Occupational insurance in Greece: Challenges and prospects

Main findings

February 2022

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Framework

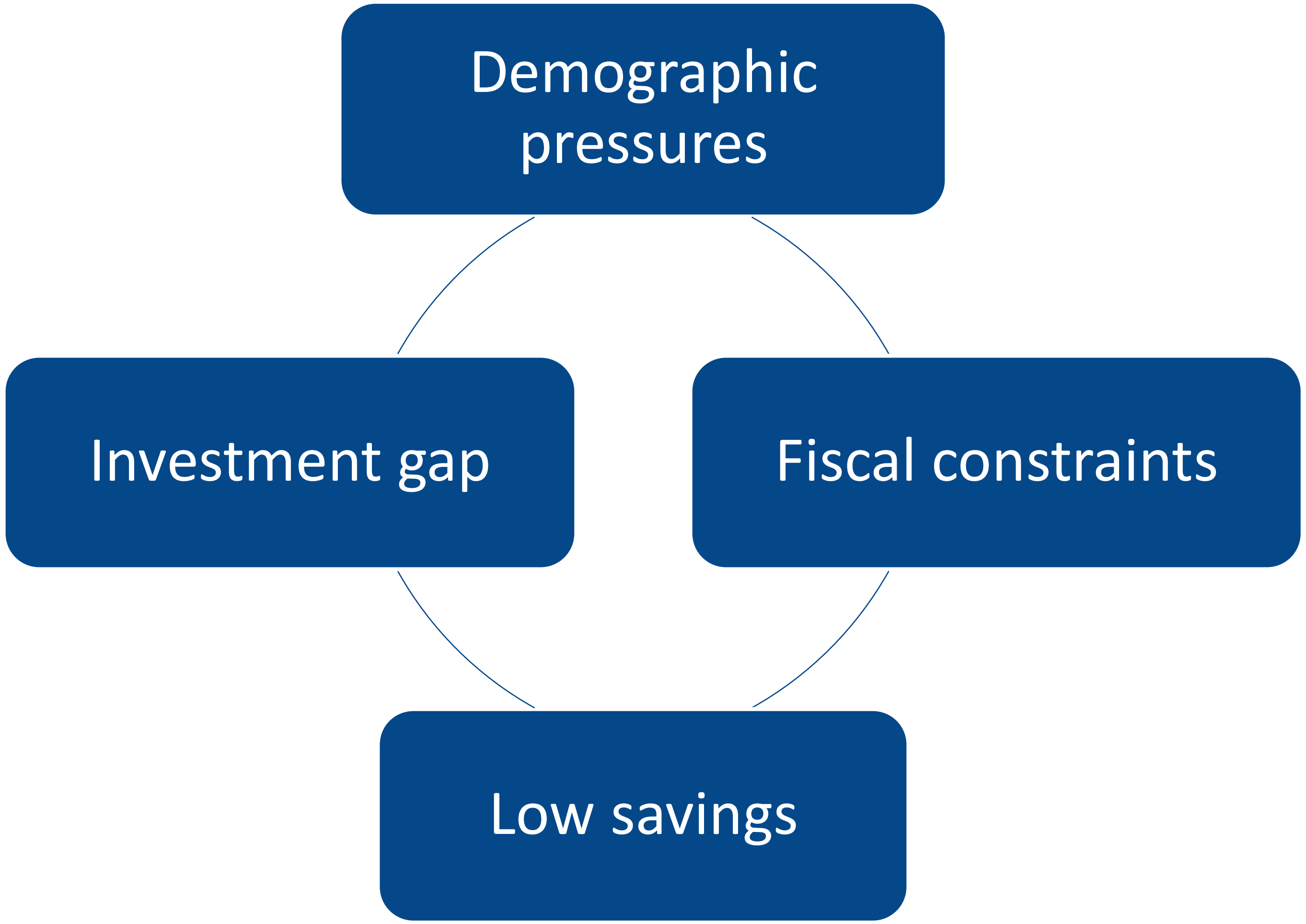
- Occupational insurance is developed voluntarily, in the context of a professional activity based on an agreement, at the individual or the collective level, between employers and employees (or their representatives) or between self-employed professionals.
- Despite its growth in the last five years, occupational insurance is not common in Greece compared to other European countries.
- There is considerable scope for further development of pension funds and occupational insurance in Greece.

Purpose of the study

Examine the prospects and challenges of occupational insurance in Greece

Make policy recommendations to enhance the institution, based on good international practices; assessment of potential contribution to the economy

Why is it crucial to enhance occupational insurance?



Enhancing occupational insurance, in combination with public and private insurance, offers significant economic and social benefits

What is achieved with the proposed measures?

- Diffusion of insurance risk across the system pillars
- Adequacy of pension benefits
- Development of a savings culture by households
- Increased productivity
- Increased investment
- Improved standards of living

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Occupational Pension Funds (OPF) as vehicles of optional, supplementary insurance…

Three basic principles

✓Non-profit operating framework

✓Complete separation of accumulated assets from the financing entities

✓Establishment and governance by social partners through professional management

Basic functions

✓Actuarial method

✓Risk management & investment rules

✓Internal audit

✓Regulatory compliance

✓Independent fiduciary

✓Ability of insuring other risks (besides old age), such as health

Contributions-benefits relationship

✓Fully funded system

✓Individual savings

…can boost citizens' confidence in retirement savings. The current regulatory framework of OPF includes three supervisory bodies: Ministry of Labor, National Actuarial Authority, Hellenic Capital Market Commission

2nd pillar pension savings taxation models of lump-sum benefits

N1N2Iw3	N1N2Il3	N1N2T3	T1N2Iw3	T1N2Il3	T1N2T3
	Belgium, Germany, Estonia, Ireland, Spain, Latvia*, Lithuania*, Poland, Switzerland, United Kingdom, Iceland*, Israel*, United States*, Colombia, Mexico*, Chile	France*, Netherlands*, Slovenia, Finland, Canada, Japan		Austria, Luxembourg, Hungary, Portugal, Czech Republic, South Korea	
N1T2Iw3	**N1T2Il3**	**N1T2T3**	**T1T2Iw3**	**T1T2Il3**	**T1T2T3**
Greece*, Slovakia*	Turkey, Cyprus*	Denmark, Italy, Sweden	New Zealand	Australia	

1=Contributions, 2= Returns, 3= One-time benefits, T=Taxation N=No taxation, Iw= Incentives without limits, Il=Incentives with limits

Source: Financial incentives for funded private pension plans: OECD country profiles (2020), Cypriot law – **Data processing**: IOBE.

Note: The table shows forms of private, fully-funded, occupational insurance of OECD-member countries and Cyprus. In the case of Greece, limits on contributions deductible from taxable income are often included in the statutes of each OPF. In the case of France, Cyprus, Latvia, Lithuania, the Netherlands, Israel and Mexico, the 2nd pillar contributions that are deductible from taxable income or facing alternative tax incentives, may not exceed 10%, 20%, 10 %, 25%, 13.5%, 7.5% and 12.5% of the gross salary, respectively. Slovakia and the US have limits on monthly tax-exempt optional contributions. Regarding benefits, the table shows the taxation of lump-sum benefits. In the case of Iceland, the tax incentives for lump-sum benefits are exclusively linked to a first house purchase or a mortgage repayment. In the case of Latvia, the tax incentives for the lump-sum benefit relate exclusively to its financing from the employee's contributions. Norway does not allow lump-sum benefits for the 2nd pillar, while the Netherlands allows them up to a low threshold.

Comparison of taxation in optional pillars of the Greek pension system

Occupational insurance pillar

- Contributions: tax free
- Return on investment: taxable
- Monthly pension: taxable according to income tax scale, as in the public pillar
- Lump-sum benefit: tax free, as in the public pillar
- OPF services (assignment contracts) are subject to VAT

Private insurance pillar

- Individual contracts
  - Contributions: not deductible, taxed like life insurance premiums, premium tax
  - Lump-sum or monthly pension: tax free
- Group insurance
  - Contributions: tax free
  - Monthly pension: 15% tax rate
  - Lump-sum:
    - if <€40.000, 10% tax rate
    - if >€40.000, 20% tax rate

