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Pathways to a universal basic pension: the case of Greece

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1. Introduction

Without doubt, the supranational dimension to basic income is of utmost importance. In recent years, interest in age-specific basic income schemes at the level of the European Union seems to be on the rise. For example, Levy et al. (2007) explored the feasibility of a basic income for children, while, more recently, Goedemé and van Lancker (2009) discussed options for a universal basic pension. Nevertheless, pathways to a basic income for the elderly are likely to be specific to national contexts (Jordan et al. 2000). In this spirit, the current paper analyses the current state and future prospects of a universal basic pension in Greece, as the country moves towards a drastic reform of the previous system of social insurance pensions.

Pay-as-you-go public pension systems in most countries of Continental Europe (including Greece) provide contributory earnings-related retirement benefits, paid out by social insurance institutions. Such benefits may be perceived as deferred wages, i.e. similar to the annuities paid by private insurers on a *quid pro quo* basis, equivalent to individual lifetime pension contributions (plus investment returns). Alternatively, retirement benefits may be perceived as pure social transfers, i.e. similar to other social benefits (such as e.g. child benefits), independent of the individual retirees’ contributory history.

The difference between these perceptions, representing two polar extremes, is important. If retirement benefits are perceived as pure social transfers, then the social contributions due by employees and employers will be seen as a pure tax. If, on the other hand, retirement benefits are perceived as deferred wages or annuities, it then follows that pensioners have “earned” their pensions through their (and their employers’) contributions to social insurance institutions during their working life, and therefore attempts by governments to cut back their entitlements amount to a breach of the implicit social contract.

Nowhere is the need to reform pensions as pressing as in Greece. Pension expenditure, if unchecked, is estimated to reach 19.4% of GDP in 2035 and 24.1% in 2060, whereas in the rest of the European Union it is set to rise gently to 11.9% and 12.6% respectively. Even though the optimal level of pension spending must reflect social and political preferences, and cannot be determined *a priori*, such a burden on public finances is clearly unsustainable. The current crisis has demonstrated beyond any doubt that future pension deficits of this scale seriously undermine economic prospects, while the ensuing fiscal adjustment threatens political stability and weakens social cohesion.

The large actual or projected deficits of Greek public pensions, and the ineffectual attempts of previous governments to restore their financial balance, may have given rise to the worst of all possible worlds: a situation in which pensioners resist cutbacks on the belief that they themselves “own” their pensions through their lifetime contributions, while employers and workers are pessimistic about future pension benefits for younger generations and, as a result, consider their pension contributions a pure tax (to be evaded, where possible).

Spiralling deficits adversely affect inter-generational equity. But there is indirect evidence that the performance of Greek pensions is also poor with respect to intra-generational equity, i.e. within the current generation of retirees (EC 2010). Poverty in old age (23%), even though significantly reduced since the late 1990s (35%), is well above the European average (20%). Furthermore, the gap between Greece and the EU remains wide in the 75+ age group (31% and 23% respectively). It therefore appears that the country's pension system is failing to deploy the large resources it commands to meet fundamental distributional objectives.

Even though Greek pensions are unsustainable and inequitable, recent attempts at significant reform have ended in failure, mostly because of union opposition. The unions resist pension reform on the grounds that acquired pension rights are "earned" by contributors. Public opinion seems to share this view, as documented by opinion polls in which respondents appear to believe that social insurance institutions offer contributors a poor deal, and that deficits are caused by mismanagement rather than by structural factors (such as unfavourable demographics and/or extravagant pension promises).

While nominally self-financed *via* employer and employee contributions, Greek social insurance pensions are in fact propped up by a heavy dose of state finance, unevenly and inequitably distributed between categories. At an aggregate level, government subsidies to Greek pensions are estimated at 6.3% of GDP or 52.2% of total expenditure on pensions. Clearly separating contributory benefits from non-contributory tax-funded ones could be the obvious way out of this conundrum. Such a move would allow the redeployment of tax funding away from subsidies to social insurance pensions towards a self-standing state pension programme, opening up a range of options including a universal basic pension. As a matter of fact, the large share of tax funding in the present system implies that the financing of a future universal basic pension would be feasible even within current fiscal constraints.

Pension reform has returned to the top of the political agenda in the context of the current crisis. Rapidly escalating since November 2009, the sovereign debt crisis made it impossible for Greece to borrow from the international markets. The €110 billion rescue package agreed in May 2010 with the European Union, the European Central Bank and the International Monetary Fund was designed to cover the borrowing requirements of the country for three years. In return of that, the socialist government, in office since October 2009, signed a Memorandum of Economic and Financial Policies, which contained harsh austerity measures including drastic pension reform.

In this context, the government presented the final draft of the pension reform bill on 25 June 2010, scheduled to be debated in parliament in early July. The bill provides for a modest basic pension from 2015. While falling short of full universality, this represents a decisive break with traditional social insurance and the closest to a universal basic pension the Greek pension system has ever got. The bill also introduces a new proportional pension on a contributory basis, more uniform across categories but also much less generous than most social insurance pensions in the previous system, for those retiring after 2015. Moreover, the bill sharply raises the retirement age and contributory conditions for current workers. At the time of writing, amidst great controversy and fierce protests, the outcome of this reform is still uncertain.

The paper is structured as follows. Section 2 reviews tax subsidies to social insurance pensions in the current system. Section 3 recounts the evolution of basic pension ideas in Greece since the late 1980s. Section 4 presents the current state of pension reform, including provisions for a new basic pension. Section 5 reviews the positions of political and social actors. Section 6 concludes by discussing prospects for a universal basic pension in Greece.

