OECD Public Governance Reviews

GREECE

REFORM OF SOCIAL WELFARE PROGRAMMES

OECD

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Greece: Reform of Social Welfare Programmes

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Please cite this publication as:
OECD (2013), *Greece: Reform of Social Welfare Programmes,* OECD Public Governance Reviews, OECD Publishing.
http://dx.doi.org/10.1787/9789264196490-en

ISBN 978-92-64-19648-3 (print)
ISBN 978-92-64-19649-0 (PDF)

Series: OECD Public Governance Reviews
ISSN 2219-0406 (print)
ISSN 2219-0414 (online)

European Union
Catalogue number: KE-02-13-085-EN-C (print)
Catalogue number: KE-02-13-085-EN-N (PDF)
ISBN 978-92-79-30377-7 (print)
ISBN 978-92-79-30376-0 (PDF)

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Foreword

This report was undertaken at the request of the Greek Ministry of Labour, Social Security and Welfare, in order to provide them with advice and recommendations on reforming Greek social programmes. The OECD was asked to provide a well-founded analytical perspective of the current situation, including the development of a database, in order to help the Greek government define reforms to improve the effectiveness, efficiency and fairness of selected social programmes. The aim was to identify gaps and overlaps in social protection, and highlight areas where there was room for significant efficiency gains. This was requested in order to support informed and concrete decisions by the Greek government on where budgetary savings could most appropriately be made, taking into account the balance between societal groups and the need to maintain social cohesion. The analysis builds extensively on the database constructed by the OECD on the basis of administrative data collected from the Greek authorities.

The report was written between mid-2011 and the end of 2012. As such, it is mainly based on 2011 data. It analyses and evaluates the situation up until April 2012. More recent developments are referenced, but have not been evaluated. Several versions of the report have been released to, and discussed with, the political leadership in Greece and the government administration. In the meantime, a number of significant reforms have been announced and implemented. Thus, some of this report's recommendations are currently already being put in place by the Greek government. They are proof of a clear determination on the part of the lead ministry, the Ministry of Labour, Social Security and Welfare, to move forward speedily with reforms. The reforms are to achieve savings and raise efficiency, as well as to secure a framework that enables more effective monitoring of benefits. (See Annex B for full details of the ongoing reforms.)

Nevertheless, Greece urgently needs to further reform its social welfare system, so as to contribute to its fiscal consolidation process and establish a more effective social safety net. The reform process so far has established some important anchors, but needs to be taken much further, through a comprehensive strategy and an implementation process to ensure that the strategy is given effect on the ground.

This report identifies the key elements of a roadmap for getting there. It includes estimates of the costs/savings of implementing different reform options. Just as important, the report considers the social impact of reforms, and urges Greece to ensure that an appropriate balance is struck between fiscal consolidation, growth and societal well-being. It considers the consequences of different scenarios for fiscal consolidation and the reduction of poverty.

The report's recommendations can be expected to yield significant savings in the medium to long term, through a massive boost to the efficiency of the system, including reduced fraud, elimination of overlaps and efficiency gains, as well as some short-term savings. With careful design, the recommendations will also help reduce poverty.

This diagnostic, and the strategic directions proposed in the report, have been presented and discussed with the Greek authorities and provides a base for negotiations on further and more detailed development of reforms. The critical work of implementation and operationalisation has already started under the direction of the Greek Ministry of Labour, Social Security and Welfare, and must now proceed as rapidly as possible if the twin challenges of increasing efficiency and reducing poverty are to be overcome. The establishment of the Ministry of Labour, Social Security and Welfare as lead ministry is encouraging proof of a determination to move forward speedily with reforms.

Acknowledgements

The report was developed and written by a team from the OECD Secretariat. A first draft was prepared by Reza Lahidji under the oversight of Caroline Varley. The report was completed by Caroline Varley, with the support of Stéphane Carcillo who led the exercise to simulate reform options, Rodrigo Fernandez, Filippo Cavassini and Sophia Katsira, and with the encouragement of Rolf Alter, Martin Forst, Stefano Scarpetta and Monika Queisser. The report also benefited from the advice of Piritta Sorsa, Claude Giorno and Vassiliki Koutsogeorgopoulou.

The data collected and analysed for the report benefited from collaboration with the International Monetary Fund, including Benedict Clements, Mauricio Soto and Katja Funke. The report also benefitted from advice and comments from the European Commission, including Leila Fernandez-Stembridge and Maria Hadjiantoni.

Last but not least, the report would not have been possible without the support of Greek officials from the Ministry of Labour, Social Security and Welfare and other ministries, who helped to identify and deliver key administrative data for analysis by the OECD team and made comments on the draft versions of this report.

Kate Lancaster and Carol Thornton provided editorial support. Katarzyna Weil assisted in the administrative and production process. Jennifer Allain prepared the manuscript for publication.