Source: L4172/2013, Duplicate order 1227/2018, Duplicate order 113/2015

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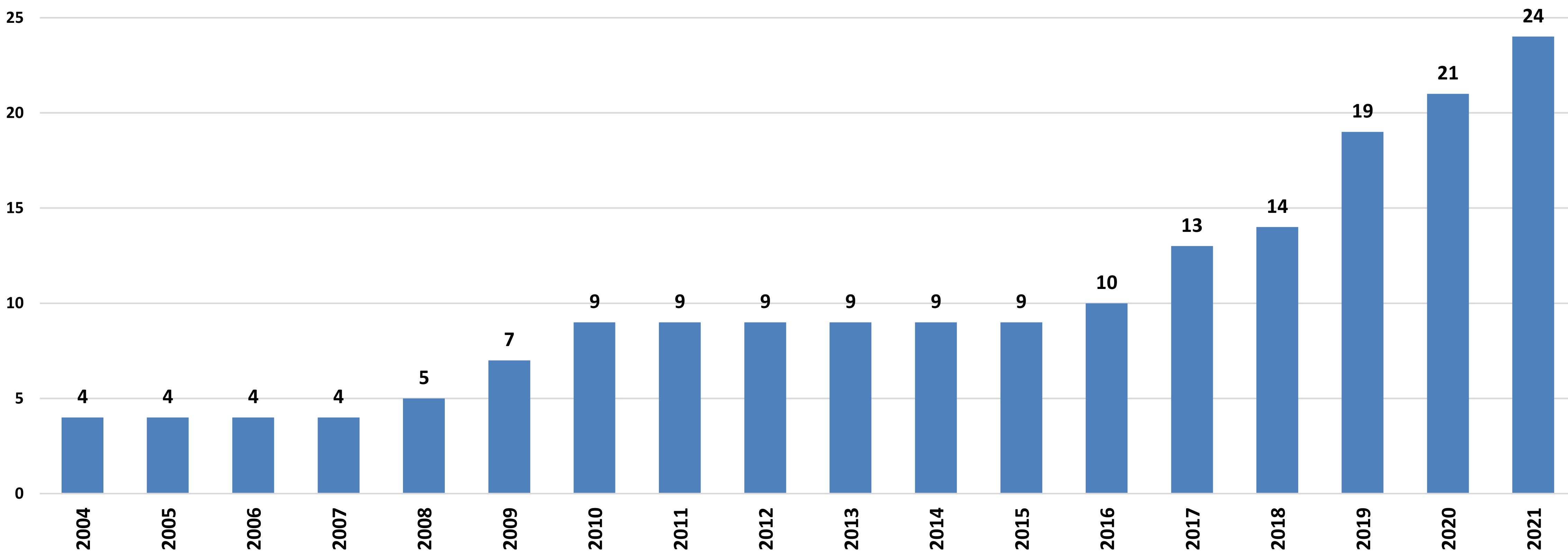
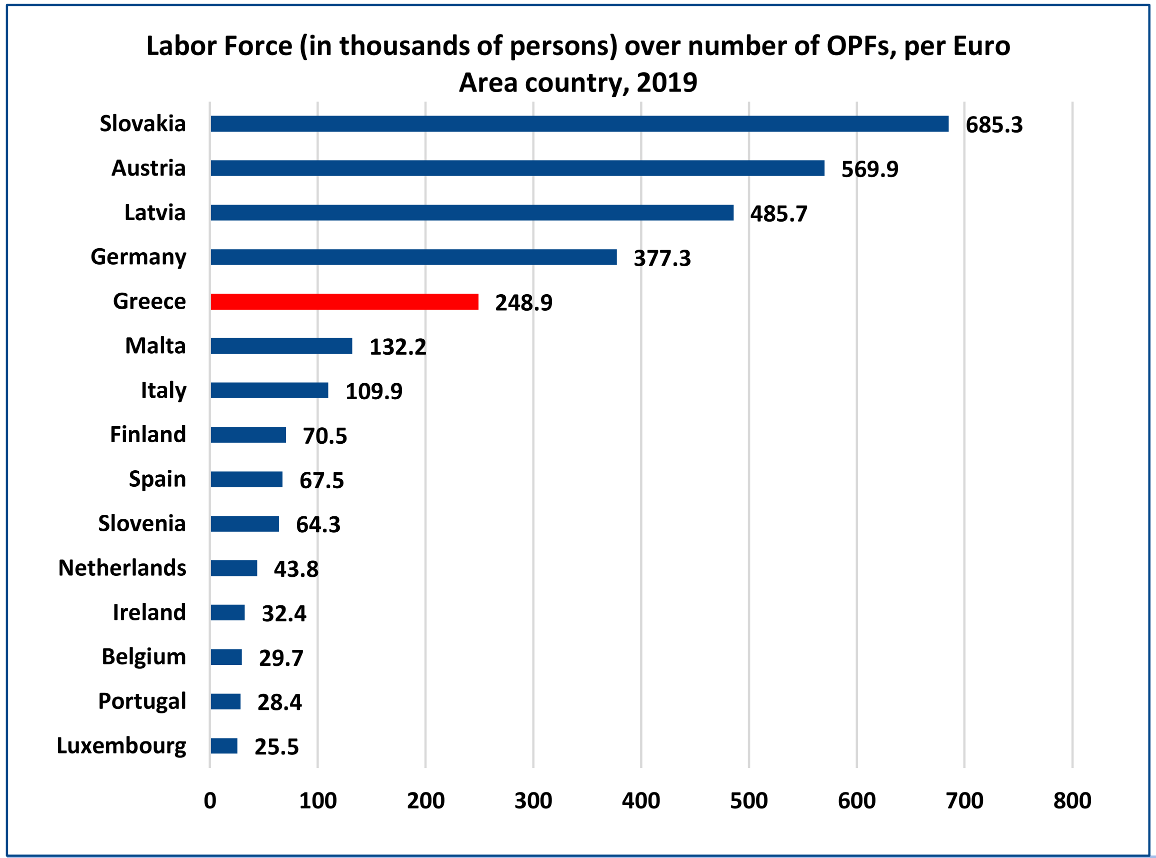
Significant increase in the number of OPF in Greece after 2016

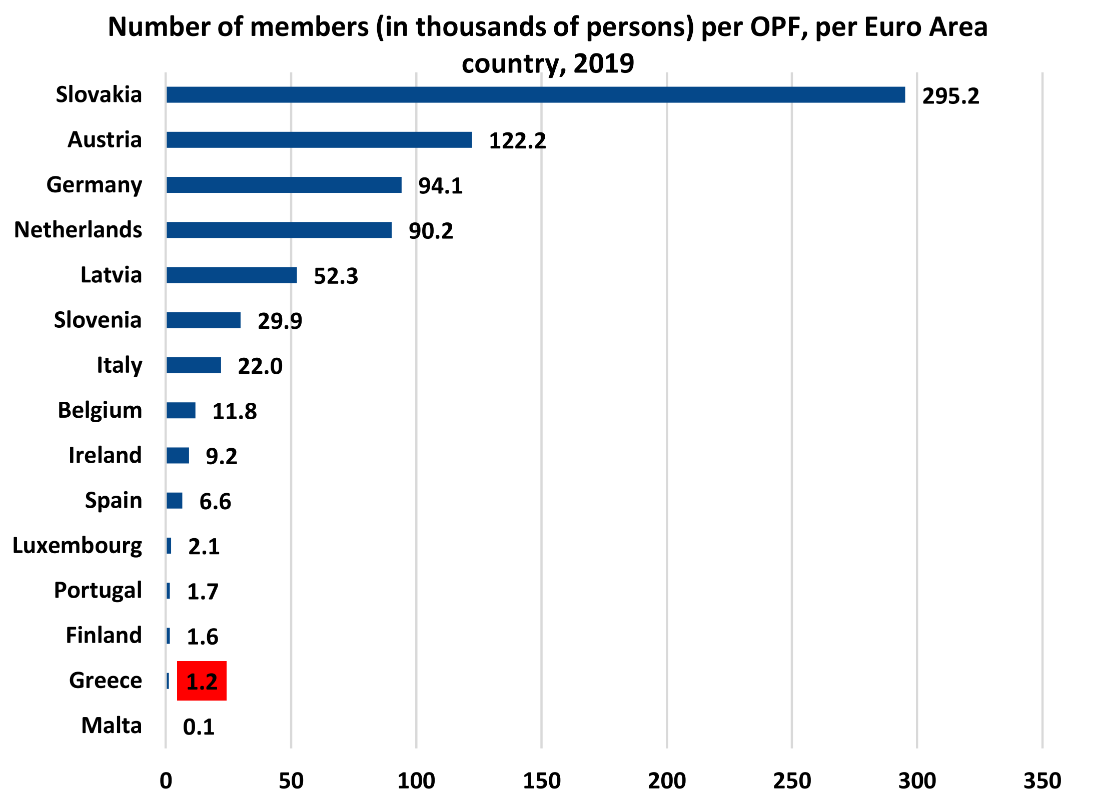


- **From just 4 in 2004, to 9 in 2015 and 24 in 2021**
- **In total, from 2004-2021, the number of OPF increased more than sixfold**

Source: HUIORP **Note: The data do not include the 4 compulsory occupational insurance funds.**

Low prevalence and small size of OPF in Greece compared to other Eurozone countries