2. Tax subsidies to social insurance

Pensions represent Greece's backbone of social protection, providing households with 24.1% of their disposable income on average (ΕΣΥΕ 2010). Not much remains for other social transfers (such as family, sickness, unemployment, housing and social assistance benefits), accounting between them for a mere 3.7% of household disposable income. As explained in the previous section, as the pension system is highly fragmented and fiscally unsustainable, this backbone is broken.

Institutional fragmentation is pretty extreme. Earnings-related retirement benefits were until recently paid out by hundreds of social insurance schemes, each subject to an often bewildering array of rules. While Law 3655 of 2008 nominally consolidated social insurance into 13 agencies, privileged categories retained their preferential treatment. For example, following the merger of small social insurance agencies such as *ΤΑΠ-ΟΤΕ* (state telecommunication company workers) into the general regime *ΙΚΑ*, the acquired rights of the former were protected by the law for a long transitory period.

Consequently, the parameters defining pension entitlements differ enormously: to give just one example, the current statutory retirement age for men ranges from 45 to 65 years. Variation is also wide in terms of contribution rates, reference earnings, minimum length of contributory period, and replacement rates. The general picture is quite complex, but systematic cleavages in pension rights can be identified between groups of pensioners, actual or future. In general, current rules favour the liberal professions over wage earners, public over private sector employees, unionised over precarious workers, the middle-aged over the young, and men over (most) women.

Almost 2.8 million primary pensions (in a population of 11.2 million) are provided by a plethora of social insurance agencies or “funds” that run earnings-related, pay-as-you-go schemes. Most pensions are paid out by four schemes: *ΙΚΑ* (most private sector employees), *ΟΓΑ* (farmers), *ΟΑΕΕ* (own-account workers, except the separately organised “liberal professions”), and state pensions (mostly to retired civil servants). These four groups account for 90% of all pensioners. Other schemes, catering for smaller groups (such as medical doctors, engineers, lawyers, as well as banking employees and public utility workers) provide another 300,000 pensions – typically on more generous terms. In addition to their primary pension, approximately 1 million pensioners receive a supplementary pension as well, while an indeterminate number of civil servants are paid lump-sum separation benefit on retirement.

The safety net in old age is patchy. Those with sufficient contributions may be entitled to a minimum pension plus an income-tested supplement. Lower non-contributory pensions are paid to farmers and to the non-insured. No universal minimum guarantee is available. The principal schemes are: (a) the social pension, or “pension to uninsured elderly”, aimed for those with no or low lifetime contributions; (b) the non-contributory basic pension to farmers, gradually phased out since 1998; (c) the pensioners' social solidarity benefit *ΕΚΑΣ*, an income-tested supplement to low pensions, reserved for recipients of a contributory pension from any social insurance agency except *ΟΓΑ* (farmers); and (d) minimum pensions to social insurance retirees, whose lifetime contributions were high enough to qualify them for a contributory pension but too low to ensure their pension exceeded a certain minimum level.

Non-contributory elements are funded out of general taxation rather than social contributions. The social pension, the pensioners' social solidarity benefit *ΕΚΑΣ* and the basic pension to farmers are all entirely tax-funded. In the case of minimum pensions, the non-contributory component is the implicit subsidy intended to ensure that all contributory pensions reach at least

a specified minimum. In other words, the implicit subsidy is a top-up to the contribution-related “organic pension” resulting from the strict application of the benefit formula.

In reality, implicit subsidies to organic pensions – and, where relevant, *EKAΣ* – are not the only non-contributory components to social insurance pensions. On the one hand, supplements for a dependent spouse (defined as not in employment and not a pensioner) and dependent children (defined as aged up to 18 or up to 24 if in full-time education) are also provided. On the other hand, the organic pension itself can be higher than the equivalent of the actuarially fair benefit that would equate lifetime contributions to lifetime pension benefits, taking into account a fair return to contributions and the age- and sex-specific life expectancy.

Table 1 presents all non-contributory components to minimum pensions, including *EKAΣ*, supplements for dependent spouse and (two) dependent children, implicit subsidies to organic pensions as well as implicit subsidies to actuarial pensions – shown here as the difference between the organic pension and the actuarially fair benefit for a low earner retiring with the minimum contributory record. Summing them all up, non-contributory components in 2007 could reach €592 monthly, or over 80% of the total benefit of €736 a month (*IKA* minimum pension including supplements for a dependent spouse and two dependent children plus *EKAΣ*).

[TABLE 1]

Nevertheless, tax subsidies are not restricted to funding non-contributory elements. As Table 2 indicates, government support to social insurance total tax subsidies amounted to €14,090 million in 2008, equivalent to a staggering 6.3% of GDP or 52.2% of total spending on pensions. While most of this was truly intended to fund non-contributory elements, or to support social insurance agencies facing severe financial difficulties due to adverse demographic imbalances (e.g. *NAT*, the fund for sailors), or to comply with the provisions of Law 2084 of 1992 (stipulating state contribution at 10% of gross earnings to post-1993 entrants), considerable sums actually found their way to smaller agencies insuring high earners. Such subsidies may be direct (aimed to cover the large deficits of currently or formerly state-owned banks and public utilities paying over-generous pension benefits to retired former employees), but sometimes take more covert forms.

The case of earmarked indirect taxes, euphemistically known as ‘social resources’, is emblematic. These are special surcharges on goods and services, whose proceeds are then transferred to the relevant social insurance agency. In relative terms, such surcharges may provide a very significant share of the agency’s total resources – as in the case of the journalists’ fund *TAIΣYT*, or that of lawyers (50% and 37% of total fund revenue respectively). Note that Table 2 excludes surcharges that are identical to the above in all intents and purposes, except that they are officially classified as employee or employer contributions. Examples of the latter are the 1% tax on the cost of public works (in favour of the engineers social insurance agency *TΣMEΛE*), a surcharge on the price of newspapers (in favour of the press workers’ funds), or on the cost of legal services (in favour of the notaries’ or the lawyers’ funds) and so on. Earmarked indirect taxes are a relic of the not-so-distant past, when privileged groups lobbied governments for all sorts of special concessions (Matsaganis 2002).

