary, will result over time in a quite different structure of income in retirement and thus in a 'structural' change: See supra n.58, p. 45.

[65] Schulte, in: Becker/ Kaufmann/ et.al, Alterssicherung in Deutschland, p.688.

[66] Berner, Beyond the distinction between Public and Private: Hybrid Welfare Production in German Old-Age security, p.6.

[67] Schmähl, in: European Commission – Employment and social affairs (eds.), Social protection in the 13 candidate countries – a comparative analysis, p. 47.

[68] Natali, Greece-The Pension System, p. 3.

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In Greece, the 'three pillar system' does not function properly, the border among the pillars is disputed and they coexist in a single entity.[69] According to the new legislation, the first public and mandatory pillar consists of three tiers. The first tier is the basic pension, the second tier is the earnings-based pension and the third tier consists of supplementary/auxiliary and welfare funds, which have public personality, they are financed on the basis of a PAYG system and the benefits are run by the wider public sector.[70] The third tier provides supplementary pension income to add more coverage to the other two tiers. The auxiliary funds provide a replacement rate of 20% and the welfare funds consist of lump-sum benefits.[71] The pension benefits deriving from the auxiliary funds are guaranteed by the state.[72] The latter's function is identical to second pillar occupational pensions, which makes the boundary between the first and second pillar not clear.[73] According to the investment framework of the Greek pension funds, which was established end of 2005, the funds are allowed to invest up to 23% in Greek equities, property and mutual funds and they are not allowed to invest outside of Greece.[74] The second pillar consists of the voluntary occupational pension scheme, which is introduced through the Law 3029/2002) and the third pillar consists of voluntary private pension scheme.

The new legislation on pensions does not contain any specific provision, as far as the supplementary/auxiliary pension funds are concerned. It only obliges the supplementary/auxiliary funds to provide data about their annual budgetary implications to the National Actuarial Authority (hereinafter NAA). The NAA has not till now completed the long term projections on pension expenditure of the supplementary/auxiliary funds. These projections are expected until 31.10.11[75] and will be subject to a peer review by the EU Economic Policy Committee.[76] Nonetheless, only the completion and the results of these projections are not adequate for the increase of the revenues of the funds. The Council of Europe estimates that further measures are essential for the sustainability of the supplementary pension systems.[77]

Plans of the Greek government are to reform the third tier of the first pillar and implement it beginning January 2012.[78] The Greek government's goal is, firstly, to

[69] Tinios, Journal of European Social Policy, p. 165.
[70] Angelidis;Tessaromatis, Journal of Banking and Finance, p. 2159.
[71] Ibid, p. 2.
[72] Featherstone, The limits of Europeanization: reform capacity and policy conflict in Greece, p.83.
[73] See supra n.69, p. 167 and 173.
[74] Ibid.
[75] Source: Newspaper: Hmerisia of 10.05.2011, available at: http://www.imerisia.gr/article.asp?catid=12336&subid=2&pubid=95337161.
[76] See supra n.47, p. 27.
[77] Council, Nr. 2010/486 of 14.09.10, Article 1 par. 13 point e.
[78] Greece, Memorandum of Economic and Financial Policies - third update of 28.02.11, par. 9.

strengthen the link between benefits and contributions by starting the calculation of benefits on the basis of the new notional defined-contribution system.[79] Secondly, its aim is to eliminate imbalances in those funds with deficits and ensure the long-term sustainability of supplementary schemes by reducing the number of existing funds, freezing nominal supplementary pensions and reducing the replacement rates for accrued rights in funds with deficits.[80] According to Greek daily press, it is estimated, that the existing supplementary pensions will be reduced to 20% or 10%, because of the austerity measures that the Government has to implement to reduce the public deficit.[81] The decline of the amount of the supplementary pension could set, however, in danger the adequacy of pension income, which is one of the most crucial common objectives at European level. This could, consequently, increase the problem of poverty in elderly that must be combated according to the new European Strategy 2020. No radical reforms are planned to be adapted, such as new regulations, on how they could invest in the capital market, so that the supplementary funds will be able to raise their revenues in the near future.

Last but not least, the new legislation has not shifted the first public pillar from defined benefit to defined contribution, as some east and central European countries did, such as Latvia and Poland, in order to reduce the interpersonal redistribution within pension schemes. As Shmähl supports, “defined contribution schemes have a clear and strong contribution-benefit link”, for the pension benefits are calculated according to the accumulation of the contribution through the working years, including some interest.[82] From the entire text of the legislation, it is obvious that the Greek government decided to strengthen the link between pension benefits and contributions only by various changes in the formula for calculating pension.