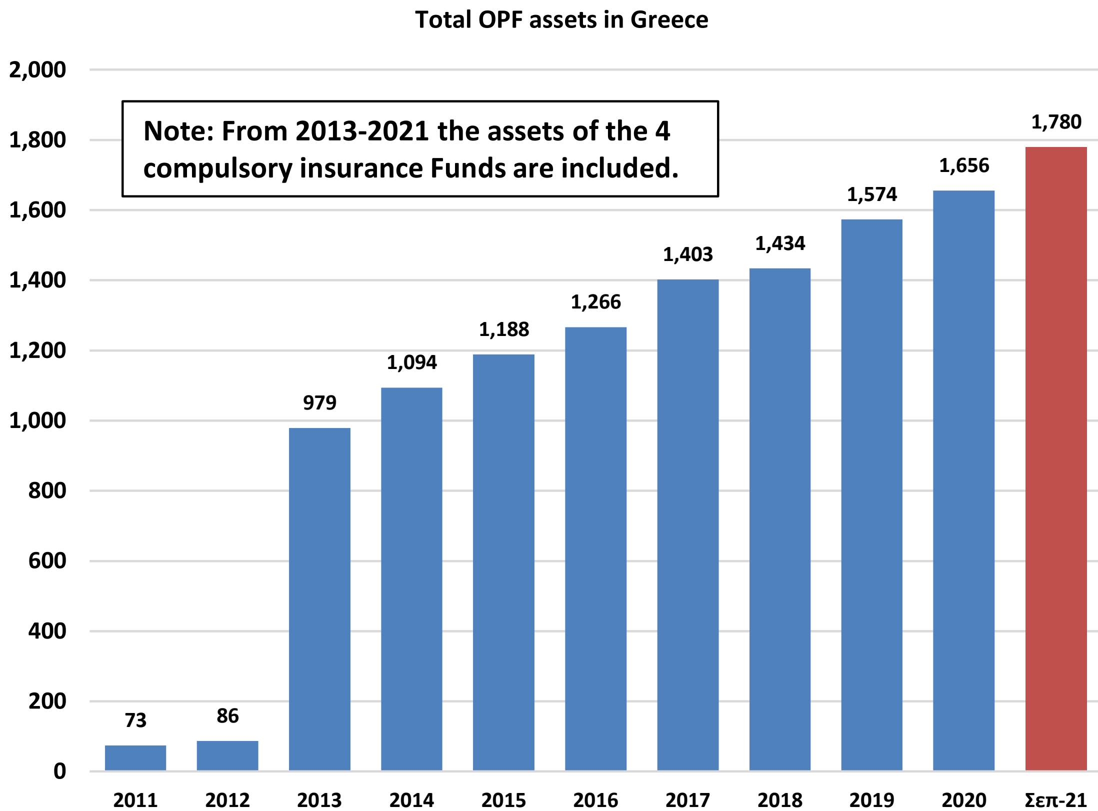


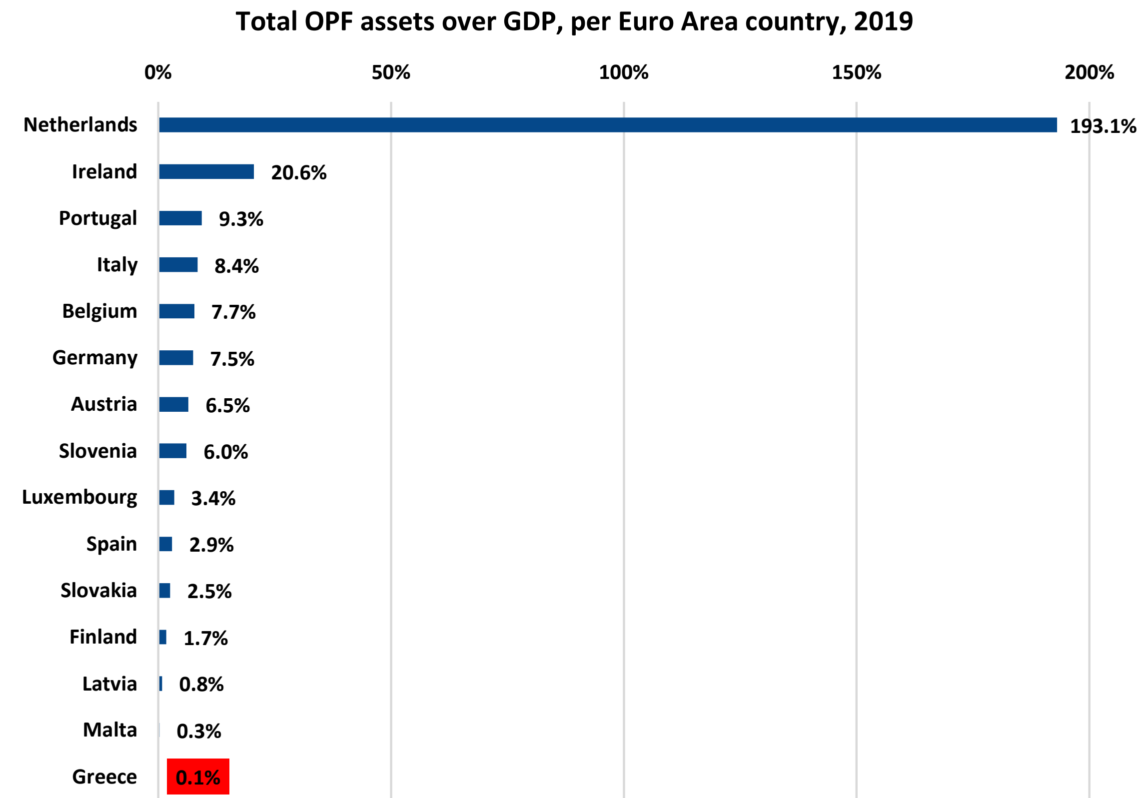
In Greece, in 2019:

- **There was one OPF per 248.9 thousand employees**
- **There were 1,2 thousand members in each OPF**

Source: HUIORP, EIOPA, Eurostat, **Data processing:** IOBE

Systematic increase of OPF assets in Greece over the past decade; however, they are still lower than in the rest of Europe

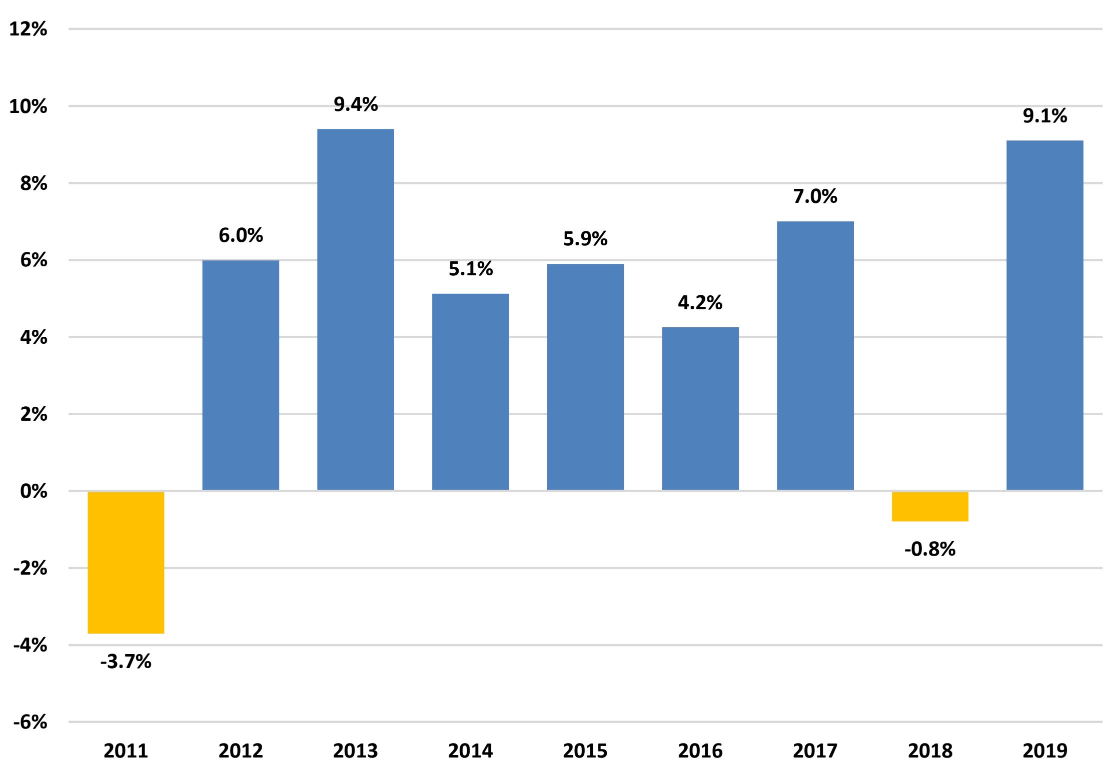


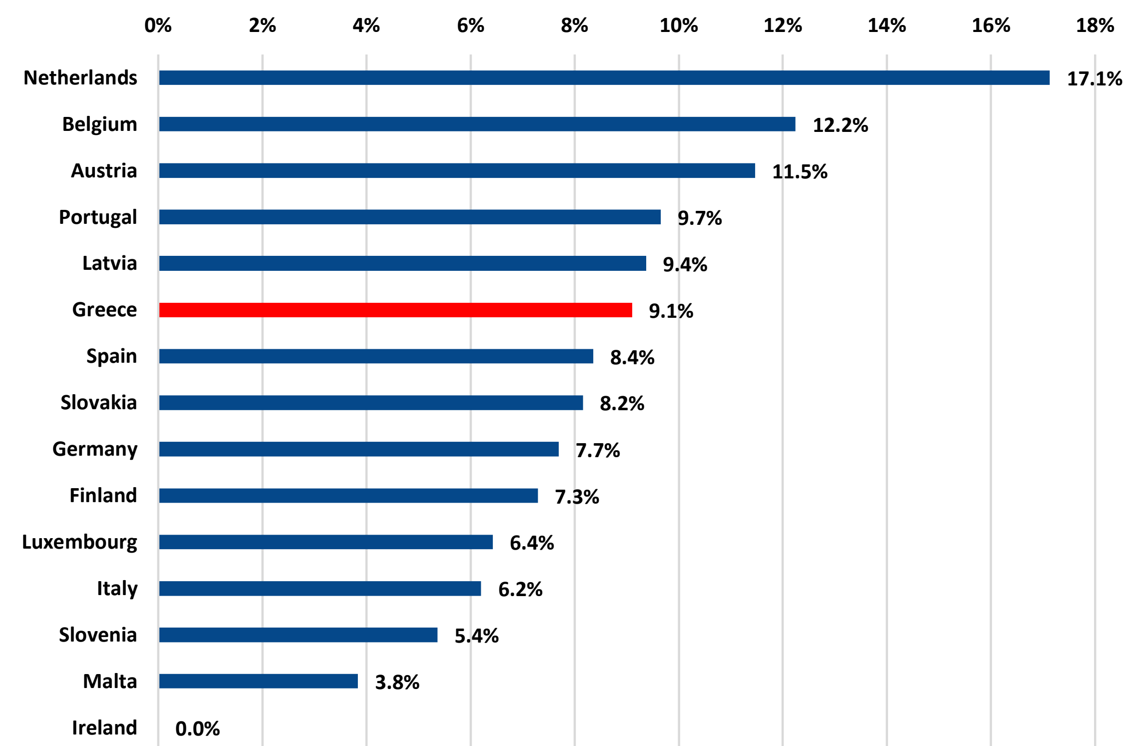


- **An increasing trend, in assets over time, is also recorded by the rest of the OPF (apart from the 4 compulsory ones). Their size, however, remains small (approximately €155 million at the end of 2020).**
- **Greece had the lowest "OPF assets to GDP" ratio in the Eurozone in 2019.**