[TABLE 2]

Given organisational fragmentation and the complexity of pension rules, privileged groups are often able to defend their generous retirement benefits as deferred wages, “earned” through their (and their employers’) social insurance contributions during their working life, and therefore to portray attempts by governments to cut back their entitlements as an attack on acquired rights and a breach of the implicit social contract.

In view of that, aggregate estimates of tax subsidies to social insurance, while indicative of unearned privilege, cannot on their own make the case for the clear separation of contributory

from non-contributory components in retirement benefits. Something more demanding is required: an estimation of the relative weight of annuities and transfers at the individual level.

This is attempted in Table 3. We have calculated annuities as actuarially fair pension equating lifetime benefits to lifetime contributions, assuming a rate of return on lifetime employee and employer contributions at 2%, and a discount rate of future pension benefits (taking into account sex- and age-specific life expectancy of each cohort) also at 2%. By the same token, we have also calculated net transfers as the difference between actual and actuarially fair pensions. As Table 3 shows, transfers are quite substantial for a wide range of pensioners, and often rise with earnings and actual level of pension.

[TABLE 3]

The picture painted in this section with respect to tax subsidies to social insurance pensions in Greece points the way to a fairer and financially more sustainable design. A reformed pension system could pay a purely actuarial contributory pension equating lifetime benefits to lifetime contributions. Current government spending would then be redirected from subsidies to social insurance pensions towards a self-standing state pension programme. As to the nature of the tax-funded state pension, a range of possibilities would arise, from a minimum pension guarantee to a universal basic pension.

Not surprisingly, this rather obvious idea has occurred to some people over the last few decades.

3. The evolution of basic pension ideas

Pension reform has been intermittently on the political agenda since the late 1980s. Throughout this period, proposals for a reformed pension structure, including variations to a basic pension, periodically emerged as a possible solution.

The 1980s

In 1987, various constituencies from within the ruling socialist party *ΠΑΣΟΚ* came out in favour of a ‘national pension’, perceived as an addition to existing contributory pensions, which already received various direct and indirect subsidies from the government. To counter this, a working group was set up at the Ministry of National Economy, chaired by P. Tinios (later the main adviser on pensions to socialist Prime Minister C. Simitis). The working group advocated a new two-pillar system with a non-contributory national pension, funded out of taxation, and a strictly contributory pension, financed through employee and employer contributions. The new national pension, equal to the basic pension for farmers, would be provided to every citizen aged 65 and over. To finance it, an ‘equal social resource’ would be introduced, in place of all existing *ad hoc* state subsidies and earmarked indirect taxes to social insurance agencies. The plan was rejected by the then Minister of National Economy D. Tsovolas, later leader of the breakaway socialist-populist party *ΑΗΚΚΙ*. The report remained unpublished and its proposals remained for a long time off the political agenda (Tinios 2001).

The early 1990s

In 1990, the Centre for Planning and Economic Research *ΚΕΠΕ* analysed pensions in its “1988-1992 Report on Social Security”. According to the report, the desirable long-run structure of the pensions system involved the introduction of a national pension for every citizen above a certain age, financed out of general taxation and earmarked resources. Its precise form would have to be

defined through extensive dialogue among social partners. The national pension would be paid to all, in addition to contributory pensions based on insurance years and contributions paid.

Later in the same year, another report supporting the transition to a two-pillar pension system was produced by a committee chaired by P. Petroulas, a retired civil servant. However, the report did not call for the redeployment of tax funding away from *ad hoc* subsidies to social insurance, as minimum pensions above the level of national pension were not to be abolished.

When the conservative New Democracy party won the 1990 general election, pension reform gathered pace. Law 1902 of 1990, provided for rather modest changes, but was presented as the first step towards a broader reform that would lead to a multi-pillar pension system similar to the one established in Switzerland (Tinios 2001). However, the original plan for structural reform was soon abandoned. Law 2084 of 1992 brought in parametric changes which reinforced the logic of the existing system, while it placed the burden of adjustment solely on future generations leaving the privileges of older workers almost untouched (Tinios 2001, Matsaganis 2002).

The late 1990s

The socialists firmly opposed the 1992 reform in opposition, and promised to reverse it when in government. The later Prime Minister C. Simitis, at the time in the minority of the socialist party, took a very different position: he advocated a radically reformed three-tier system, made up of a tax-funded basic pension, a contributions-funded occupational pension and a voluntary tier funded out of individual savings. The idea of a transition to a new pension system (a new “social contract”), including a national pension, made it to the *ILASOK* election manifesto. However, when the socialist party returned to power in 1993, the entire hot potato of pension reform was carefully put aside for about three years.

In 1996, after *ILASOK* won another electoral victory, this time under the leadership of Simitis, pension reform reappeared at the top of the political agenda. An expert committee, chaired by Professor J. Spraos, was set up with the task to investigate the long-term prospects of the Greek pension system. Its report on pensions was published in 1997. It depicted in detail the problems of the existing system and outlined some policy recommendations, mostly in favour of a three-pillar system: a national pension funded out of general taxation, an employment-related pension financed on a PAYG basis, and a private fully-funded voluntary pillar. A similar structure was advocated by the Foundation for Economic and Industrial Research *IOBE*, affiliated to the employer federation *ΣΕΒ*.

The Spraos report did not opt for a single alternative but presented several different strategies of reform, as final policy choices were supposed to emerge following social dialogue with the social partners. The report met with fierce opposition on the part of both trade unions and public opinion. In view of that, the government took a step back and initiated a dialogue dealing mostly with procedural aspects of the existing system. The dialogue resulted in the introduction of Law 2679 of 1999, dubbed the “mini-pension reform”. Plans for a broader pension reform, including a national pension, were once again shelved.

