

# FACTORS AFFECTING RETIREMENT



BOOK 7: GREECE



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## 7.1 Summary

- A growing crisis in the Greek pension system means that policy makers are looking to extend working life by reducing early exit.
- There is growing awareness of the problems facing older workers in the Greek labour market.
- There has been a limited shift towards public policy measures favouring older workers, although early exit still seems to be a viable option for many.

## 7.2 The labour market situation of older people

As is the case in the other countries surveyed, population ageing is affecting the age structure of the Greek labour force, although population ageing is less pronounced than in other parts of Europe (Petroglou 1996). Thus, the proportion of the population of working age under 44 years declined from 51.8 per cent in 1985 to 48.5 per cent by 1997 (Kottis 1999). There has also been a decline in the size of the labour force aged under 25. However, because participation rates among older workers have also been declining an ageing of the workforce is not yet apparent, although this situation will change over time. The percentage of the labour force aged 45-64 was less in 1997 than in 1985 - 28.2 per cent versus 31.9 per cent.

The situation in Greece differs from that in other countries in important ways. First, state ownership of parts of industry has been a major feature of the economy which may have provided older workers with some degree of protection from dismissals. Second, agriculture is an important feature of the economy, comprising a large number of small businesses which are often owned by older workers. In 1994 half of the self-employed and two-thirds of workers in agriculture were aged 45 or over. A lower rate of technological change may also have protected older workers to some extent. Finally it should also be noted that only limited social protection exists in Greece. Unemployment benefit is available for up to one year after which income support is not available (Petroglou 1996).

Recent reviews of the labour market situation of older workers have been provided by Mestheneos and Ioannidi (1996) and Mestheneos (1998). Greece shows a similar pattern to other countries in terms of the relationship of older people with the labour market. However, at first glance the data would appear to suggest otherwise. Mestheneos and Ioannidi point out for example, that older men in Greece have one of the highest rates of employment in the European Union and that unemployment rates have been consistently and

significantly lower among older than younger workers over many years (see also Kottis 1999 and Ziomas and Bouzas 1992). But the reality of the situation of older workers is rather different.

According to Mestheneos (1998), long-term unemployment is a major problem among older workers, although OECD Labour Force Statistics (1998a) data for 1996 suggest that while over half (54.6 per cent) of unemployed people in the 45-64 age group had been unemployed for 12 months or more, the problem was more acute among the labour force (15-64 age group) as a whole (56.7 per cent). Mestheneos also points out that a particular characteristic of unemployment among older workers is that higher rates are observed among those who have completed secondary education than those who have completed primary education only.

Mestheneos and Mestheneos and Ioannidi also highlight the changing nature of the Greek labour market as evidence of the declining fortunes of older workers. First, Greece among the member states of the EU has the highest proportion of workers in the declining primary sector. Moreover, workers aged 45 or over are over-represented in this sector (31 per cent compared to 20.4 per cent for the population as a whole in 1995). By contrast older workers are under-represented in expanding sectors of the economy. Moreover, according to Mestheneos employment in agriculture might be better described as underemployment in subsidised, uncompetitive, subsistence farming.

According to Petroglou (1996), research on social exclusion in Greece has found that those most at risk are the long-term unemployed, men aged over 55 and women aged over 50, who have worked in declining sectors of the economy. They also live in regions hardest hit by the decline of some sectors.

Additionally, self-employment is an important feature of the Greek Labour Market, both as a cultural preference and as a means of finding work for family members. According to Mestheneos (1998), in 1995 over a third of the Greek labour force was self-employed and, of these, over half were aged 45 or over. Self-employment tends to be in micro-enterprises - usually family businesses. In Mestheneos's view this means that a considerable amount of the work undertaken by older women in particular may actually be unwaged.

Mestheneos also states that it is difficult to gauge the true situation of older workers in the Greek labour market. For example, much work in the Greek economy, such as agriculture, leisure and construction, is seasonal. Older workers tend to be over-represented in such sectors and, according to Mestheneos, may be 'underemployed or holders of more than one job, declared and undeclared, simultaneously or seasonally'.

### 7.3 Social welfare and pension arrangements

Greece has no unified system of social insurance. Instead there are a range of separate funds for different occupational groups and sectors (Fuduli, undated). Its system is characterised by considerable fragmentation, relatively low pensions for many workers and considerable inequity with, for example, rural workers receiving a much lower pension income compared to state workers and those previously receiving much of their employment income from the state (for example, lawyers). Fuduli states that there are significant inequalities between professional groups and even within professional groups due to the division of social insurance into various schemes.