Source: EIOPA, IMF, **Data processing:** IOBE

The return on OPF assets in Greece is in line with international trends





Greece is above the median of the distribution of OPF assets return in 2019 (9.1%)

Source: EIOPA, **Data processing:** IOBE

Note: From 2013-2018, the data for Greece include all 4 compulsory occupational insurance funds

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Socio-political factors

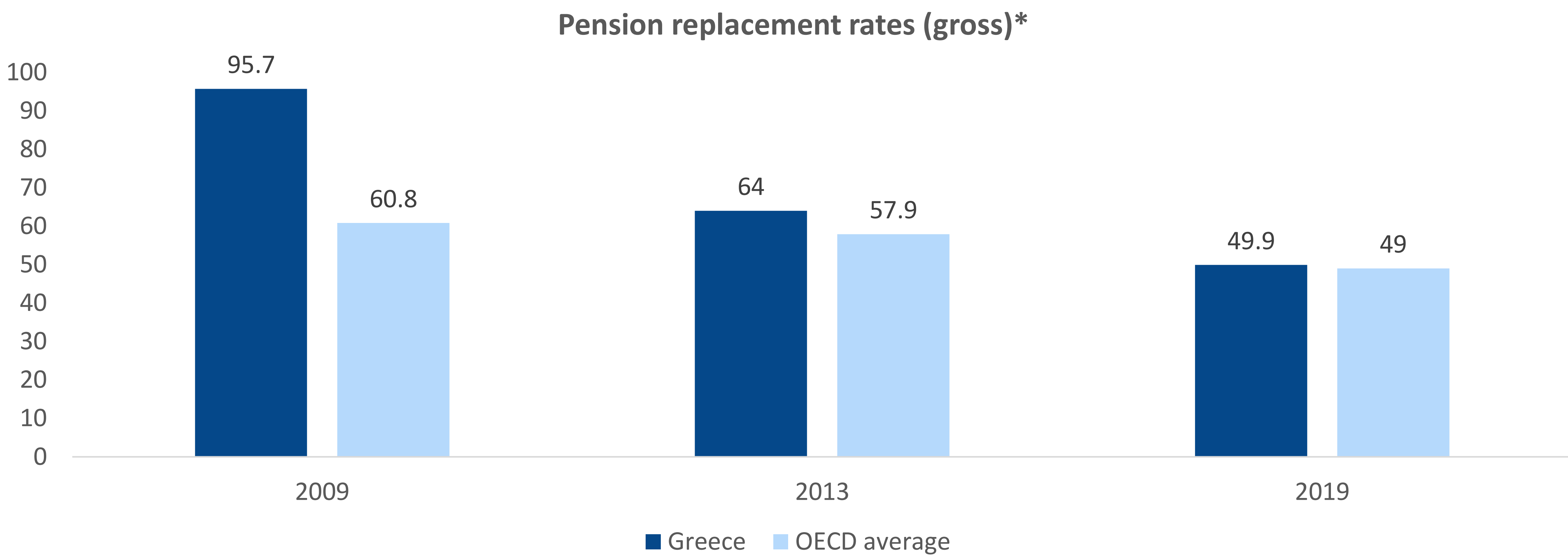
The first pillar has historically been generous

- High replacement rates (compared to other countries, before the financial crisis)
- Pay-as-you-go system
- Deficits were financed from the state budget
- Organizational and operational fragmentation: insurance expectations by sector were financed through public insurance

Ideological issues

- Low trust in supplementary insurance institutions (very low levels of private insurance spending, preference for arrangements provided by the State)
- Fear that the consolidation of OPFs will lead to the privatization of social security

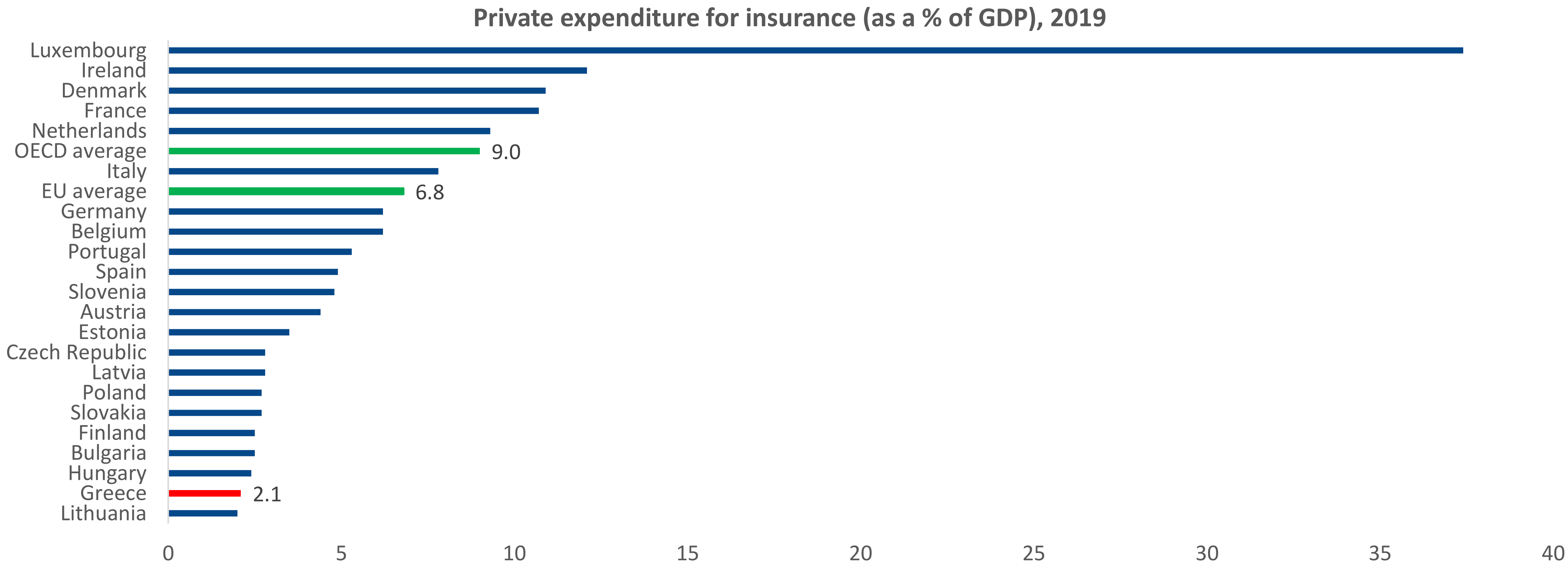
The high and unsustainable replacement rates in public insurance…



Source: OECD (OECD Pension Models), Data processing: IOBE. **Note:** The data show a typical case of an insured at the median of the distribution.

…especially before the crisis, weakened households' incentives for extra retirement savings

The very low levels of private spending for insurance services…



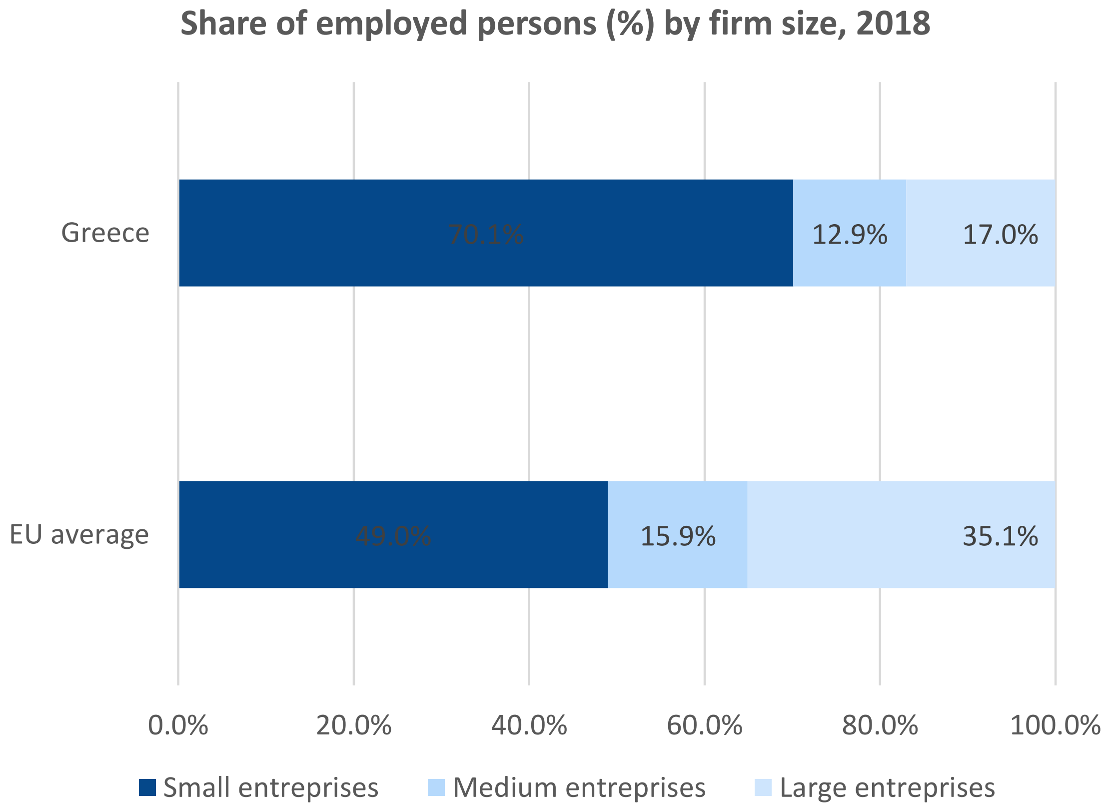
Source: OECD, Data processing: IOBE

…reflect, among other things, the low levels of retirement savings of Greek households

