Greece: Replacement Ratios: Adequacy measure indices

In the unpublished INE GSEE's (Labor institute of the General Confederation of Unions of Greek Workers) report at late 2015 on Greek the pension system, Replacement Ratios per sector for 2015 have been calculated under the following formulas:

1. $$\frac{Average\ amount\ of\ 1st\ pension\ of\ new\ pensioners}{Average\ \ amount\ of\ last\ salary\ of\ new\ pensioners}$$

2. $$\frac{Average\ amount\ of\ 1st\ pension\ of\ new\ pensioners}{Average\ \ amount\ of\ career\ salary\ of\ new\ pensioners}$$

3. $$\frac{Average\ amount\ of\ 1st\ pension\ of\ new\ pensioners\ with\ 40\ years\ of\ full\ career}{Average\ \ amount\ of\ career\ salary\ of\ new\ pensioners}$$

Main Pension Schemes:

IKA –ETAM: The social insurance organization of private sector employees and public sector employees from 2011

OTE: Pension group of telecommunication employees (*)

BANKS: Pension scheme of bank employees (*)

DEI: Pension scheme of electricity services employees (*)

DIMOSIO: Public sector employees (**)

OGA: Farmers' scheme

(*) From 2003 and on new entrants are insured with IKA-ETAM rules

(**) From 2011 and on new entrants are insured with IKA-ETAM rules

Summary of observations 1

Table1: 2015 Greek RR per sector

Scheme	Career in years	Average retirement age in integer years	Replacement Ratio 1	Replacement Ratio 2	Replacement Ratio 3
IKA-ETAM	27	61	49%	73%	83%
OTE	34	57	59%	66%	73%
BANKS	34	57	38%	65%	80%
DEI	29	58	51%	57%	87%
OGA*	24	68	42%	61%	82%
DIMOSIO	32	58	60%	62%	78%

Summary of Observations 2

- The Greek main pension system since 2015 remained fragmented but generous enough. Replacement ratios between different sectors are significant. These differences are mainly due to the fact that until 2009 the Greek system differed across various occupational sectors, baring still a lack of a unified philosophy on contributions and benefits.
- In addition the pensionable salary consisted only by a part of the average career salary , usually referred on the last 1-10 years.
- Calculations per sectors reveal that reforms since 2015 left old cohorts of insured people almost intact from pension reforms.
- Calculations should be repeated after the 2016 reform, where more unified results are expected.

Summary of Observations 3

From the Table 1 above it is apparent that :

A. RR1<RR3 and RR2<RR3 due to the fact that careers are shorter than 40 years.
B. RR1<RR2 due to the fact that the final salary is larger than the career pensionable salary, The larger the difference between RR1 and RR2 the more years' salaries before retirement are used for the calculation of the pension.
C. RR3 shows greater unification – around 80%- among insured people, especially employees due to reforms 1993-2009 which imposed pension accrual rate unification. However they do not serve as representative results

Representative indicator relevant to ISG calculations:

A new calculation in addition to table 1 is performed and can be used in comparison with the theoretical replacement ratios produced for ISG (Indicators' Sub group). The main difference remains that calculations of the working group include only stylized cases though the rr appearing on table 2 below include average cases of all new pensioners, if they had been working for 40 years.

At this context RR4 can serve as representativeness comparisons to replacement ratios produced by the Indicator Subgroup of the European Social Protection Committee

4. $$\frac{Average\ amount\ of\ 1st\ pension\ of\ new\ pensioners\ with\ 40\ years\ of\ full\ career}{Average\ \ amount\ of\ last\ salary\ of\ new\ pensioners}$$

Summary of observations 4

Table2: 2015 Greek RR per sector with TRR

Scheme	Career in years	Average retirement age in integer years	Replacement Ratio 1	Replacement Ratio 2	Replacement Ratio 3	Replacement Ratio 4 - Theoretical Replacement Ratio **
IKA-ETAM	27	61	49%	73%	83%	57%
OTE	34	57	59%	66%	73%	65%
BANKS	34	57	38%	65%	80%	47%
DEI	29	58	51%	57%	87%	78%
OGA*	24	68	42%	61%	82%	57%
DIMOSIO	32	58	60%	62%	78%	76%

