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Cyprus to continue monitoring sustainability of social security systems

Financial Mirror

Minister of Labour and Social Insurance Soteroula Charalambous said on Tuesday that the government intends to continue monitoring the sustainability of social security systems and especially pension schemes, and if necessary is determined to take measures in order to face this challenge.

Addressing the 15th Regional Social Insurance, Pension and Provident Fund Conference concerning "Pensions in Crisis", which took place in Paphos, Charalambous said that "the overarching challenge for the public pension system of Cyprus is the ageing of its population."

The Conference, which was placed under the auspices of the Ministry of Labour and Social Insurance of Cyprus, was organised in collaboration with the Muhanna Foundation and with the support of the International Actuarial Association. The Financial Mirror was one of the media sponsors of the event.

Charalambous noted that 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.

Charalambous also noted that 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, and assured that the government has been strongly committed to improving the living standards of the low-income groups of the population by fighting social exclusion and poverty.

"The objective of the government social policy is to ensure the financial sustainability of public and private pension schemes, bearing in mind pressures on public finances and the ageing of populations," she said.

She pointed out that "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."

"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," Charalambous noted.

She said "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," adding that, "while in other jurisdictions people have suffered losses in the 40% or 50% range, in Cyprus the impact has been minimal since pension plans are primarily invested in secure assets and the level of investment in assets such as equities, is relatively low."

"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," she said.

Regarding the negative impact of the financial crisis on employment, which raises the unemployment rate, Charalambous said, "the government has adopted series of measures to sustain and stimulate economic growth and employment."

She added that, regarding the investment framework and policy of the Social Security Fund, 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 draw down the current notional reserve invested primarily in non-tradable government debt and 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," she concluded.

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