Macroeconomic factors

- Structure of the Greek economy: small businesses and high rates of self-employment
- Low levels of private savings
- High rates of home ownership ("fourth pillar")
- Low trust in the financial sector: deterioration during the crisis (capital controls and bail-in risk)
- High tax burden (tax and insurance contributions) which serves as a strong disincentive to further withholdings
- Sharp decline in disposable income because of the crisis and increased cost of living
- Unstable tax framework

Small businesses and high rates of self-employment…

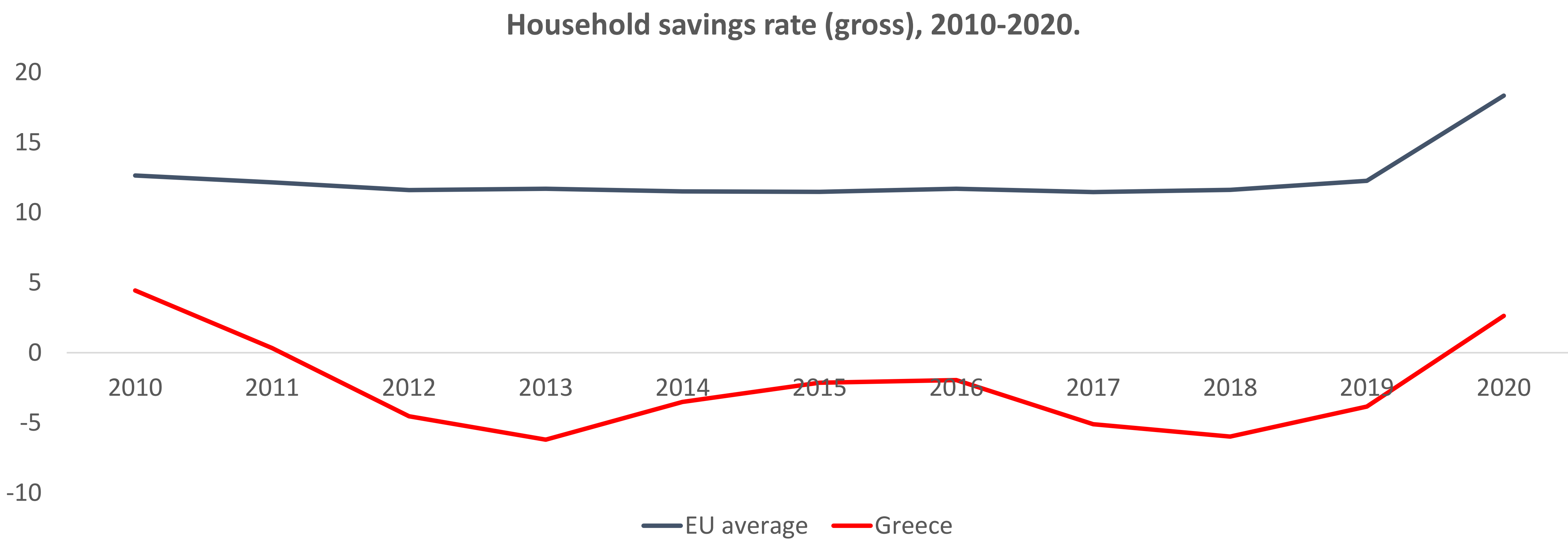


Source: Eurostat (Structural Business Statistics), Data processing: IOBE

Source: Eurostat (Labour Force Survey), Data processing: IOBE

…did not encourage the faster development of occupational insurance

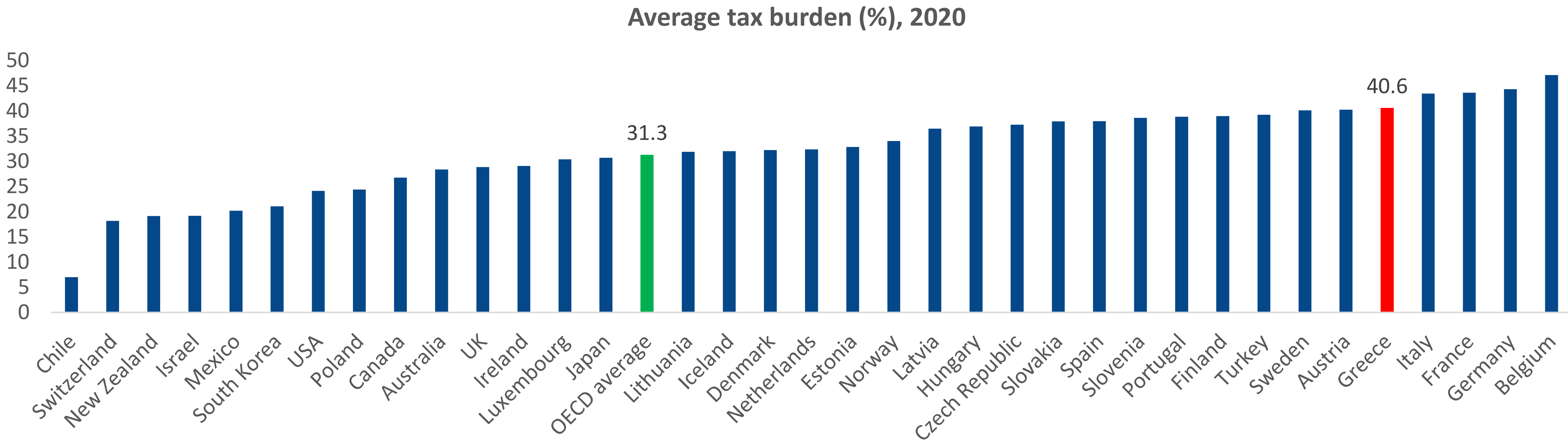
The low levels of private savings acted as a deterrent…



Source: Eurostat, Data processing: IOBE

…but so did the low levels of trust in the financial sector, which deteriorated significantly during the crisis.

Optional retirement savings are limited by the high tax burden faced by Greek households…



Source: OECD, Taxing Wages, Data processing: IOBE.

Note: The data in the chart refer to a couple (two employees with earnings at 100% of the average salary) with two children. The tax burden includes income tax and employee and employer social security contributions.

...which includes high compulsory insurance contributions under the first pillar. In addition, the unstable tax framework acts as a deterrent, especially during the fiscal adjustment period, with successive changes in insurance and tax legislation.

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Policy recommendations based on five objectives

- ✓Guaranteed **adequacy of pension benefits.**
- ✓**Complementarity between the pillars** in order to diversify the insurance risk.
- ✓**Operational independence** of each pillar within a stable institutional framework.
- ✓**Effective supervision** aiming to simplify and accelerate auditing but also to minimize the risk of mismanagement.
- ✓**Adequate and fair incentives** for the further development of occupational insurance within a framework of transparency.

Interventions in four main axes of OPF

Axis 1: Licensing and supervision	Axis 2: Organization and operation	Axis 3: Incentives and benefits	Axis 4: Broader recommendations
• Turn to a single supervisory body • Improve the efficiency of the licensing and approval process of statutes	• Create a more flexible organizational status • Remove legal barriers aiming towards more "open", multi-employer OPFs • Facilitate portability between domestic and European OPFs	• Preserve adequate tax incentives regarding benefits • Design a program with progressive incentives and universal limits • Provide new financial incentives for employers to set up OPFs and enhance their governance	• Increase the complementarity between pillars • Enhance the domestic capital market

Recommendations regarding licensing and supervision of OPF

- ✓ Create a single supervisory body which exclusively deals with OPF optional insurance
  - ✓ Simplify the operating and licensing procedures
  - ✓ Maintain the numerous independent functions of current OPFs. Minimization of mismanagement risk and assurance of benefits should remain the primary concerns.
  - ✓ Adequately staff OPFs with experienced professionals and provide them with the necessary means for supervision
  - ✓ The current status of tripartite supervision could, alternatively, be maintained but only with the simultaneous establishment of a single-entry point. There are risks of additional administrative burden, confusion over responsibilities, and "diffusion" of accountability between individual actors in this case however
- ✓ Impose deadlines and create an efficient procedure regarding the approval and amendment of statutes but also for general audits and approvals.

Recommendations regarding organization and operation of OPFs

- ✓ Establish multi-employer OPFs for employees and self-employed persons
  - ✓ Self-employed person and employees in companies owned by OPF members will have the right to choose whether they wish to participate.
  - ✓ Consolidate OPF management. The current framework assigns different subcontractors to each employer.
  - ✓ Apply the 100-person OPF establishment limit to the total number of insured persons of a multi-employer OPF rather than to each employer
  - ✓ Include more than 70% of all employees in Greece working in private sector companies with less than 50 people.
- ✓ Facilitate portability between domestic and European OPFs
- ✓ The statutes could include an auto-enrollment option for employees working in companies or industries where OPFs are already operating. Employees should also have the choice to opt out if they wish to be excluded.
- ✓ Investment management should be characterized by several degrees of freedom and systematic briefings of the insured about their choices, following best international practices.