Retirement benefits are the most important part of the welfare package in Greece. These may be provided by primary insurance institutions (primary pension), supplementary insurance institutions (supplementary pension), by provident funds (lump-sum benefit upon retirement) or by mutual aid societies (lump-sum benefit upon retirement) (Fuduli, undated). Supplementary pension plans are compulsory.

Fuduli states that the financing of the insurance system is primarily based on contributions from individual workers and employers. The level of the state contribution varies widely between professional groups. There are significant inequalities both in terms of contribution rates and benefits.

There appears to be a consensus that population ageing coupled with the already precarious state of the pension system has made the present situation unsustainable (Kottis 1999). According to the OECD (1998b), Greece's pension income system is among the most generous and inequitable among the OECD countries, due to low contributions and to large differences in pension benefits between pension funds. It identifies two main problems with the state-run pay-as-you-go system: its short contribution periods and early retirement. Options it identifies for addressing these issues are eliminating early

retirement for some privileged groups and replacing the high minimum pension with a means-tested benefit.

Total pension outlay exceeded contributions by 4.5 per cent of GDP in 1997 and it is anticipated that this will increase to 5.5 per cent by 2010. However, contributions cannot rise to fill this gap because they are already amongst the highest in the OECD countries. Likewise public support for the pension system cannot increase any further (Kottis 1999). This leaves an extension of working life together with improving the system's efficiency as the only options available.

Mestheneos and Ioannidi state that in the majority of cases, pensions do not provide an adequate income. They report data for 1992 which indicate that, while pensions accounted for 60 per cent of all social expenditure in Greece, compared to an average across the 12 member states of 44.8 per cent, the purchasing parity strength (PPS) of the average pension in Greece compared poorly with the rest of the EU.

According to Fuduli there are approximately 236 insurance funds which are supervised by different ministries. Private-sector urban employees are covered by the state scheme - administered by the Institution of Social Insurance (IKA). Public sector employees' (for example, state banks) insurance schemes are at an enterprise level with most costs borne by the employer. Civil servants have no fund of their own and all of their contributions are paid by the state. Rural workers' insurance coverage is provided by the Agricultural Insurance Organisation (OGA). Until 1997 rural workers paid no contributions and received a low pension (approximately one-sixth of the average private sector pension), although there have been recent attempts at reform. Self-employed people have their own contributory scheme - TEBE. Other professions such as doctors and lawyers are insured under various contributory schemes. However, according to Fuduli the level of their contributions is low and grossly unrelated to their incomes. Some funds receive large Government grants or contributions from special taxes.

Since 1951 when the IKA system was improved, primary insurance funds have been permitted to continue to operate but are overseen by the Ministry of Social Insurance and the IKA. Also, the establishment of new funds was no longer permitted after this date. These funds must at least provide the same level of assistance as IKA. There have also been attempts to unify the funds, although such moves have been resisted by the more powerful ones.

In the 1980s liberal policies in the areas of retirement and disability enabled many workers to retire prior to the statutory age of 65. However, mounting fiscal pressures led to changes aimed at limiting early retirement (Kottis 1999). In 1991 the Government raised the minimum age of pension entitlement to 65 years, with a minimum contribution period of 35 years. This will be fully implemented in 2000. However, workers in physically demanding or unhealthy occupations will be eligible to retire at the age of 60. Additionally, pension ages and contributions have been equalised for men and women.

Reforms in the early 1990s have led to a reduction in the number of early retirees (Kottis 1999). However, there is still a strong culture of early exit as until 1995, the state also supported early exit schemes for some declining sectors and two-fifths of the population are entitled to retire early because they work in hazardous or unhealthy occupations (Kottis 1999). A Government report of 1995 concluded that limited programmes of early retirement in areas of high unemployment might release jobs, although there was concern about the possible impact on the pension system (Mestheneos and Ioannidi 1996). However, according to Mestheneos and Ioannidi the report's authors were clearly opposed to the blanket use of early retirement as a tool against unemployment. Nevertheless, the Government began to promote the idea of early retirement for individuals whose closeness to retirement age would mean that completing their contribution record would not be very costly. However, in 1996 the Government announced that it would no longer support early retirement schemes (Mestheneos 1998).

Even so, potential disincentives to employment, at least in the official economy, among older workers remain. For example, above a certain level of employment income the amount of a pension is reduced by one third. Radical reform of the pension system is required but policy makers are reluctant to tackle the issue, given the potential political backlash this could provoke (Kottis 1999).

