

Greece's Pension System Isn't That Generous After All

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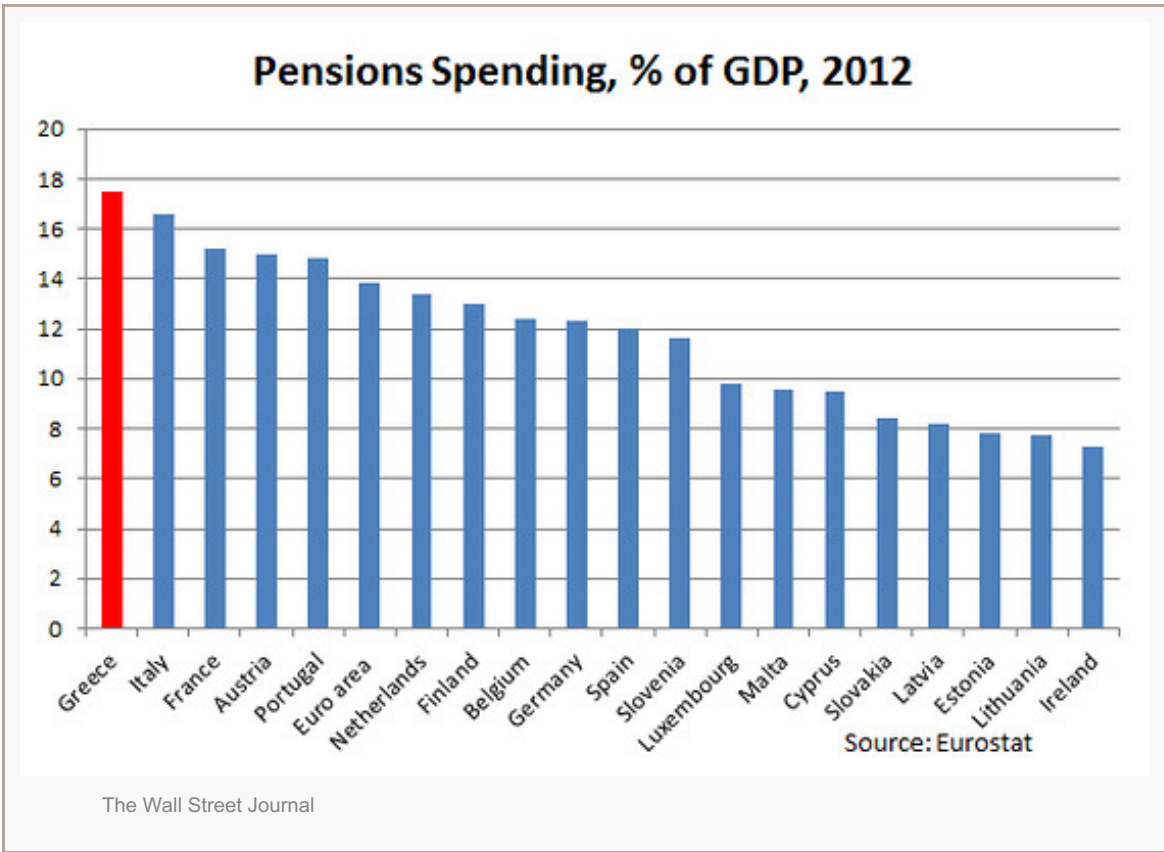


Retired ship's cook Giannis Rozinos, 78, pictured on the rooftop of his house in Athens. His pension has been cut by about a third in recent years.
Associated Press