Recommendations regarding the tax framework of OPFs

- ✓ Maintain strong tax incentives for retirement benefits
  - ✓ Supplementary retirement savings will increase in response
  - ✓ Employers and employees will also be more likely to undertake long-term commitments
- ✓ Demarcate incentives for lump-sum benefits
  - ✓ Universally, impose limits on the maximum incentives for lump-sum benefits
    - ✓ Link the incentives with minimum age limits (e.g., Belgium, Germany, Lithuania, Luxembourg, Hungary, Poland, Czech Republic, South Korea) or the duration of contributions (e.g., Germany, Lithuania, Luxembourg, Hungary, Poland, Czech Republic, South Korea, Turkey).
    - ✓ Impose limits on annual contributions (both regular and irregular), both as a % of declared gross annual income (e.g., France, Cyprus, Latvia, Lithuania, Netherlands, Israel, Colombia, Mexico, South Korea) and on the absolute amount (e.g., Slovakia, USA)
    - ✓ Impose an upper limit (e.g., Ireland, Portugal, Iceland, Chile) and/or a maximum percentage (e.g., Spain, Portugal, United Kingdom) of the total savings that can be paid as a lump sum benefit with favorable tax treatment
  - ✓ Tax incentives beyond these limits should progressively decline
- ✓ Increase the stability of the institutional and tax framework; pursue political consensus

Recommendations regarding incentives and funding

- ✓ Provide new financial incentives to employers for the creation and operation of OPFs
  - ✓ Provide financial incentives to employers (e.g., subsidies)
    - ✓ to cover the administrative cost of creating the fund
    - ✓ to support the governance mechanisms of an OPF
- ✓ Mobilize broader financial sources (e.g., Recovery Fund)
  - ✓ to improve governance
  - ✓ to improve supervisory mechanisms (modernization of information systems and procedures, staffing)

Additional policy recommendations

- ✓ Complementarity between the insurance pillars
  - ✓ Utilize the opportunities that the new auxiliary fully-funded fund (TEKA) offers. Allow additional bodies, which meet specific supervisory (and other) requirements such as occupational insurance funds, to participate
  - ✓ Decrease the size of contributions in the compulsory insurance pillar, in order to redirect savings to the optional insurance pillars. For example, a percentage of the existing mandatory contributions (up to the level of the minimum wage) could be excluded (IOBE, 2019).
  - ✓ Simplify the tax framework and provide tax incentives for the third pillar (Pissarides Committee, 2020)
- ✓ Complementarity with the domestic capital market
  - ✓ Providing tax incentives on both the demand side and the supply side of targeted investment options in the domestic capital market, makes the domestic capital market stronger and more attractive to institutional investors, including OPF reserves (IOBE, 2021)
  - ✓ Enhance the savings "culture" and financial literacy

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Occupational insurance growth will benefit the Greek economy…

OPF growth translates to a boost in savings

New savings mobilize new investments

- A part of the new investments will be domestic investments

Higher investments lead to higher productivity

Higher productivity increases total output

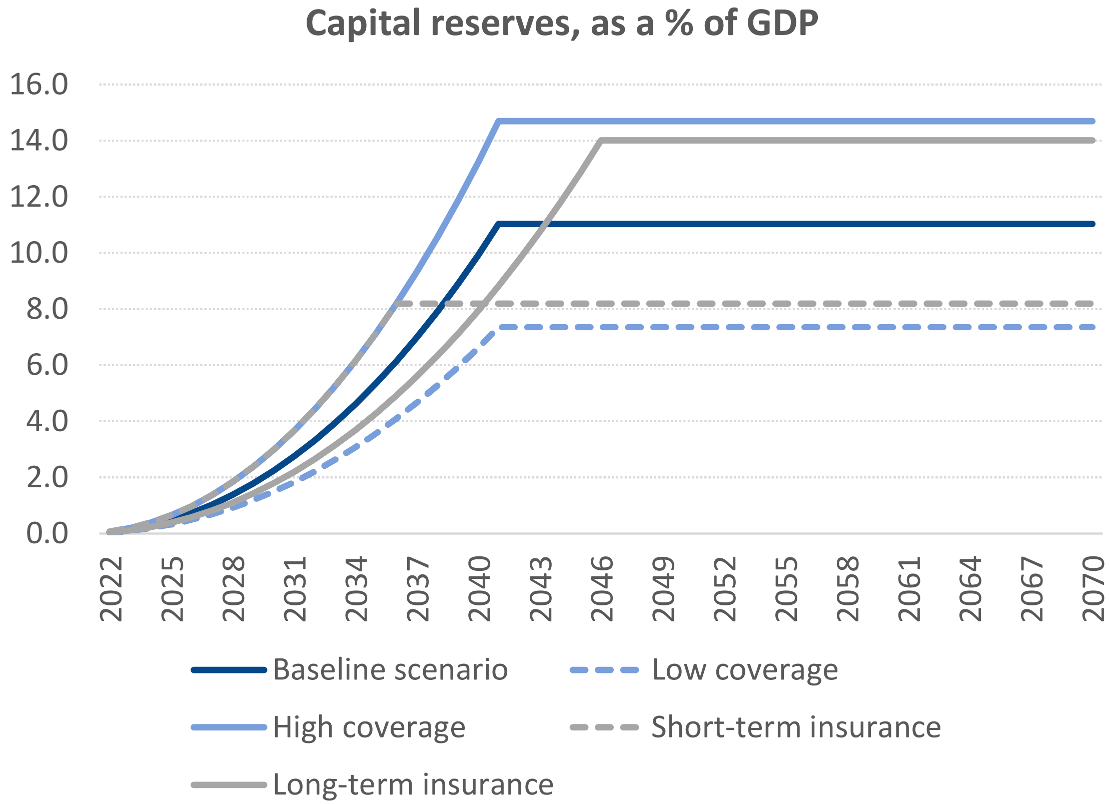
- GDP growth
- Employment growth

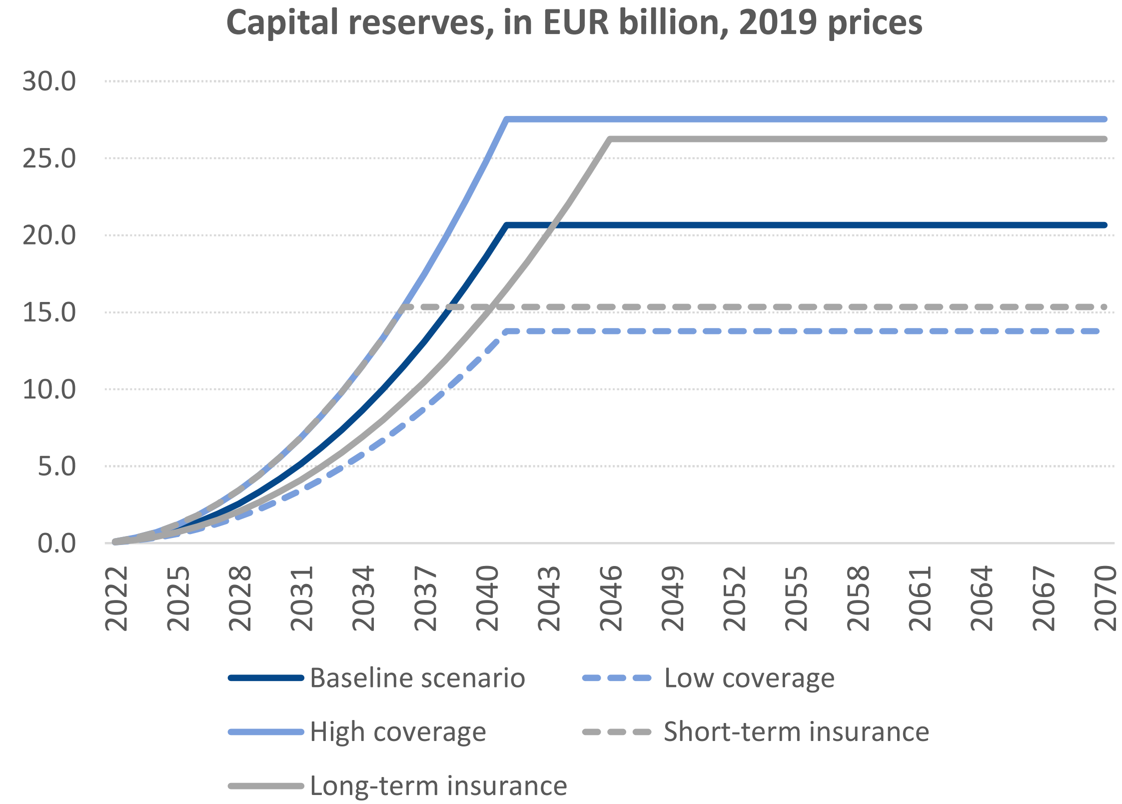
…by enhancing the prospects for sustainable growth and by providing incentives to boost the retirement savings culture of households.