Fuduli also states that there have been abuses of the social insurance system. For example, conditions for obtaining a disability pension have not been stringent enough. Another problem has been avoidance of paying social insurance contributions. However, recently, objective criteria for assessing the degree of disability have been introduced and what are healthy and unhealthy jobs has been more clearly defined.

There would appear to be several routes out of the Greek labour market for older workers. For example, individuals with 10,500 days of work covered by national insurance contributions are eligible for a full pension after the age of 58 while those with fewer contributions can be eligible at the age of 60. In addition, workers who have been employed in arduous or unhealthy work can receive a full pension at the age of 60 and it is possible to receive a reduced pension from the age of 56. Some groups of workers and women with children can be eligible to retire at the age of 50. Additionally, workers who are made redundant under programmes of mass dismissals and are close to retirement age are eligible for a higher rate of unemployment benefit for two or three years. During this period their social security contributions are paid by the Manpower Employment Organisation (OAED). Early exit on grounds of disability has now been restricted (Kottis 1999).

Since 1985 special programmes to assist in the management of restructuring in particular sectors, particularly those which were once state owned, and supporting workers affected by closures have been

devised which make use of the pension system. For example, in the case of Olympic Airways in 1994 early retirement was made available for those whose pension contribution records were nearly complete. Retirees received a full old-age pension which was subsidised by the state (Petroglou 1996).

Other schemes have relied on unemployment insurance for workers nearing pension age. In the case of workers made redundant due to the privatisation of the state mines at Kassandra, those nearing retirement age were awarded a special unemployment benefit which was worth double the usual unemployment benefit and was available for up to four years rather than the usual one year.

A specific example of early retirement being used as a means of protecting the jobs of other workers comes from the Skaramaga shipyards. In 1995 the workforce voted for dismissals in order to secure the future of the shipyard. An agreement reached between the workforce and management allowed for the early retirement of workers 4-5 years short of pension age (Petroglou 1996).

Other schemes have offered lump sums to workers who have achieved the requisite number of pension contributions but who have not yet attained pension age or who may not wish to retire. Workers have been offered eight months' pay and higher in some instances as an inducement to retire. In the case of a scheme offered by the Bank of Greece, in addition to a lump sum, workers who had not yet reached pension age received a monthly payment equivalent to the pension corresponding to their pension record which continued until they attained the minimum age at which they could draw a pension or for a maximum of five years (Petroglou 1996).

Under the provisions of some schemes older workers have been given the opportunity to take a lump sum combined with training aimed at improving their employability or to help them become self-employed. Job-search support has been provided by the Greek Manpower Employment Organisation (OAED) and, if unsuccessful, the individual has received a higher rate of unemployment benefit and for a longer period than usual (Petroglou 1996).

#### **7.4 Impacts on labour market and retirement behaviour**

Another unusual feature of the Greek labour market is the important role of work after retirement. There is evidence that many claim their pension and remain in employment. This applies to both poorer workers and those state and other workers on better pensions. According to Mestheneos and Ioannidi the low level of pensions means that many people have no choice but to continue in some form of employment, either in the formal or informal sectors of the economy. Additionally, they make the point that 'given that pension entitlement levels do not always increase substantially with more years of the same work contract, it is not surprising that many individuals seek to obtain a pension as soon as possible in order to look for another job'. Also, because unemployment benefits cease after one year and social assistance benefits are difficult to obtain, and because benefit levels are also very low this encourages those threatened by unemployment to seek to obtain a pension.

Overall, participation rates among people aged 45-64 declined from 57.1 per cent in 1985 to 53.1 per cent in 1990 before recovering somewhat to 55.0 per cent by 1997. The overall pattern is reflected in participation rates among men which showed a decline from 80.6 per cent in 1985 to 74.6 per cent in 1990 before increasing to 76.9 per cent by 1997. The situation is similar for women with a decline from 35.1 per cent in 1985 to 32.5 per cent by 1990 before showing an increase to 34.8 per cent by 1997 (Kottis 1999).

