

Social Cohesion and Development

Vol 6, No 2 (2011)



The problems of supplementary social insurance in Greece: Conclusions of a conference

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doi: [10.12681/scad.9381](https://doi.org/10.12681/scad.9381)

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To cite this article:

Paparrigopoulou-Pechlivanidis, P. (2016). The problems of supplementary social insurance in Greece: Conclusions of a conference. *Social Cohesion and Development*, 6(2), 149–152. <https://doi.org/10.12681/scad.9381>

The problems of supplementary social insurance in Greece. Conclusions of a conference.

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The 7th conference of the "Union for the Protection of Social Rights" on "Supplementary Social Insurance. The Chronicle of a Death Foretold" was held on 12.21.2011. The question addressed by the speakers was whether the legislative measures announced by the Greek government will be effective in restoring the sustainability of supplementary social security funds / branches. These measures aim to decrease the money needed from the State budget to support those funds and branches that would be unable to fulfill their obligations. This problem has arisen because no actuarial studies have been conducted since 1992 that would in turn permit to adjust the pension level, even though the law expressly required such studies. Given that over the past 20 years the law has not been enforced, the "Union for the Protection of Social Rights" organized this conference with the eloquent sub-title, inspired by G. Marquez, « The Chronicle of a Death Foretold».

The main conclusion drawn from the presentations of the speakers, the interactive discussion of the attendants and the round table is that the consolidation of supplementary funds / branches, which has been announced, does not contribute to solving the problems of supplementary insurance. The only thing that will be achieved is that the wealthy funds will finance the benefits of the deficient ones. But still this will be no solution because the total deficit of the deficient funds is much bigger than the reserves of the wealthy ones. Very soon all of them will be problematic. Moreover this is contrary to the provisions for the protection of property rights and ignores that supplementary pensions are financed by contributions and are not subsidized by the State.

Such decisions require both scientific documentation, comparative evaluation of alternative solutions and their impacts and social consensus. The severe financial, economic crisis does not justify bypassing these requirements. Frivolous measures do not contribute to economic recovery; on the contrary they exacerbate inequalities and create social tensions.

The Union for the Protection of Social Rights promised to return to the issue of supplementary pensions with specific suggestions for each fund / branch once the actuarial studies are released.

The attendance of stakeholders was massive and the debate intense and fruitful. It has been clarified that:

- The overwhelming majority of supplementary funds and branches (31 of 39) are not viable. The total deficit is estimated at 70 billion Euros (according to actuarial studies based on 2008 data). The main problem is that since 1992 no actuarial studies were ever made to adjust the pension levels even though the law expressly required such studies. In other words, current pension levels cannot be adequately covered by current contributions. In view of the financial and economic crisis it is evident that the government seeks to avoid any burden on the state budget in case the funds / branches of supplementary insurance are unable to meet their obligations.

- In Greece, supplementary social security has the same legal and economic characteristics in the organization and operation as the statutory social security. Supplementary social security is provided through mandatory, statutory schemes, financed on a PAYG basis; however one essential difference is that supplementary social security has never been subsidized by the State. Its resources are the contributions of employers and employees and self-employed and in some cases other social resources of minor importance. Given these facts a question is raised: what is the reason for the maintenance of supplementary insurance, if it works the same way as the statutory? Why have two structures for the same thing? If we insist on the same *modus operandi* and organization, it is simpler and more consistent to consolidate the supplementary funds and branches to the statutory schemes. The preservation of a distinct supplementary insurance from the statutory social insurance makes sense only if their role and function (especially economic) differ.
- The legislature can either incorporate the supplementary insurance to the statutory schemes, or maintain it as a separate level of protection. In the latter case, the organizational form should follow the rules of private law, f. ex. the form of a mutual association or of an occupational pension fund. Private law means more choice and concurrence for the benefit of the insured under an effective monitoring scheme.
- Critical to the choice of the best organizational form is the economic system that will be followed by supplementary insurance. The question that has to be answered is if the existing PAYG system will be maintained or whether it would be more appropriate to introduce a funded system. However, a PAYG system with notional capitalization is not a real funded system, because it does not accumulate contributions to create a capital in collective or individual accounts and manages it (through investments) so as to increase it.
- In order to select the appropriate form the advantages and disadvantages of each organizational form should be considered in combination with the economic system that has been selected and the actuarial data.
- Of course such extensive structural changes demand a thorough preparation by comparatively examining and evaluating all the alternatives as well as their impacts. In addition, a concrete implementation plan is needed to realize the changes. Finally the establishment of an effective control system that will supervise the finances and the solvency of each organization should be created.