Macroeconomic simulations for the 2022-2070 period

- We examine the macroeconomic impacts of enhancing occupational insurance in Greece
  - We use labor income data for Greece which we obtained from the Independent Public Revenue Authority (AADE)
  - We consider alternative assumptions regarding the percentage of employees who will gradually participate in occupational insurance, the average amount of their contributions, and the possibility of a gradual reduction of undeclared incomes of the self-employed.
  - **Scenarios:** enhancement of OPFs so that occupational insurance in Greece converges with other European countries within 15, 20, or 25 years.
- We use a dynamic stochastic general equilibrium (DSGE) model to estimate the impacts
- We estimate the annual impacts on GDP and investment for the next 50 years

New capital reserves in the 2nd pillar…

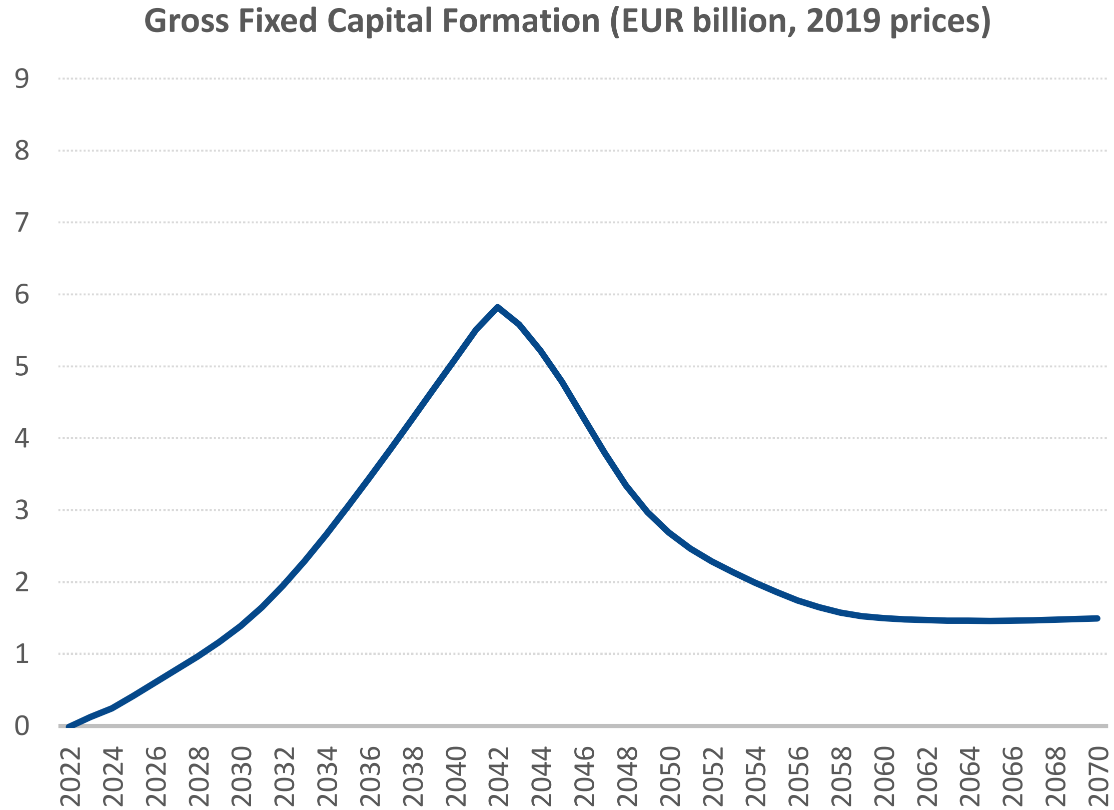


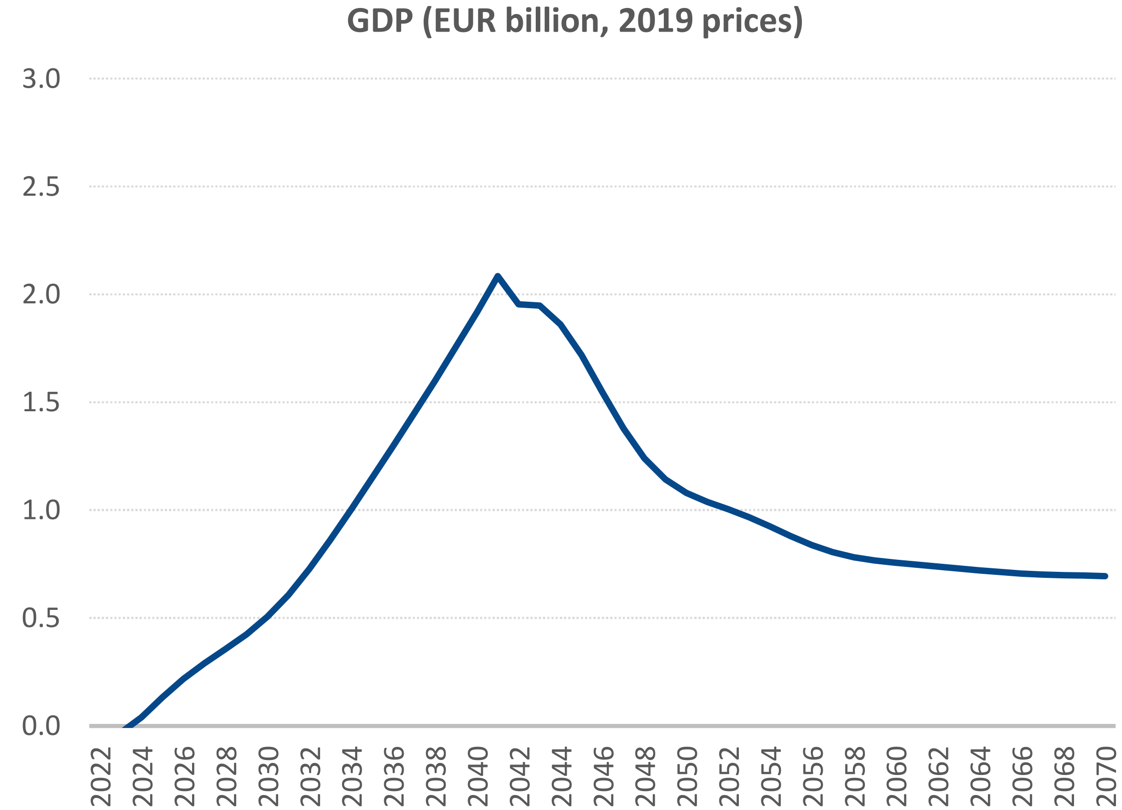


Source: IOBE estimates

…are expected to exceed 10% of GDP (or €20 billion) in the baseline scenario over the next 20 years

In the baseline scenario, positive effects on the fixed capital stock may reach €6 billion.