### **7.5 Role of human resource policies in influencing the labour force participation of older workers**

This review of the Greek literature did not find any systematic studies of employers' attitudes and practices towards older workers. Mestheneos and Ioannidi attempted a postal survey but abandoned this approach after achieving a very poor response rate. However, they did carry out telephone interviews with 120 companies and with employer organisations which were partially written up. However, no information was available on the composition of this sample, its representativeness or about the respondents. They report that, in the case of the Association of Personnel Officers, which was contacted as part of the research, there had not been any discussion within the organisation concerning the issue of older workers. Among the employers interviewed, 50 operated early retirement schemes. In the area of recruitment the particular position and the ability of the person might override considerations of age. Thus, older managers were preferred. Despite high levels of unemployment there have also been areas where labour has been in short supply, for example, skilled craftsmen. Skilled manual jobs are less attractive to younger people and the demand for older people has been such that some have continued in employment beyond retirement age. Maintaining an age balance among their workforce was a reason given by employers for recruiting younger workers. When job demands change employers prefer to select and train younger people.

The public sector is an area where specific and explicit age bars on recruitment can be observed. There is a general age limit of 35 (37 in the case of graduates) on recruitment into the public sector. However, legislation in 1994 removed age limits entirely for scientists on fixed-term contracts and raised the age limit for individuals recruited to meet urgent or unforeseen needs to 50 years of age. Age limits also apply to the training of workers in the public sector. For example, educational leave is not granted after the age of 45 (Petroglou 1996).

### **7.6 Older individuals' orientations to work and retirement**

No information on this issue in the Greek context, other than what is already presented elsewhere in this report, was obtained during the course of this review.

### **7.7 Role of labour market policies and collective agreements in extending/contracting working life**

There is no specific protection in law for older workers in Greece. Age discrimination as an area of equality is not mentioned in the Greek constitution, although some protection is offered in terms of the right to work and protection from arbitrary discrimination. The constitution also has provision for positive discrimination in favour of vulnerable groups (Petroglou 1996). On the other hand, given the age bars which exist in public sector recruitment, the extent to which legislative or constitutional protection exists for older workers in reality must be questioned.

Attitudes among trade unions to older workers and retirement vary depending on the sector in question and the region involved. Thus in areas of high unemployment and in declining sectors the emphasis of trade unions has been on early exit (Mestheneos and Ioannidi 1996). Nationally however, there has been an acceptance of the need to reduce access to pensions, although there is also concern about increasing levels of unemployment among older workers. Flexible employment practices which might benefit older workers, such as flexible working hours, are viewed with suspicion by some in the trade unions.

According to Mestheneos and Ioannidi early labour force exit and age discrimination are issues which have recently been recognised by Government, although it is argued that there has been as yet no concerted effort to raise participation rates and promote the reintegration of older workers (Kottis 1999). That new public policies have been slow to emerge is partly a reflection of employment regulations which protect older workers.



A further explanation is that workforce ageing is not yet a reality because of early exit and as such has not caught the attention of policy makers. This has meant that there has been limited public debate on the issue (Kottis 1999).

Some Government labour market programmes have special provision for older workers. For example, the Work Reintegration Programme offers subsidies to firms that recruit workers who have lost their jobs because of mass redundancies. The subsidy is greater for men aged over 55 and women aged over 50. Subsidies are combined with vocational guidance and training. A special programme exists for those close to retirement age. The subsidy is higher and may last until the individual retires. Also, under a self-employment programme for people with special needs a bonus is added to the subsidy for people aged over 45 (Kottis 1999).

However, data provided by Mestheneos and Ioannidi (1996) would seem to indicate that such schemes have had a limited impact. Figures for 1994 for a scheme targeting workers aged 56-60 showed that there were only 629 individuals supported under the scheme. No information was provided about the placements workers had obtained.

In 1996-97 the Government introduced a raft of active labour market measures, including the removal of an upper age limit of 46 for training programmes administered by the National Manpower Employment Organisation (OAED) and the recognition of older workers as being a vulnerable group (Mestheneos 1998; Petroglou 1996). Additionally, Petroglou mentions that legislation enacted in 1996 gives priority to long-term unemployed people in recruitment to seasonal jobs in the public sector. Additional legislation from 1996 provides financial incentives to help facilitate the geographical mobility of long-term unemployed people aged 45 or over.

Current agreements on dismissals, both in terms of numbers and in terms of compensation payments, limit their use with older workers (Kottis 1999). Dismissals on grounds of age are not considered valid and workers with 15 years' service are entitled to higher redundancy pay. On the other hand, once they reach the age of eligibility for a pension they lose some of this protection, although the legality of this on equality grounds has been questioned (Petroglou 1996). However, pressure for greater employment flexibility may lead to a decrease in labour market regulation (Kottis 1999).

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