The early 2000s

The second term of the Simitis governments (2000-2004) was marked by the ambitious, but ultimately failed, attempt of socialist modernisers to reform pensions. As this story has been told in detail elsewhere (Featherstone 2005; Triantafyllou 2005; Tinios 2005; Matsaganis 2007), a brief account must suffice here. The government plan, made public in April 2001, provided for a uniform retirement age of 65, a longer insurance period needed for a seniority pension (from 35 to 40 years), and a lower replacement rate (60% of reference wages, earned in the best 10 of the

last 15 years). The reduced retirement age for mothers of under-age children, an arrangement notoriously expensive and wholly misconceived as family policy, was to be replaced by a contributions credit of two years per child. The minimum pension, projected to fall to very low levels for future retirees as a result of the conservative legislation, was to be raised but become means tested. The government plan remained firmly within the boundaries of a public, pay-as-you-go, defined-benefit system. If implemented, Greek pensions would become somewhat more viable and considerably less inequitable. Instead, it was widely portrayed by unions, opposition parties and the press as “the end of welfare as we know it”. As prominent figures of the socialist party also took their distance, the government decided to withdraw its pension plan and call, yet again, for “social dialogue”.

A new pension bill was presented to parliament in June 2002. This time, union experts had been closely involved in drafting it. The bill provided for a general replacement rate of 70%, extended reference earnings and a minimum pension fixed at 70% of the minimum wage for those who started work after 1993. It also introduced a lower-rate minimum pension for contributors failing to meet the standard requirement of 15 insurance years. In the general spirit of rapprochement with the unions, the new bill did not address the problem of the statutory retirement age. However, as it extended seniority pensions and the practice of “hard and arduous” occupations to civil servants, 2.5 million contributors were expected to retire earlier and another 1 million to be unaffected as a result (no-one would retire later). No figures were forthcoming on the bill’s impact on future deficits, which the “unnecessarily harsh” measures of the 2001 plan were to dent by a mere 17.5%. On the whole, Law 3029 of 2002 marked a retreat from the timid egalitarianism of the 2001 plan, leaving the problem of ensuring the long-term viability of Greek pensions for future governments to tackle.

In May 2001, following the announcement of the government pension reform plan, T. Yannitsis, Minister for Labour and Social Insurance, called for consultation with political and social actors. Trade unions and opposition parties from left and right refused to participate, on the grounds that decisions had already been taken. However, two small political formations (the centre-left *AEKA* and the centre-right Liberals) made detailed proposals.

The Liberals (active from April 1999 to October 2001, led by S. Manos, former New Democracy Minister for the National Economy) put forward a blueprint for a reformed pension system, whose main tier would be based on notional defined contributions, along the lines of the Swedish and the Italian systems following the reforms of the mid-1990s (Hamman 1997; Palmer 2000; Whitehouse 2007; Jessoula 2009). Government support would be restricted to funding a minimum pension guarantee, provided on a means-tested basis from the age of 65 to those with incomes below the 2001 level of *IKA* minimum pension. In determining the level of the minimum pension benefit, income from contributory pensions would be fully taken into account, while disregards of 50% would apply to all other income sources including employment earnings (Liberals 2001).

At about the same time the centre-left modernisers *AEKA* (active from June 2000 to September 2003, led by N. Bistis, former Left Coalition spokesman, later Under-Secretary at the Interior Ministry in the Simitis government) presented a similar proposal to that of the Liberals, except in one crucial aspect. While the main tier would also be based on notional defined contributions, the first tier would consist in a universal Citizens’ Pension, paid to all from age 65, at a total fiscal cost of 4%, i.e. equal to the then estimated cost of all tax subsidies to the pension system. Under the *AEKA* plan, tax subsidies would be abolished, and government support would be restricted to funding the Citizens’ Pension, except for contribution credits to second-tier pensions in case of sickness, maternity and unemployment, as in the Swedish system (*AEKA* 2001).

Needless to say, nothing came of these proposals, as Law 3029 of 2002 removed pension reform from the political agenda – albeit, as it turned out, only temporarily.

4. Basic pension (suddenly) on the agenda

The general election of March 2004 ushered in a 5-year interregnum of New Democracy rule. Having had occasion to ascertain the strength of popular sentiment against pension reform, to which they themselves contributed when in opposition, the conservatives were unambiguously unenthusiastic about it. In fact, the main piece of legislation in this policy area was Law 3655 of 2008, which, even though nominally consolidated the estimated 155 social insurance agencies into 13, generally maintained the privileges of high-income groups. Otherwise, the period was marked by the decision of the European Court of Justice (26 March 2009) to declare illegal the practice of allowing female civil servants to retire earlier than their male colleagues, as well as female workers in other occupations. It was estimated that as a result of that ruling, the retirement of approximately 140,000 female civil servants would have to be postponed by 5 to 17 years – which, of course, was indicative of the magnitude of privileges in the *status quo ante*.

During the election campaign which eventually led to their landslide victory in October 2009, the socialists made three promises they must have known they would be unable to keep: not to cut pensions, not to raise retirement ages, not to change contribution rates. After all, this reassuring position was consistent not only with perceived electoral realities, but also with the general drift of the party manifesto, pledging a bold, expansionary economic policy of Keynesian inspiration, designed to kick-start an era of fast growth. As *ΠΑΣΟΚ* leader and current Prime Minister G. Papandreou famously affirmed, money *was* available – the real question was how to spend it.