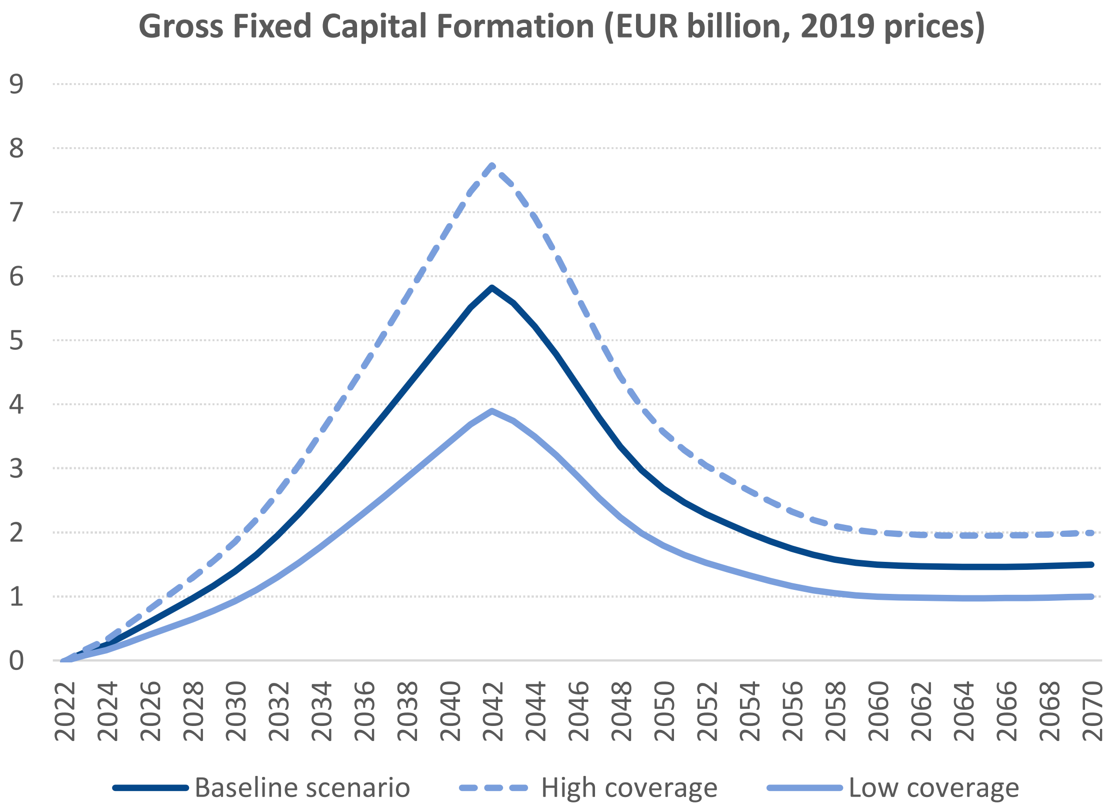


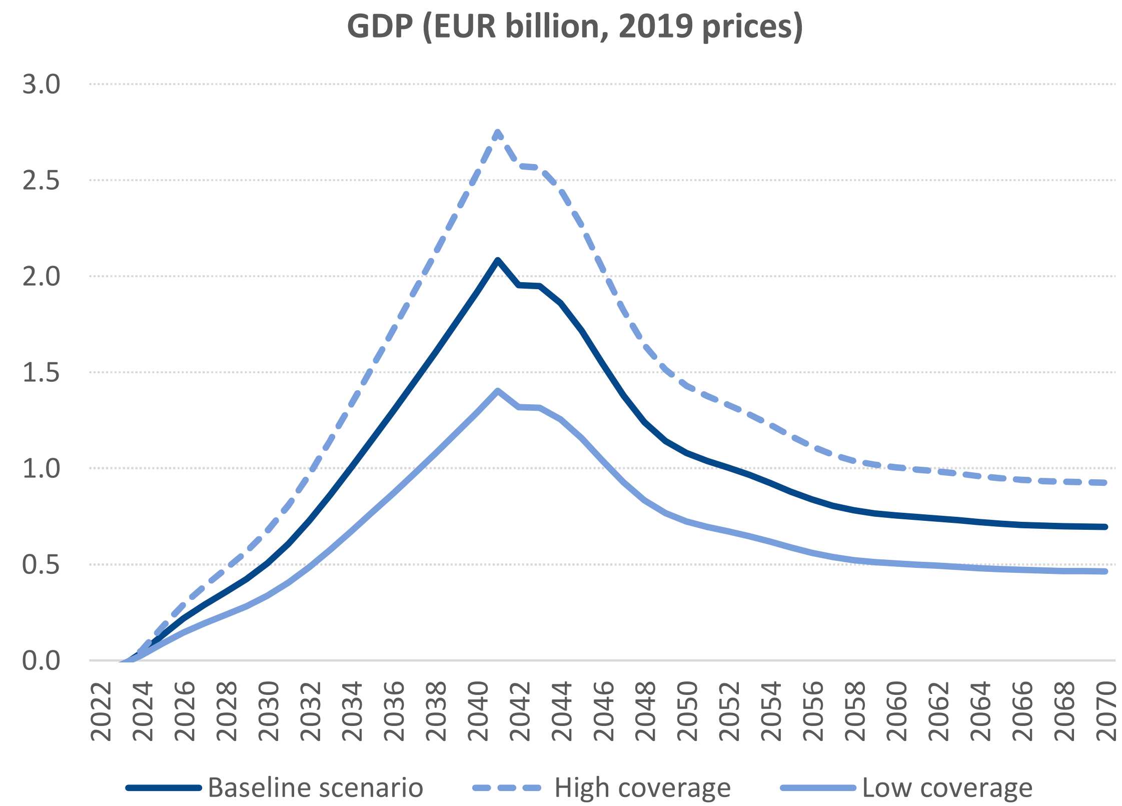


Source: IOBE estimates

Real annual GDP can increase by up to €2 billion and remain on average €1 billion higher during 2020-2070 compared to the status quo

Higher occupational insurance coverage of the labor force…

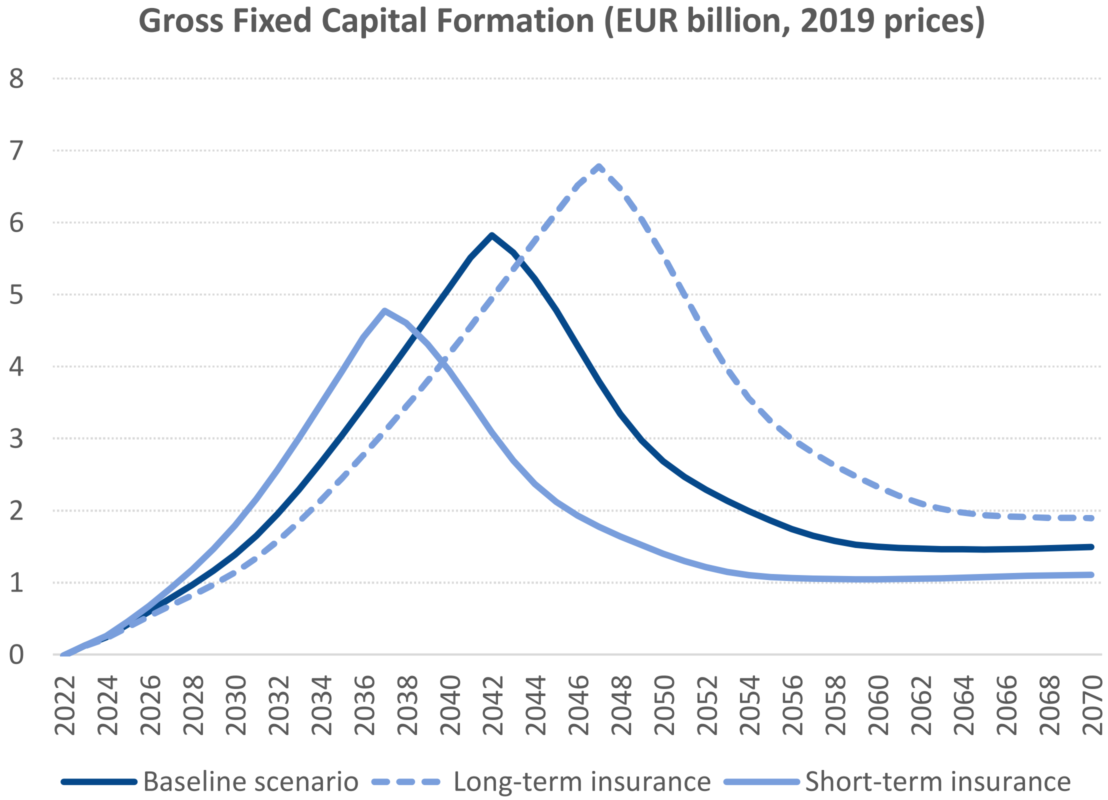


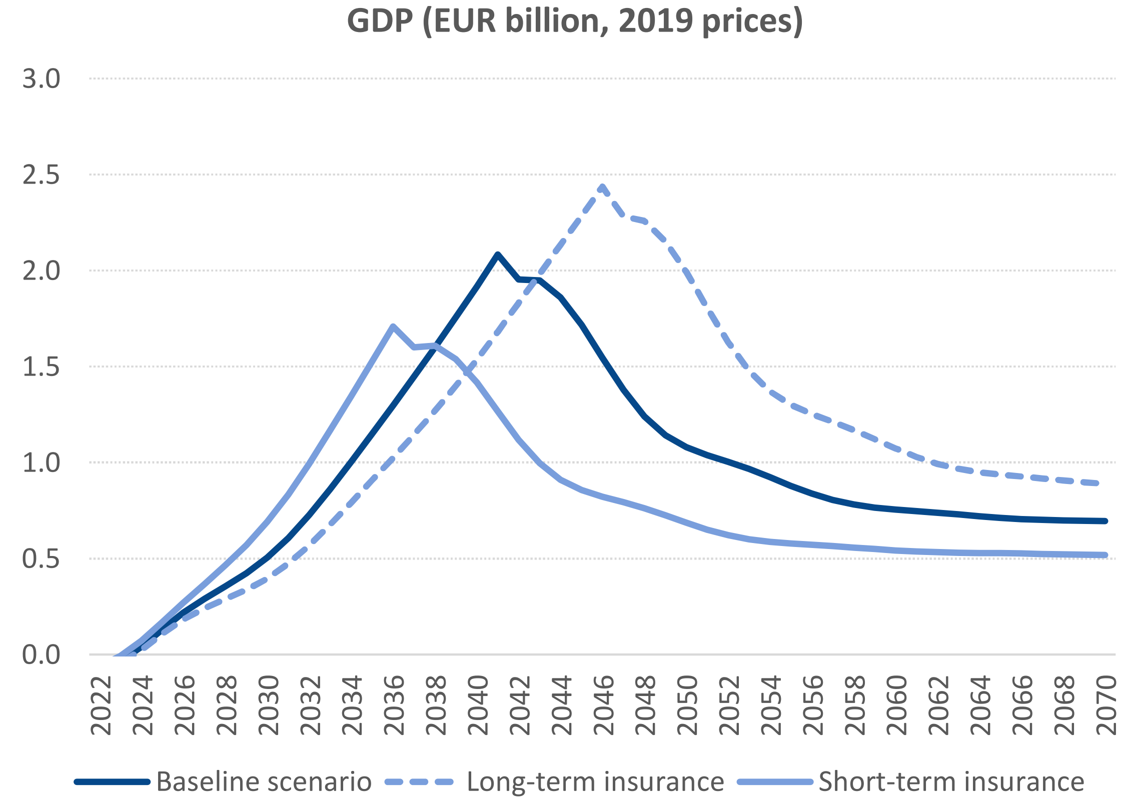


Source: IOBE estimates

…is estimated to lead to higher fixed capital stock and higher GDP by up to €7.7 billion and €2.7 billion, respectively, over a 20-year period

Longer duration of occupational insurance…





Source: IOBE estimates

…is estimated to yield higher fixed capital stock and GDP by up to €6.8 billion and €2.4 billion, respectively, over a 25-year period

Contents

Conclusions

- Occupational insurance in Greece **significantly lags** compared to other European countries.
- We have identified obstacles to the healthy development of occupational insurance, and we have **proposed measures** to mitigate them.
  - Turn to a single supervisory body
  - Create a more flexible organizational status and allow multi-employer OPFs
  - Provide financial incentives to insured persons and employers in order to enable the healthy and sustainable development of the institution in a stable and transparent tax framework
- Occupational insurance can **contribute to economic growth.**
- Increased coverage of the second insurance pillar in Greece can lead to the **accumulation of significant capital reserves**.
- We examined alternative scenarios regarding the speed of convergence with European practices. The domestic **macroeconomic impacts** are estimated:
  - Reserves of up to €27 billion are created within 20-years, with propagating benefits for the real economy.
  - The domestic productive structure is enhanced; new fixed capital can surpass the status quo levels by as much as €7 billion within 20 years.
  - Labor productivity increases significantly.
  - Real annual GDP is approximately €1 billion higher (2019 prices) compared to the status quo over the next 20 years; it could even reach €2.7 billion higher.

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