

Address of the Minister of Labour and Social Insurance
Mrs. Sotiroula Charalambous on the occasion of the 15th Regional Social
Insurance, Pension and Provident Fund Conference concerning “Pensions
In Crisis”

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His Excellency the President of the Republic of Cyprus who could not be present due to unforeseen commitment has authorized me to convey his warm greetings to all of you as well as his deep appreciation for your valuable role in the field of social security and wishes you every success at this conference.

It gives me a great pleasure to welcome you in Cyprus on the occasion of this important conference which is hosted by the Ministry of Labour and Social Insurance of Cyprus in collaboration with the Muhanna Foundation and the support of the International Actuarial Association. Given this opportunity, I would like to express my gratitude for choosing Cyprus to hold the 15th Regional Social Insurance, Pension and Provident Fund Conference.

The core of the Cyprus pensions system is the earnings-related General Social Insurance Scheme covering all gainfully occupied persons, along with the social pension scheme providing pension to any citizen without a pension from any other source and the Special Allowance to Pensioners, whose pension is below a prescribed level. Additionally, Government employees and employees of the semi-public organizations and local government authorities are covered by supplementary earnings-related schemes. Moreover, supplementary provision for the private sector employees are the voluntary provident funds, covering around 35% of these employees, and providing defined-contribution lump sum payments in case of retirement, invalidity, death and termination of employment.

The overarching challenge for the public pension system of Cyprus is the ageing of its population. Public expenditure on pensions is projected to rise from 6.9% in 2004 to 15.5% of GDP by 2050, exerting a tremendous strain on public finances. The fact that the bulk of pensions are basically financed on a PAYG basis will have serious implications for the future sustainability of pensions and for the economy and public finances, in view of the ageing of the population of Cyprus.

The main challenge of the General Social Insurance Scheme is the very high risk of relative poverty for the population in the age group 65 and over. The Government of the new President of the Republic, who took over in March 2008, has been strongly committed to improving the living standards of the low-income groups of the population by fighting social exclusion and poverty. Particularly for the aged, the programme of the new Government includes, inter alia, measures aimed at drastically reducing the at-risk-of-poverty rate by targeting income support and nonmonetary benefits to those persons who live below the relative poverty threshold.

The objective of the government social policy is to ensure the financial sustainability of public and private pensions schemes, bearing in mind pressures on public finances and the ageing of populations, in the context of the three-pronged strategy for tackling the budgetary implications of ageing, notably by: supporting longer working lives mainly through enhancing smoother completion of working cycle, and active ageing; by balancing contributions and benefits in an appropriate and socially fair manner; and by promoting the affordability and the security of funded and private schemes.

Major reforms to the General Social Insurance Scheme, include both measures to increase income and measures to reduce expenditure. Thus, the demographic challenge will be addressed mostly through a 55% scaled increase in contributions, over a period of 30 years starting in 2009 and, to a minor extent, by increasing the period of paid insurance for minimum old age pension from three to ten years and the total period of insurance (paid plus credited), from twelve to fifteen years. The draft legislation regarding the package of reform measures for the long-term sustainability of the Social Insurance Scheme is currently with the House of Parliament and I hope that it will soon be ratified. I would like to emphasize that the reform package is balanced and socially justifiable and has been developed after extensive consultation with social partners. It is also noted that the reform package sustains important characteristics of the General Social Insurance Scheme such as the voluntary retirement at the age of 63 and the provision of credits education, birth, and National Guard.

The current financial and economic crisis is negatively affecting social security and in particular pension systems in various countries in different ways including lower investment returns, reduced revenues due to lower contributions, and higher expenditure such as increased unemployment. Thereby, demanding that governments take a variety of actions to reduce economic and Social impacts of crisis and restore public confidence in pension systems.

In Cyprus, the global financial crisis has not had any immediate and direct impact on the General Social Insurance Scheme, which effectively operates on a pay-as-you-go basis and aims to provide adequate levels of pension. The only indirect and long-term impact that the financial crisis might have on social insurance is that it could increasingly worsen the broader, long-term fiscal challenges of Cyprus in case the economic crisis has a long duration.

Similarly the financial crisis has had a small, immediate impact on people's employer-sponsored defined contribution pension accounts, as well as on occupational defined benefit pension schemes. While in other jurisdictions people have suffered losses in the 40 or 50 percent range, in Cyprus the impact has been minimal since pension plans are primarily invested in secure assets (bank deposits and bonds) and the level of investment in real assets, such as equity, is relatively low (around 15% of the total assets).

The Competent Authority in Cyprus, is closely monitoring the appropriate management of pension plans including their investments and has the right to intervene in order to ensure that the management is in line with the investment principles and rules specified in the relevant legislation.

Nobody can predict the duration of this financial crisis, but, if the crisis is sustained, there will obviously be a pressure on the growth of the economy which in turn could have a negative impact on employment, raising the unemployment rate. In turn, this will have negative impact on the long-term sustainability of the General Social Insurance Scheme as the number of contributors will decrease while at the same time the number of recipients of benefits will increase. To this extent, the government has adopted series of measures to sustain stimulate economic growth and employment.

Another issue of main concern is the investment framework and policy of the Social Security Fund. Recently the Government has proposed to the Social Partners a new sustain and investment framework and policy based on the recommendations of the World Bank in order to:

- (1) Draw down the current notional reserve invested primarily in non-tradable government debt; and
- (2) Create an effective reserve that can be professionally and independently managed outside the general government with the active role of social partners.

The new investment policy framework which is based on internationally accepted governance and investment process standards and best practices, has been recently agreed by the Social Partners.

It is our duty in these difficult circumstances to continue monitoring the sustainability of social security systems, as they are major factors for social cohesion.

To conclude it would be a great omission not to praise the actuaries and their crucial role in analyzing the financial position of a social security scheme and recommending appropriate action to ensure its long-term viability. They also play an important role in estimating the long-term financial implications of reform proposals, ultimately providing a solid quantitative framework to government authorities that guide future policy decision.

Last, I would like to wish you all a fruitful and constructive conference.

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