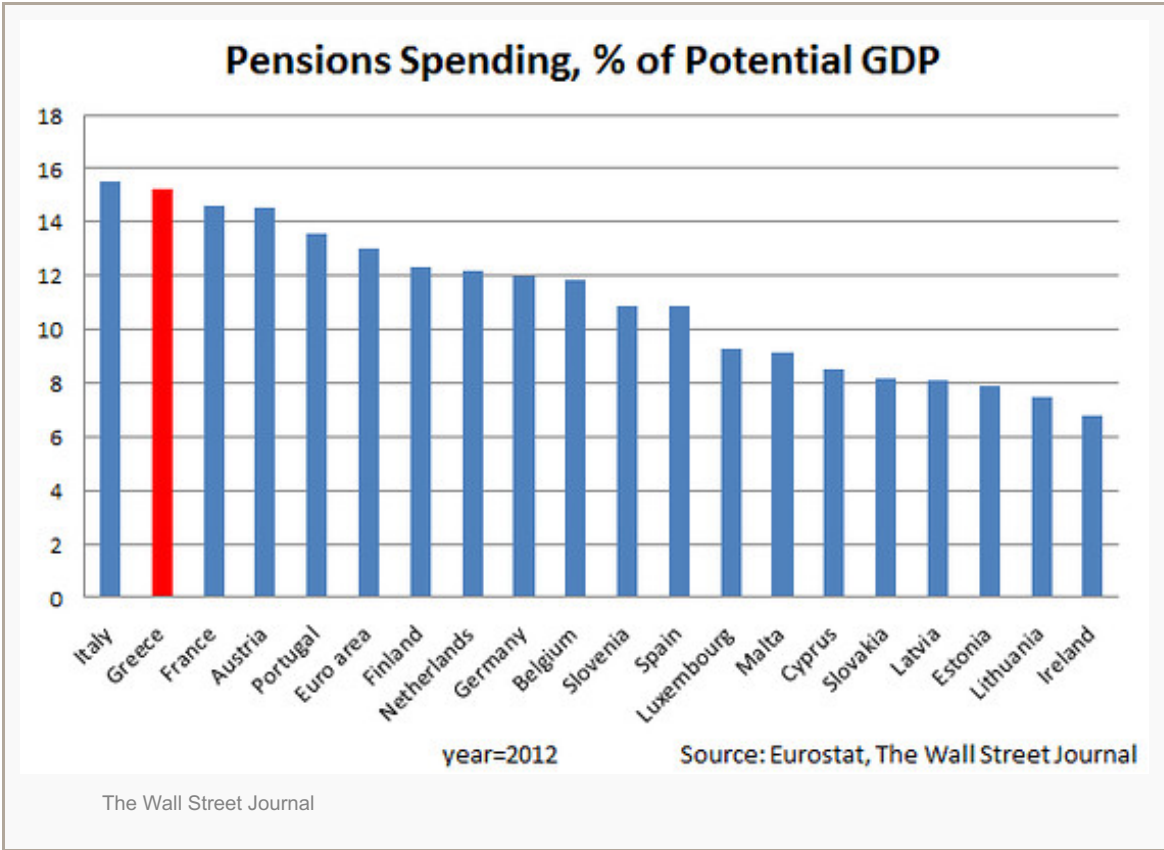
Greece's pension system has become a flash point in the new government's talks with its international creditors. Prime Minister Alexis Tsipras has vowed to fight more cuts to the system, while Greece's creditors say more cuts are probably necessary to ensure the government can pay its bills.

Before dealing with that question, they'll need some facts about Greece's baroque pension system. At first glance, it might seem too generous. But dig a little deeper, and the picture becomes more complicated.

