

Whole Families Survive On Pensions of Elderly

In a June 19 “Letter to Germans On Pensions” published in the newspaper *Der Tagespiegel*, Alexis Tsipiras injected some realities into the absurdity which lately has passed for discussion of Greek pensions in Germany—and at IMF headquarters. Here is an excerpt from the Greek Prime Minister’s letter:

It may sound somewhat suspect that 75% of the primary expenditure [of the Greek government] is used to pay for salaries and pensions. If it sounds unbelievable—that’s because it is: Only 30% of the primary expenditure concerns pensions....

The comparison with Germany’s pensions is also rather misleading. According to the Aging Reports (2009, 2015), pension expenditure in Greece rose from 11.7% of GDP in 2007 (slightly higher than the 10.4% in Germany) and reached 16.2% in 2013 (while in Germany the numbers remained almost stable).

What caused this increase? Was it due to an increase in pensioners or an increase in pension amounts? The answer is: Neither. The number of pensioners has essentially remained unchanged and pensions have shrunk dramatically due to the implemented policies. Simple arithmetic is sufficient to reach the conclusion that the increase in pension expenditure as a percentage of GDP, is entirely due to a decline in GDP (denominator), and not to an increase in expenditure (the numerator). In other words, GDP declined faster than the pensions.

Concerning retirement ages, could it be that

in Greece, employees retire much younger? The truth is that the retirement age in Greece is 67 years for men and women, i.e. two years more than in Germany. The average exit age from the labor market for men in Greece is 64.4 years; i.e., eight months earlier than the 65.1 years in Germany; while Greek women retire at 64.5 years, about 3.5 months later than German women, who retire at 64.2 years.

I wanted to highlight the above again, not to deny the ailments of our social security system—but to prove that the problem is not one of supposed generous pensions. The most significant disruption to the pension funds is due to dramatically lower revenues in recent years. These were caused by the loss of assets due to the PSI (haircut of Greek bonds held by the Pension Funds, totalling approximately 25 billion euros) as well as—and most importantly—by the sharp drop in contributions that resulted from soaring unemployment, and the reduction in wages.

In particular, during the period 2010-2014, approximately 13 billion euros were removed from our social security system through a series

of measures, with a corresponding reduction in pensions and allowances [by] about 50%, a fact which has exhausted any margin for further reductions without undermining the operational core of the system. Moreover, we must understand that the system is being mainly pressed on the revenue side and less so on expenditures, as is often implied.

I would also like to call attention to a matter that is unique to the Greek crisis. The social security system is the institutionalized mechanism of intergenerational solidarity, and its sustainability is a main concern for society as a whole. Traditionally, this solidarity has meant that young people, through their contributions, fund the pensions of their parents. But during the Greek crisis, we've witnessed this solidarity being reversed, as the parents' pensions fund the survival of their children. The pensions of the elderly are often the last refuge for entire families that have only one, or no member working, in a country with 25% unemployment in the general population, and 50% among young people.

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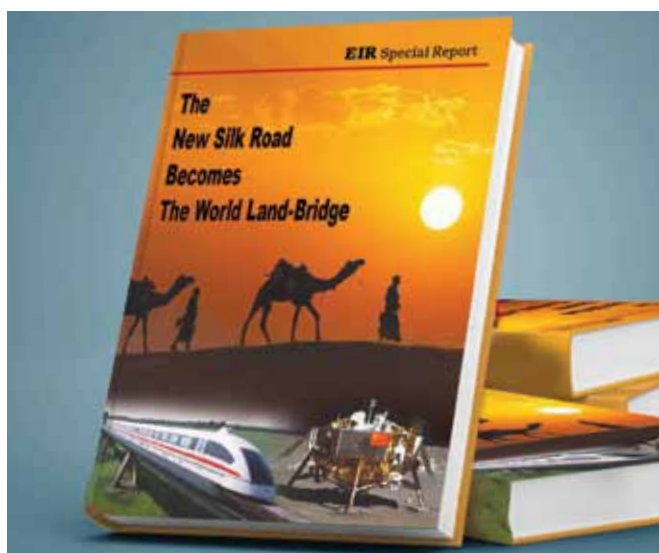
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