## Conclusions

Since 2000 the European Union has taken a number of initiatives with the aim of giving directions and guidelines to the Member States in the field of pension policy. Through these initiatives the EU has been transformed into a social policy-maker.[83] As the EU has no competence to legislate the pension systems of the Member States, these initiatives are taken with the aim for a functional Social Union and a sound European

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[79] Ibid.

[80] Greece, Memorandum of Understanding on Specific Economic Policy Concitionality – third update, of 23.03.2011, par. 5, actions for the eight review, point ii.

[81] Source: Newspapers: eleutherotypia of 07.06.11, available at: http://www.enet.gr/?i=news.el.oikonomia&id=282206; Kathimerini of 12.06.2011, available at: http://news.kathimerini.gr/4dcgi/_w_articles_economy_1_26/05/2011_443411.

[82] See supra n.67, p. 47.

[83] Eichenhofer, Geschichte des Sozialstaates in Europa (History of the welfare states in Europe), p. 68.

Monetary Union. The social goals demand economic growth and price stability. An excessive increase in the pension spending, which constitutes a large part of the public budget, could lead to crucial financial crisis in European Union. Therefore, it is very important that the EU monitors and gives recommendations to the level and composition of government expenditure and revenue, as well as produces survey of the social situation of each Member State and their pension budget.

In 2009, Greece faced unprecedented fiscal imbalances, with mounting budget deficits and public dept. A rapid comprehensive pension reform became therefore important not only for the financial macroeconomic stability to be secured but also for the long-term sustainability of the pension system to be ensured.

Indisputably, the Greek Parliament adopted a comprehensive pension reform. Important steps have been taken so that the Greek pension system can be compatible with the guidelines and common objectives indicated at European Level through the non-binding legal instrument of OMC. The Greek government, in order to secure an adequate pension income and promote the intergenerational fairness adopted an almost universal tax-financed basic pension as well as established a social assistance flat rate benefit, which is paid to the low-income pensioners and financed by the high-income pensioners. Furthermore, the new legislation foresees a number of measures, with the aim to guarantee the sustainability of the pension schemes, taking at the same time into consideration the demographic changes. Some of the reforms that are undertaken are the increase of the statutory and early retirement age, changes in the calculation-formula of the pension benefits, merging the various pension funds. In view of the fact that only recently Greece has implemented those changes, there are only limited projections regarding the fiscal sustainability of public pension schemes.[84] To a large extent, the same measures have been undertaken by the majority of the other Members of the European Union, a fact which also leads to the conclusion that the Greek pension system is being Europeanised.

However, the Greek Government has not adopted the essential measures to strengthen the supplementary pension scheme and the second and third pillar of the pension system (occupational and private scheme respectively) that could function as a compensation for the loss of pension benefits. The austerity measures and the stricter eligibility criteria for a pension entitlement will lead to lower pension income. Therefore, it becomes even more urgent the need for a supplementary pension income through the auxiliary funds or through the second and third pillar.

[84] According to the EU-Commission the reform will have a significant impact on public finances already within the next two decades. Source: EU-Commission, Occupational Papers 68, August 2010, p. 31.

A revision of the functioning of supplementary/auxiliary public pension schemes by introducing a full or part funded pension scheme is essential. The introduction of a capital-funded tier in the first pillar in defined contribution type – privately managed could result, according to empirical results, in additional significant revenues at acceptable levels of financial risks.[85] According to the economic adjustment programme for Greece, the next phase of the reform concerns the supplementary pension schemes of the first public pillar, which shall freeze the nominal supplementary pensions, reduces the replacement rate for accrued rights in funds with deficits and become notionally-defined benefits schemes. Nonetheless, the planning reforms aim primarily to stabilize pension expenditures and guarantee the budgetary neutrality of those schemes and not to find solutions on how to provide adequate supplementary income. The compensation of the loss of pension benefits and an adequate supplementary pension income cannot only be achieved through the decline of the fund's expenses but through the management of fund reserves as well.[86]

Lastly, as far as the occupational and private schemes are concerned, till now they are not well developed and only the minority of workers has decided to contribute extra to these two voluntary schemes. The reason for this situation is firstly, that the primary fully funded pensions funds were first established only in 2002 and secondly, that according to the previous pension systems the pension benefits were quite generous and therefore there was no need for additional income. However, in respect to the new retrenchment pension policy, it becomes more pressing for the Greek government to find the appropriate solutions in order to enforce the second and third pillar.

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[85] Milonas, et.al, PEF, p. 498.
[86] Ibid, p. 490.

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