Very soon the music changed. When the government discovered that the public deficit would be considerably higher than the previous government had admitted, international markets started to demand an ever increasing premium in order to buy Greek bonds. The so-called “spread” over German bonds rapidly escalated from November 2009: having reached 200 basis points (i.e. 2%) in January 2010, it exceeded the 1,000 basis points (i.e. 10%) mark in April 2010. At that point, the cost of borrowing from the international markets was simply prohibitive. After much procrastination on all sides, an unprecedented €110 billion rescue package was agreed in May 2010 with the European Union, the European Central Bank and the International Monetary Fund, designed to cover the borrowing requirements of the country for the next three years.

The “Memorandum”

In return of the bail-out, the government signed a Memorandum of Economic and Financial Policies, ratified by Parliament on 3 May 2010, whose terms included harsh austerity measures taking immediate effect, as well as drastic pension reform to be implemented shortly.

More specifically, the austerity measures affecting pensions were as follows:

- In 2010 all pensions were frozen at their 2009 level (in nominal terms).
- Pension benefits, with the exception of invalidity pensions, farmers’ basic pension and the social pension, will from 2010 be paid 12 times a year instead of 14. Christmas, Easter and vacation bonuses totalling €800 a year will partly compensate pensions below €2,500 per month for the loss of 13th and 14th monthly pension payments.
- A tax on pensions, under the name of “Pensioners’ Solidarity Contribution”, will be levied according to a progressive schedule, at a rate of 3% to 10% (for pensions exceeding €1,400 a month). Pensions below €1,400 per month will be exempt.

Furthermore, the Memorandum committed the government to reform drastically the country's pension system by September 2010. In the words of the Memorandum (IMF 2010, pp. 95-96), the reform should include the following elements:

- Simplification of the fragmented pension system by merging the existing pension funds in three funds and introducing a unified new system for all current and future employees. The new universally binding rules on entitlements, contributions, accumulation rules and indexation of pension rights shall be applied pro rata to everybody from 1 January 2013.
- Introduction of a unified statutory retirement age of 65 years, including for women in the public sector (phased in immediately after adoption), to be completed by December 2013.
- Gradual increase in the minimum contributory period for retirement on a full benefit from 37 to 40 years by 2015.
- Amendment of the pension award formula in the contributory-based scheme to strengthen the link between contributions paid and benefits received, with accrual rate limited to an average annual rate of 1.2%, and pensions indexed to prices.
- Introduction of an automatic adjustment mechanism that, every three years and starting in 2020, will increase the (minimum and statutory) retirement age in line with the increase in life expectancy at retirement.
- Extend the calculation of the pensionable earnings from the current last five years to the entire lifetime earnings (while retaining acquired rights).
- Reduction of the upper limit on pensions.
- Introduction of a means-tested minimum guaranteed income for elderly people (above the statutory retirement age), to protect the most vulnerable groups, consistent with fiscal sustainability.
- Measures to restrict access to early retirement. In particular, increase the minimum early retirement age to 60 years by 1st January 2011, including for workers in heavy and arduous professions and those with 40 years of contributions. Abolish special rules for those insured before 1993 (while retaining acquired rights).
- Substantial revision of the list of heavy and arduous professions.
- Reduction of pension benefits (by 6% per year) for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years.
- Introduction of stricter conditions and regular re-examination of eligibility for disability pensions.

The future pension system, according to the Memorandum, would include something resembling a basic pension, reserved for those on low incomes:

- Introduction of a means-tested minimum guaranteed income for elderly people (above the statutory retirement age), to protect the most vulnerable groups, consistent with fiscal sustainability.

The Report of the Experts Committee

In the meantime, Minister of Labour and Social Insurance A. Loverdos had set up in December 2009 an experts committee to advise the government on pension reform. The social partners, including the union confederations, were also invited. Nevertheless, *AJEDY* (civil servants)

declined the invitation from the start, while the representatives of *ΓΣΕΕ* (private sector workers) walked out in protest in February 2010. The committee, chaired by Law Professor A. Stergiou, handed in its report on 16 March 2010.

While the Report of the Experts Committee made a series of relatively minor recommendations, it was unable to agree on the “new architecture” of Greek pensions. More specifically, although it accepted in principle the separation of contributory (“insurance”) from non-contributory (“assistance”) elements, it left the exact configuration of basic and proportional pensions open. Individual members, including the Chair, put on record their personal views on this crucial issue in the Annex to the Report.

P. Tsakoglou, Professor at Athens University of Economics and Business, favoured a notional defined contributions-type proportional pension, supplemented by a basic pension paid at age 65, probably at the same rate as the current farmers’ basic pension (€360 per month). While the basic pension should preferably be universal, it might realistically be made available on a means-tested basis.

P. Paparrigopoulou, Professor at the Law School of Athens University, presented a rather similar proposal, except that the basic pension would be in inverse relation to the proportional pension. She described the formula determining the level of the basic pension as $B = \alpha(P - A)$, where B is the basic pension, P is the reference pension above which the basic pension is tapered off, A is the proportional pension, and α is the solidarity coefficient. For example, assuming that $P = €800$ and $\alpha = 0.6$, the basic pension of a retiree with a proportional pension of €200 would be €360, while the basic pension of another retiree with a proportional pension of €600 would be €120.

A. Stergiou, Professor at the Law School of Thessaloniki University, rejected the idea that the basic pension might be universal, on the grounds that this would be “fiscally irresponsible”. His favoured option would be to combine basic and proportional elements within the framework of a single social insurance pension, including an improved minimum pension. He also called for the introduction of a generalised social contribution, along the lines of the French CSG, to boost the financial base of the current system.

The draft pension reform bill

Following the release of the Experts Committee Report, the government got to work on a draft bill on pensions. Given the exceptional circumstances, the bill was made public on 10 May, i.e. exactly a week after Parliament ratified the Memorandum of Economic and Financial Policies the government had signed with donors.

In a rather unedifying and hardly convincing attempt to convey the message that the government fought valiantly against the neoliberal policies imposed on it by the IMF, the EU and the ECB, the bill departed from the provisions of the Memorandum in several crucial respects: it provided for lower retirement age increases, shorter contribution periods and a slower transition to the new system than those stipulated in the Memorandum.