** as described on the previous page

From the Table 2 above it is apparent that :

A. RR1 is smaller than TRR due to the fact that actual careers are shorter than 40 years.

B. Larger difference between RR1 and TRR the impact of reduced careers to the replacement ratios as well as the diversification of accrual rates between funds

C. If the labour market or Greek mentality could support larger careers of 40 years, the pension replacement ratios could support a level above 47% only for the main pension branches.

D. Banks carry the lowest TRR due to the fact that salaries before the exit age are the largest between all funds and the redistribution role that accrual rates are designed to play.

Adequacy issues 1

Adequacy results for the first pillar are not so encouraging as they appear on the first place mainly because

1. Wages and salaries have decreased during recent years and results are based on smaller amounts of salaries (denominators) rather than increased pensions (nominators). This is apparent on figure 1 on the next page.

2. On the other hand pensions amounts remained steadier as amounts comparing to salaries' depreciation

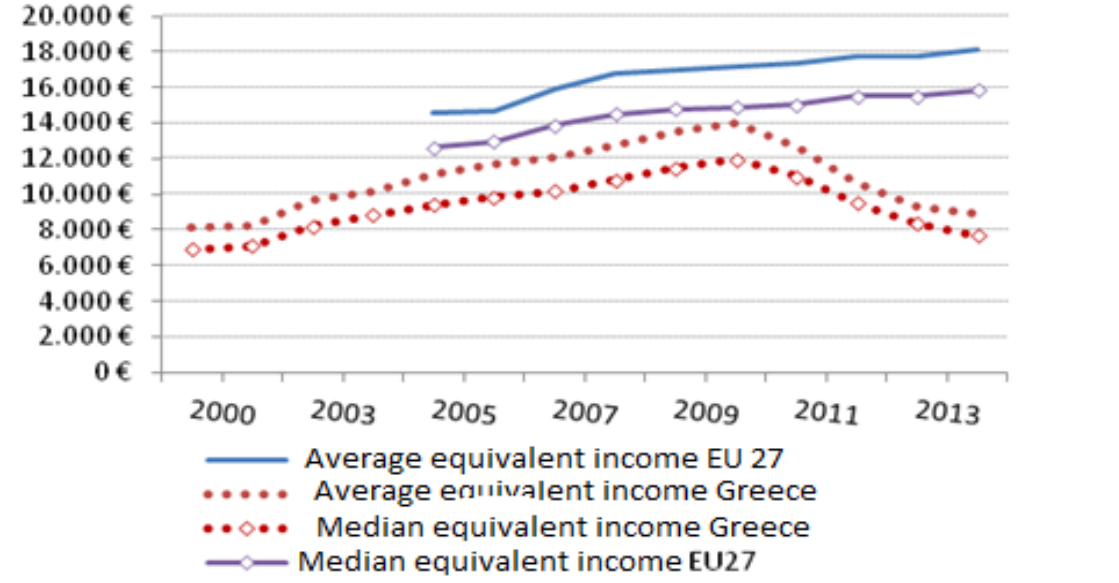
Adequacy issues 2

- Replacement ratios as well as risks of poverty rates are relevant to the country in which they are measured. So indices bearing average and median income as denominators seem improved due to drops of income in Greece. The average income from 2010 until 2013 has dropped by 35,8% . At the same time the same measure as for EU 27 has been increased by 6,33%.

- On the figure 1 below the drop of the medium and the median equivalent income for Greece comparing to the respective rise at the EU 27 at the same period is shown.

Adequacy issues 3

- On the figure below the drop of the medium and the median equivalent income for Greece from 2009 until 2013 is shown compared to the rise in EU 27 at the same period.



Source: data base Eurostat

Thank you

DATA SOURCE: Greek scheme data 2014

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