Comments on the presentations of the speakers:

Mrs. Artemis Dedouli pointed out that the problems of supplementary social security funds / branches have been well known for many years. It was particularly known that benefits are not covered by contributions as well as that there were no actuarial studies to justify the amounts of pensions awarded and their adjustment. The few actuarial studies that were made showed that the system was unsustainable, but no measures were taken. In some cases there was also poor management of reserves. For example supplementary funds / branches loaned money, following government's suggestions, to statutory social security schemes without guarantees that the capitals loaned would be returned. In addition, she pointed out that despite these alarming facts neither the state nor the administrative boards of funds took measures, nor the representatives of the trade unions and professional associations set the sustainability of supplementary funds / branches as their priority. Furthermore, even when the legislator tried to set some regulations to remedy the situation, the insured themselves did not support them, because they believed that the state must "guarantee" the supplementary social insurance (and therefore subsidize it) as it does with

the statutory social insurance. Today, under the present severe financial and economic crisis the measures required are much harsher than those that would have been implemented if action was taken promptly. Therefore, the critical question is to answer what kind of supplementary insurance Greece wants, with what type of economic system and what kind of supervision.

Mrs. Theodora Antoniou referred to the legal issues arising from the governmental intervention, namely the consolidation of supplementary funds / branches and in particular those which are private entities and are protected by Article 12 of the Constitution. She subsequently analyzed the case law of Greek and international courts especially in relation to the protection of property rights. She pointed out that the transfer of the reserves of the abolished funds in a consolidated fund and the financing of benefits of all insured persons irrespective of the amount of reserves that each fund contributes and its degree of sustainability is problematic. She stressed that decisions for the consolidation of supplementary funds / branches cannot be obtained from their administrative boards, because they are appointed by the government, and therefore are not representing the insured. Such decisions cannot be taken by the trade unions as well, because of their low representativeness. Perhaps the insured persons should be invited and give a specific mandate to their representatives on the decision. All of these issues, however, can not be regulated by a ministerial decision, as they have not a specific and detailed character, as required by the Constitution. A specific law is therefore required.

Ioannis Kosmas, explained that the problem of supplementary insurance in Greece is that reserves do not even cover the present value of benefits for pensioners. This fact does not allow us to be optimistic regarding the future of supplementary insurance. We should immediately start setting up reserves to adequately cover the pensioners and the accrued rights of the insured. Supplementary insurance must obtain high reserves and invest them in a controlled, safe and profitable way. Otherwise any intervention in the regulation for the award of pensions will be a temporary solution and not the real and lasting solution to the problem.

Nikolaos Tessaromatis firstly analyzed how the concept of supplementary insurance is perceived and how the respective funds function in the United Kingdom and the Netherlands. He explained that in Greece for some funds there is still a small window of opportunity that they can exploit. He referred to TEADY (civil servants supplementary pension fund) and TEAYEK (covering employees in retail shops) and explained by specific financial data how sustainability is affected and what options are economically the most appropriate to adopt. In particular, TEADY has about 2.4 billion reserves when 7.5 billion is needed. Without any performance reserves are sufficient until 2024. With a low performance a decade is gained, and the fund's sustainability reaches 2034. TEAYEK has reserves of 1.3 billion, when 4 billion is needed. Without any performance its reserves are sufficient until 2027. With a low performance the funds sustainability is prolonged until 2037. Therefore, reserves and good investments and performances are very important.

The governors of insurance funds / branches agreed that it is urgent to take action in order to avoid the economic collapse of the majority of supplementary insurance funds. However, there was intense debate whether the proposals of the Minister of Labor that mainly refer to the consolidation of these organizations and the introduction of a PAYG system with notional capitalization are the best options. This is because no alternatives have been examined to the proposals and no actuarial data were released by the Ministry. There was a strong reservation against the consolidation and fear that ultimately the only thing that will be achieved is the redistribution of property of the most viable funds to the less or not at all viable until they all seek to the bottom. This redistribution would infringe the property rights of insured in the viable funds given that supplementary insurance is not funded by the state.

Representatives of the political parties were rather general and focused on the political program of each party and did not expressed their position for the supplementary social insurance in detail.

In conclusion, the title of the conference “The chronicle of a death foretold” was confirmed. Indeed, we are at a crossroad. Something new must be born in the place of existing supplementary social insurance. Its nature and its relationship with the statutory social insurance should be redefined. Consolidation obviously does not solve any problem, if one does not clarify the structure of the system, its economic function (PAYG / funded) and a reliable monitoring scheme beforehand.