Moreover, as far as the future system itself was concerned, the bill fell short on three issues. Firstly, instead of merging all existing social insurance agencies into three (for wage earners, the self-employed, and farmers), the draft bill allowed journalists and other press workers, Bank of Greece employees and professionals (doctors, lawyers and engineers) to insure separately. While the government offered no justification for these exemptions, it was widely thought that those concerned had lobbied hard to retain their autonomy, in the not unjustified hope that this would be the key to maintaining their current privileges.

On the other hand, rather than determining that the basic pension would be paid from the same age (e.g. 65), irrespective of when one decides to draw his or her proportional pension, the draft

bill made the basic pension a mere addition to the proportional pension, to be paid from the same age as the latter becomes payable. Clearly, this provision, intended to make the new system as similar to the old as possible, would have adverse implications. In terms of equity, it would favour those retiring earlier over those retiring later. In terms of efficiency, it would introduce incentives for early retirement – in the face of the government’s commitment to prolonging the average age of retirement by two years over the next few years.

Thirdly, instead of making the proportional pension equally proportional for all, the draft bill made accrual rates a function of length of (a) insurance period, (b) pensionable earnings and (c) occupational group. In other words, the annual return on €1 of contributions paid ranged from 0.7% for a contributor with up to 15 insurance years earning less than the equivalent of €850 per month, to 3.0% for a contributor with more than 37 insurance years earning more than €4,200 per month. Moreover, accrual rates were higher for the self-employed than for salary earners. The regressive character of the proposed accrual rates was designed in order to produce roughly similar replacement rates for all, once the basic pension was taken into account. In other words, the return on contributions at lower earnings was lower by design on the grounds that a flat-rate basic pension “replaced” a higher proportion of low earnings. This threatened to create a situation where the unequal treatment of low earners was institutionalised, while their incentives to pay contributions were fatally weakened.

Fortunately, this rather original idea, probably unique in the world, was eventually abandoned.

The final pension reform bill

The final draft of the pension reform bill was presented on 25 June 2010, and was scheduled to be debated in parliament in early July. In accordance to the Memorandum, the bill sharply raised contributory conditions and the retirement age of current workers with immediate effect (by one year each year from 2011). The new structure, including a basic and a proportional pension, will become fully operative from 2015.

Ostensibly as a result of hard bargaining between the government and the joint IMF-EU-ECB delegation, the “right” of journalists/press workers, Bank of Greece employees and professionals (doctors, lawyers and engineers) to insure separately was preserved in the final bill. Moreover, the acquired rights of public utility workers, banking employees and press workers hired before 1983 were fully protected. This appeared to be the case with “uniformed” workers (the police, military etc.), irrespective of when they were first employed. Finally, the reform will not affect farmers, whose new main pension has been gradually introduced since 1998 on very favourable terms. In all these respects, the final bill departed from the principle of equal treatment.

With respect to the proportional pension, the rather bizarre original design (making accrual rates a function of length of insurance period, of pensionable earnings, and of occupational category) was abandoned. In the final version, accrual rates were the same for the self-employed and salary earners, were not differentiated by “insurance class” (i.e. pensionable earnings), and only varied by length of insurance period. The return on contributions will range from 0.8% per year for a contributor with less than 15 insurance years, to 1.5% per year for one with 40 insurance years or more. While the new provision eliminated the blatant inequity of the previous one, the risk that low-paid workers with uncertain career prospects and insecure attachment to the labour market might see little incentive to pay pension contributions is still there, albeit in less severe form.

The basic pension, fixed at €360 per month, paid 12 times a year, in 2010 prices, will be available without a means test to all those meeting the contributory conditions for a proportional pension. The full rate will be payable at age 65, reduced *pro rata* (by one thirty-fifth a year) for those who have been resident in the country for less than 35 years between the ages of 15 and 65. In cases of early retirement, the basic pension will be paid at a lower rate, reduced by 6% per each year

short of age 65. Those not meeting the contributory conditions for a proportional pension will still be eligible for the basic pension, but only if they pass a test of means: personal income must be below €5,400 per year, and family income must be below €10,800 per year (in 2010 prices). The means-tested version of the basic pension can only be payable from age 65.

While falling short of full universality, this represents a decisive break with traditional social insurance and the closest to a universal basic pension the Greek pension system has ever got. Moreover, although its value was below the fiscally sustainable level of a hypothetical universal basic pension paid to all residents aged 65+ (at a total cost of 5% of GDP, i.e. well below the current level of tax funding at 6.3% of GDP, that would be €450 per month approximately¹), given current fiscal difficulties and future demographic trends, this was probably inevitable.

5. Reactions to the government plan

At the time of writing (30 June 2010), the outcome of this reform is still somewhat uncertain, as the government plans have generated great controversy and fierce protests. The spectre of 2001, when another socialist government was forced to withdraw comparatively less painful reforms in the face of reaction, as socialist MPs lost their appetite to see them through parliament, looms ominously.

The positions of political and social actors, based on official documents and *ad hoc* interviews with the relevant spokesmen, are summarised below.

Political actors

The conservative New Democracy has attempted to conceal its reluctance to be drawn into what is widely perceived as a vote-losing issue behind the (somewhat incongruous) argument that the proper implementation of its own Law 3655 of 2008 would guarantee the long-run sustainability of the system. As a contribution to the social dialogue that began in November 2009 and lasted until April 2010, the party released “12 proposals for a just, functional and viable insurance system”, mostly amounting to parametric changes of the existing system. Being embroiled in an internal fight following a heavy defeat at the polls in October 2009 and a change in leadership, the party line was to wait until the pension bill had been finalised. In the run up to the parliamentary debate on the pension bill, scheduled for early July 2010, New Democracy added its voice to the general chorus of disapproval, calling for pension benefit cuts to be reversed. On the whole, the conservatives seemed to have no clear views on the role of basic pensions within a reformed pension system.