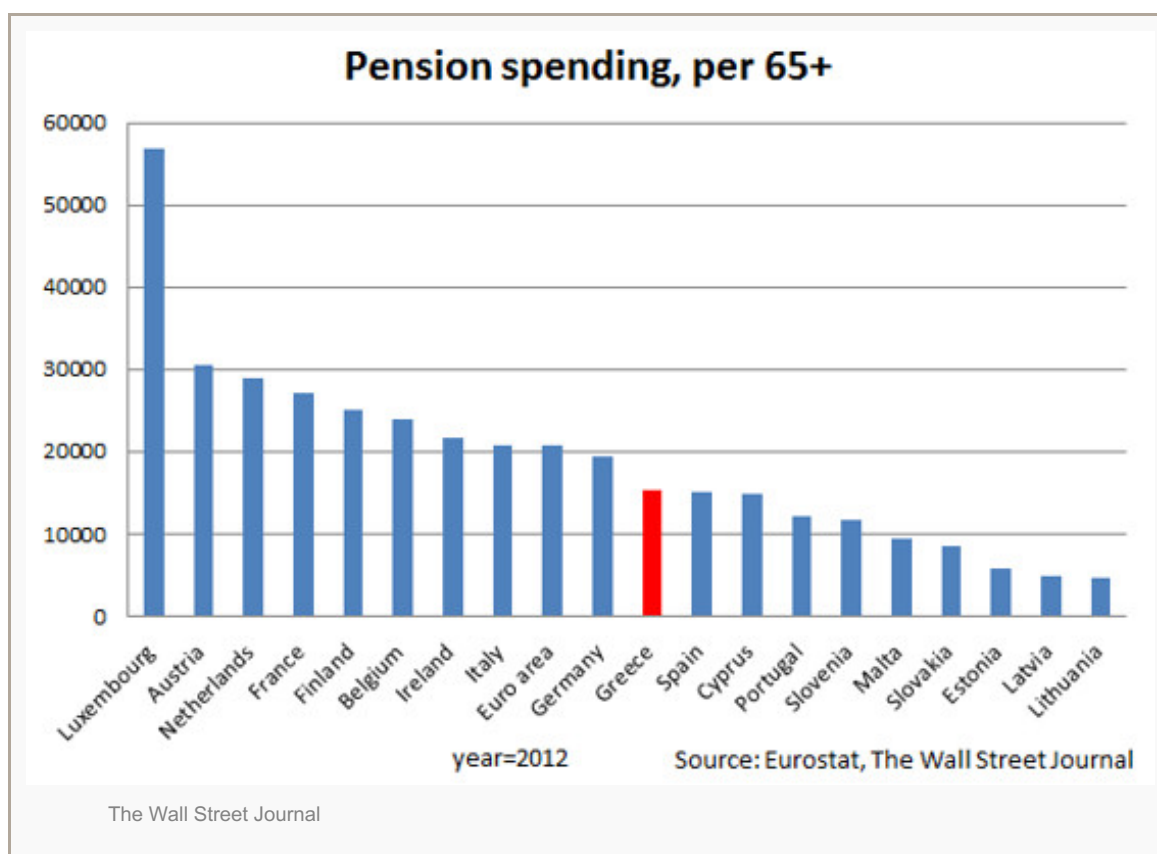
First, how much does Greece spend as percentage of GDP on pensions? The data from Eurostat looks like this as of 2012, with Greece expenditure easily highest in the eurozone as a percentage of GDP:



But part of that is due to the collapse in GDP suffered by Greece during the crisis. Suppose you look at pension expenditure as a percentage of potential GDP, the level of economic output were eurozone economies running at full capacity:



Greece is still near the top, though it's not so far from the eurozone average. Moreover, Greece's high spending is largely the result of bad demographics: 20% of Greeks are over age 65, one of the highest percentages in the eurozone. What if instead you attempt to adjust for that by looking at pension spending per person over 65 (see note below):



Adjusting for the fact that Greece has a lot of older people, its pension spending is below the eurozone average. In fairness to Germany and other scolds of Greece, this only happened after major cuts imposed on the pension system by the European Commission, the International Monetary Fund and the European Central Bank — the troika representing its international creditors. But it's also worth remembering that 15% of older Greeks were at risk of poverty in 2013, above the eurozone average of 13% and a figure that has almost certainly risen over the last year.

One area where Greece can clearly do better is by simplifying its pension system. As a Greek pension official [described in a speech](#) in November 2013, Greece in 2008 had 133 separately administered public pension funds. Overhauls begun in 2008 — and continued during overhauls imposed by the troika — were supposed to cut this number to below 13. But only recently has the government gotten a true picture of how much it spends on pensions by assigning all pensioners a social security number. Those efforts appeared to lead to a significant upward revision of the pension spending that Greece reported to Eurostat in 2012 (which is reflected in the graphs above). Eurostat says prior year Greek pension spending numbers are under review.

The Greek government has said that consolidating these various pension funds is one of the reforms pursued by the previous government that it will continue. The troika is likely to endorse that idea wholeheartedly. Stay tuned to see if it will insist on more cuts.

Note: Eurostat's data on pensions includes pension money spent for old age, early retirement due to medical reasons, early retirement for labor market reasons, disability and "anticipated" old-age. The chart above merely divides that number by the number of people over 65 in each country. So the actual amount spent on each person over 65 will be less than shown on the chart, since lots of people under 65 also receive pensions for various reasons.