



Why did poverty in old age in Cyprus reduce so sharply?

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Between 2008 and 2015, poverty among the elderly in Cyprus has decreased dramatically. This Flash Report attempts to explain some of the factors driving this welcome phenomenon, paying attention to how far it changes the long-term fundamentals of the pension system. The policy implications of this development are also considered.

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Description

In 2008, the income poverty rate among persons aged 65 or above stood at 46.3% in Cyprus, second only to Latvia (52.0%) and far above the EU-27 average (18.9%). However, after the eruption of the recession this poverty rate started to decrease rapidly reaching 17.3% in 2015 (EU-27: 14.0%). Also, the “at-risk-of-poverty-or-social-exclusion” (AROPE) indicator for elderly persons, which considers not only income poverty but also severe material deprivation and (quasi-)joblessness, dropped from 49.3% to 20.8% in Cyprus and from 23.3% to 17.3% at EU-27 level. However, the magnitude of the phenomenon makes the case of Cyprus unique.

Of course, one should interpret the above changes with caution, in the sense that they can reflect changes in the relative poverty line over time. For instance, if the poverty line is “anchored” to 2008 and only adjusted for inflation then, over the period 2008-2015 the income poverty rate in Cyprus increases for (i) the whole population from 15.9% to 35.1%, (ii) children from 14% to 35.9% and (iii) working-age population from 10.8% to 32.6%; whereas, for the elderly it remains stable around 46%-47%. Yet, whatever angle one uses to describe changes in poverty during the period in question, the fact remains that the position of elderly relative to other population groups improved at an astonishing rate in Cyprus.

On that basis, several interesting questions arise:

- What are the driving forces behind the above changes?
- What does the improvement in social indicators for elderly people mean in practice?
- How should these developments feed into policymaking?

Outlook & Commentary

As indicated above, the dramatic reduction in poverty in old age in Cyprus over the period 2008-2015 reflects the improved income position of the elderly relative to that of the rest of the population. This phenomenon can, in turn, be linked to other developments during the same period:

a) The maturation of the pension system

The Cypriot pension system was reformed in 1980, switching from a flat rate to an earnings-related insurance scheme. While the 1980 system was in a phase of “maturation”, many workers reached the statutory pensionable age without having accumulated enough contributions for a full old-age pension. Conversely, the average level of old-age pensions has been increasing over time, as the new retirees have larger contributions and, therefore, larger

supplementary (i.e. earnings-related) old-age pension (Ministry of Labour, Welfare and Social Insurance, 2011). Indeed, according to the most recent data, the average monthly old-age pension increased by 24% between 2009 and 2016 - from 583 EUR to 723 EUR.

b) Unemployment and wage reductions

Over the period under investigation, the Cyprus economy went through a recession that affected the earnings of working persons more than the income of the elderly. This is because a large number of working age persons lost their jobs, with the unemployment rate skyrocketing from an impressively low 3.7% in 2008 to 6.3% in 2010 and to 15% in 2015. At the same time, many of those who kept their jobs faced reductions in their earnings. More precisely, the data of the Statistical Service of Cyprus (see link below) show a 7.6% reduction in the mean monthly earnings of full-time employees between 2010 and 2014. In addition, newcomers in the labour market were employed on less rewarding terms than in the past, as evidenced by the increasing incidence of non-standard employment (Pashardes and Koutsampelas, 2017).

c) Fiscal consolidation

In the context of fiscal consolidation measures taken during the economic crisis, the government imposed a special contribution (to all employees and pensioners) in 2011 and a scaled reduction in the emoluments and pensions of the employees and pensioners of the public service and broader public sector in 2012. However, low-income pensioners were not affected due to the

progressive nature of these measures. For instance, the special contribution was levied on gross wages and pensions exceeding 1,500 EUR. In addition, several targeted policies aimed at supporting low-income pensions ("Scheme for the financial support of low income pensions", "Social pension" and "Guaranteed Minimum Income") were kept intact during the economic crisis, effectively escaping retrenchment.

Where does this evidence leave us in terms of social policy? Has the problem of high poverty among the elderly in Cyprus been permanently resolved? The answer to the latter question is not unquestionably positive because:

- poverty in old age is likely to bounce back with economic growth for the same reasons (albeit not with the same intensity) it dropped with economic recession;
- the pension system is now fully maturing so the positive "migration effect" on pension levels, which is describe in (b) above, will soon peter out; and
- current labour market distortions (e.g. gender wage gap and inadequate pension arrangement for non-standard workers) will feed out disparities in retirement income in the future.

In conclusion, the spectacular reduction in poverty among the old in Cyprus during the last few years is an important achievement, but may not be fully preserved in the future without measures safeguarding the prerogative (and obligation) of all workers to secure an adequate pension through accumulating sufficient social insurance rights.

Further reading

Pashardes, P. and C. Koutsampelas (2017). Access to Social Protection of People Working as Self-Employed or on Non-Standard Contracts. European Social Policy Network, forthcoming.

Ministry of Labour and Social Insurance (2011). Actuarial Report of the Social Insurance Scheme as at 31 December, 2009. Republic of Cyprus.

Statistical Service of Cyprus. Structure of Earnings Survey – Comparative Figures 2014/10, (Table B1).

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