The far right Popular Orthodox Rally *ΛΑΟΣ* was the only opposition party to vote in favour of the Memorandum of Economic and Financial Policies with the IMF, the EC and the ECB on 3 May, where the outline of the required pension reform is clearly described. *ΛΑΟΣ* supported in principle the idea of a basic means-tested pension for every Greek citizen above the age of 65 (foreign nationals would not be eligible). Nevertheless, the party did not support the pension bill on the grounds that it introduced more severe cuts than those implied in the Memorandum.

The Communist Party of Greece *KKE* simply rejected the idea of a basic pension financed by the state. With respect to the pension bill, the party has pledged “it will do everything in its power to organise a mass popular resistance and counterattack to all the proposed measures already decided in advance, in accordance with EU guidelines and the demands of plutocracy”. Basic

¹ The hypothetical level of a universal basic pension at a cost of 5% of GDP for all those aged 65+ in 2015 is based on the assumption that GDP will be €243.5 billion in 2010 prices (as forecast by the IMF), and that the population aged 65+ will be 2.25 million (as forecast by Eurostat).

pension was seen as a “funeral benefit”, i.e. a ploy on the part of the government to renege on its financial obligations towards pensioners and the working population.

The Coalition of the Radical Left *ΣΥΡΙΖΑ* opposed the introduction of a new pension system separating contributory from non-contributory pension benefits, on the grounds that it would restrict tax funding only to the latter. The party favoured a traditional social insurance system comprising main and supplementary pensions, the former financed by the state, employers and employees (in shares of four, three and two ninths respectively), and the latter guaranteed by the state and financed by employer and employee contributions (in equal shares).

The 4 MPs who left *ΣΥΡΙΖΑ* to found a Democratic Left party in June 2010 have decided not to support the pension bill, apparently on the grounds that it did not go far enough. The new party accepted that the old system was both unviable and unfair, criticised the government for failing to completely eliminate inequalities in treatment, and came out in favour of a universal (or near-universal) basic pension and an actuarially fair proportional pension.

The Greens, not represented in the national parliament but present in the European Parliament with one MEP, have also rejected the pension bill. The party considered the new structure envisaged in the bill as an attempt to minimise state involvement in funding social insurance. Its preferred, rather ill-thought, pension system consisted of a national, a main and a supplementary pension, with tax funding extending to the financing of all three pillars.

Almost with no exception, political parties have failed to put forward a constructive critique to the proposed pension structure, nor have they proposed alternative ways to distribute the costs of fiscal adjustment. In a rather superficial (albeit media friendly) way, they have all emphasised the losses compared to the *status quo*. Possible improvements to the pension bill in terms of efficiency, equity and intergenerational justice have simply not been part of the political debate. In this context, support for a universal basic pension is weak.

Social actors

Trade unions reject the whole idea of a basic pension. The two confederations *ΓΣΕΕ* (private sector workers) and *ΑΔΕΔΥ* (civil servants) view basic pensions as part of an attempt to abolish the existing tripartite funding of social insurance rather than a way to rationalise state subsidies to the pension system. Trade unions call for the introduction of parametric changes to the existing system, mostly involving increased funding through the introduction of new taxes and the fight against evasion of social contributions.

The employer federation *ΣΕΒ* has refrained from commenting on the new pension structure, even though it has criticised the government for lack of firmness in enforcing the Memorandum. However, the Athens Chamber of Commerce and Industry *ΕΒΕΑ*, reflecting employer interests, commissioned in November 2009 a study by P. Tinios (former adviser to Prime Minister Simitis, currently at the University of Pireaus), advocating a transition to the Swedish model of notional defined contributions. The proposed system would include a means-tested basic pension, aiming to provide a minimum pension guarantee.

The General Confederation of Professionals, Craftsmen and Tradesmen *ΓΣΕΒΕ*, defending the interests of small employers, self-employed workers and shopkeepers, also rejected the idea of a new pension structure as unnecessary, arguing that Law 2084 of 1992, if fully enforced, would be sufficient to bring the system back to equilibrium.

Finally, “Generation 700 euro” (G700), a movement representing the rights of “Greeks aged between 25 and 35, who are overworked, underpaid, debt ridden and insecure” was clearly in favour of redesigning the country’s fragmented and unfair pension system. It embraced the idea of a multi-pillar system, similar to the one proposed in the *ΕΒΕΑ* study. In view of that, G700 is

generally supportive of the government pension plan. The movement has criticised the new bill in a constructive way, emphasising residual inequalities in treatment.

To sum up, those who stand to lose most from a transition away from the old system remained over-represented in trade unions and political parties. However, the influence of those arguing for clearer uniform rules seemed to be on the rise. The latter may also have a powerful ally on their side: time.

6. Prospects for a universal basic pension

As the paper explained, it somewhat paradoxically appears that the severe economic crisis and the resulting fiscal squeeze have made a universal basic pension more realistic, not less, as part of a solution to a fairer, financially more sustainable pension system in Greece.

While falling short of full universality, the new basic pension, as specified in the final bill, seemed to be an acceptable substitute. Proponents of a universal basic pension will be able to make their case in a radically improved institutional context – provided, of course, the country manages to remain solvent.

On a less optimistic note, and in spite of the prehistory of home-grown basic pension ideas, as explained in section 3, it is clearly unfortunate that public opinion might associate basic pension with the emergency conditions that led to its introduction within the context of a very unpopular pension reform. In essence, the basic pension risks being seen as an “imported idea”, associated with the IMF, perhaps to be abandoned as conditions allow.

While the Greek case is clearly exceptional, our paper offers at least two insights of more general value. The first is that social insurance pensions, if heavily supported by tax funding in a non-transparent way, may be ripe for reform. The separation of contributory (“insurance”) from non-contributory (“assistance”) components emerges as an obvious, fair and viable solution. From there, a universal basic pension could only be one short step way.

The second insight is not new, but still worth remembering. Progress towards a basic income, or its more modest age-specific variants (universal child benefits and universal basic pensions), is likely to be gradual and uneven. There are times when the wheels of history turn very slowly, and others when they instead seem to spin almost out of control. Even when basic income ideas for many long years appear to be utopian, and rather unworthy of serious consideration, their time may eventually come – suddenly and unpredictably.

Or, in the words of Philippe van Parijs (2004, p.24):

“Like the fight for universal suffrage, the fight for basic income is not an all-or-nothing affair. This is no game for purists and fetishists but for tinkerers and opportunists.”

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Tables

TABLE 1

Non-contributory components to minimum pensions (2007)

	benefit amounts (€ per month)	
	all components	non-contributory components
actuarial pension	144.60	
implicit subsidy to actuarial pension		142.05
organic pension	286.65	
implicit subsidy to organic pension		176.53
minimum pension	463.18	
supplement for dependent spouse		34.08
supplement for 1st child		22.13
supplement for 2nd child		21.85
minimum pension incl. family supplements	541.24	
pensioner social solidarity benefit <i>EKAS</i>		195.15
total: minimum pension incl. supplements + <i>EKAS</i>	736.39	
all non-contributory components		591.79

Notes: The actuarial pension shown refers to the case of a male worker retiring at age 65, with the minimum contributory record (15 insurance years), a history of low earnings (all pensionable earnings equal to the minimum wage), the age- and sex-specific life expectancy of his cohort, a 2% real rate of return on past contributions, and a discount rate of future pension benefits also at 2%. The case presented above refers to *IKA*, the largest social insurance agency. Similar minimum pension mechanisms are present in other social insurance agencies. In 2006, 60.6% of all *IKA* retirees were recipients of the minimum pension, while the proportion of those receiving both the minimum pension and *EKAS* was 26.1%. The pensioner social solidarity benefit *EKAS* is an income-tested supplement to low pensions.

TABLE 2

Tax subsidies (2008)

	fiscal cost (€ million per annum)	% of all pension spending	% of GDP
direct subsidies to social insurance	7,847	26.99	3.28
<i>IKA</i> (private sector workers)	2,450	8.43	1.02
<i>OΓA</i> (farmers)	3,555	12.23	1.49
<i>OΑΕΕ</i> (self-employed)	300	1.03	0.13
<i>ΝΑΤ</i> (sailors)	1,050	3.61	0.44
other agencies (mostly high earners)	492	1.69	0.21
implicit subsidies to state pensions	2,148	7.39	0.90
earmarked indirect taxes	1,532	5.27	0.64
<i>IKA</i> (private sector workers)	85	0.29	0.04
<i>OΓA</i> (farmers)	633	2.18	0.26
<i>OΑΕΕ</i> (self-employed)	60	0.21	0.03
other agencies (mostly high earners)	754	2.59	0.32
state contribution to post-1993 entrants	2,563	8.82	1.07
<i>OΓA</i> (farmers)	510	1.75	0.21
<i>OΑΕΕ</i> (self-employed)	415	1.43	0.17
other agencies (mostly high earners)	370	1.27	0.15
civil servants	1,268	4.36	0.53
<i>ΕΚΑΣ</i>	1,080	3.72	0.45
total tax subsidies	15,170	52.19	6.34

Notes: Subsidies to social insurance agencies are for pensions only (i.e. excluding subsidies to social health insurance). Implicit subsidies to state pensions are net, i.e. exclude state contribution to post-1993 entrants to the labour market, employee contributions, and implicit employer contributions (calculated at 13.33% of gross earnings, i.e. the same rate as *IKA*). State contribution to post-1993 entrants, in compliance with the provisions of Law 2084 of 1992, are fixed at 10% of gross earnings. Earmarked indirect taxes are special surcharges on goods and services, whose proceeds are transferred to the relevant social insurance agency, and do not include similar surcharges officially classified as employee contributions. The pensioner social solidarity benefit *ΕΚΑΣ* is an income-tested supplement to low pensions, reserved for recipients of a contributory pension from any social insurance agency except *OΓA* (farmers).

TABLE 3

Annuities and transfers (2007)

	benefit amounts (€ per month)		
	actual pension	annuity	transfer
male worker, age 65, low earner, 15 contribution years			
<i>IKA</i> (private sector worker)	463	145	318
civil servant	349	145	204
$\Delta E H$ (public utility worker)	463	227	236
<i>TΣAY</i> (medical doctor)	838	228	610
male worker, age 65, average earner, 35 contribution years			
<i>IKA</i> (private sector worker)	851	845	6
civil servant	1,095	763	332
$\Delta E H$ (public utility worker)	1,151	926	225
<i>TΣAY</i> (medical doctor)	1,362	762	600
female worker, age 60, high earner, 25 contribution years			
<i>IKA</i> (private sector worker)	1,017	862	155
civil servant	1,549	808	741
$\Delta E H$ (public utility worker)	1,504	1,048	456
<i>TΣAY</i> (medical doctor)	838	680	158

Notes: Annuities correspond to actuarially fair pension benefits, assuming a rate of return on past contributions at 2%, and a discount rate of future pension benefits at 2%. Low earners are assumed to be at 1.0 of the minimum wage throughout their working lives, average earners at 2.0 and high earners at 4.0 of the minimum wage respectively. Civil servants paid no contributions prior to 1993; in calculating their lifetime contributions we assumed that they did (at 13.33%, the same rate as *IKA*).