Table of contents

Note to readers 11

Abbreviations and acronyms 13

Key findings 15

Executive summary 17

Chapter 1 **Economic, social and systemic context of social welfare reforms in Greece** 23

Introduction 24
Fiscal and economic context 24
Social context 28
Systemic context 29
Conclusions and recommendations 35
Notes 37
Bibliography 38

Chapter 2 **The current Greek benefit system** 39

Introduction 40
Unemployment benefits 40
Family benefits 46
Disability benefits 52
Housing benefits 58
Conclusions and recommendations 58
Notes 60
Bibliography 61

Chapter 3 **Towards more effective benefit system design in Greece** 63

Introduction 64
Reform options 64
Towards a reform package 67
Social welfare funding and taxation 72
Conclusions and recommendations 75
Notes 76
Bibliography 77

Chapter 4 **Towards more effective system governance in Greece** 79

Introduction 80
Institutional framework 80
Social insurance management 82
Provision of benefits 88
Conclusions and recommendations 88
Notes 93
Bibliography 93

Annex A **Reader's guide** 95

Annex B **Update of key recent developments in social welfare reforms in Greece** 103

Annex C **Overview of social welfare and related reforms in Greece in the last 20 years** 109

Annex D **Cost-benefit analysis of proposed reforms to the Greek social welfare system** 123

Annex E **Key features of the *OECD Database on Social Programmes* in Greece** 153

Annex F **Government expenditure in Greece in 2010** 159

Annex G **Design and implementation of means testing for social protection** 175

Glossary 187

Tables

Table 1.1. Spending on social insurance and assistance programmes 25
Table 1.2. Poverty rates before the introduction of austerity measures in selected EU countries 28
Table 1.3. Poverty rates before and after austerity and recession 28
Table 1.4. Poverty rates by household head 29
Table 3.1. Summary of options for reform 66
Table 3.2. Main revenues of social security funds (2009) 72
Table A.1. Recipiency rates for the social welfare programmes covered by this report 96
Table B.1. Means-tested family benefit 107
Table D.1. Net saving from various reform scenarios of social programmes for the year 2009 128
Table D.2. Fiscal impact of targeting social programmes based on the SILC and administrative records (based on 2009) 135
Table D.3. Social impact of targeting social programmes based on the SILC and administrative records (based on 2009) 135
Table D.4. Unemployment and unemployment benefit recipiency duration in 2009 137
Table D.5. Three scenarios for the new housing benefit 137
Table D.6. Impact of the long-term unemployment benefit reform (based on 2009): High estimate 139
Table D.7. Impact of the long-term unemployment benefit reform (based on 2009): Low estimate 139
Table D.8. Four scenarios for the new housing benefit 141
Table D.9. Fiscal impact of the housing benefits reform (based on 2009) 142
Table D.10. Social and fiscal impact of the housing benefits reform (based on 2009) 142
Table D.11. Beneficiaries and spending of family benefits in 2009-10 143
Table D.12. Fiscal impact of the family benefits reform (based on 2009) 145
Table D.13. Social impact of the family benefits reform (based on 2009) 145
Table D.14. Recipients and spending of disability benefits in 2009-10 146
Table D.15. Disability benefit recipients and self-declared disabled in 2009 148
Table D.16. Fiscal impact of the disability benefits reform (based on 2009): Low-cost estimate 149
Table D.17. Fiscal impact of the disability benefits reform (based on 2009): High-cost estimate 149
Table D.18. Social impact of the disability benefits reform (based on 2009): Low-cost estimate 149
Table E.1. Social programmes included in the database 155

Table F.1. First and second-level COFOG 167
Table F.2. General public services 169
Table F.3. Social protection 170
Table G.1. Design features and options for means testing 177
Table G.2. Capital conditions for selected means-tested benefits in the United Kingdom 178
Table G.3. Unemployment Assistance (UA) Benefit (2010) 181
Table G.4. Employment-conditional benefits (2010) 182

Figures

Figure 1.1. Total social expenditure across OECD countries (2000-07) 26
Figure 1.2. Total social expenditure in Greece (2000-10) 27
Figure 1.3. Expenditure on unemployment benefits (2003-10) 27
Figure 1.4. Total social benefit recipiency in Greece (2000-10) 30
Figure 1.5. Rate of poverty (2003-09) 32
Figure 1.6. Cumulated distribution of beneficiaries based on income brackets 34
Figure 2.1. Unemployment benefit recipiency 41
Figure 2.2. GDP growth rate and unemployment rate 41
Figure 2.3. Long-term unemployed in Greece 42
Figure 2.4. Average net replacement rates for long-term unemployment (2001-09) 43
Figure 2.5. Average net replacement rates for long-term unemployment (2001-09) 44
Figure 2.6. Job search monitoring in OECD and EU countries 45
Figure 2.7. Youth and adult unemployment in Greece 46
Figure 2.8. Annual family benefit levels according to the type of household 49
Figure 2.9. Public spending on family benefits in cash, services and tax measures 49
Figure 2.10. Income situation of a sole-parent household in 2008 50
Figure 2.11. Family-related benefits recipiency 51
Figure 2.12. Spending on family benefits 52
Figure 2.13. Spending on family benefits (2000-2011) 53
Figure 2.14. Family-related expenditure (2000-10) 54
Figure 2.15. Spending on incapacity-related benefits (2000-2011) 55
Figure 2.16. Incapacity-related recipiency (2000-10) 56
Figure 2.17. Incapacity-related social expenditure (2001-07) 57
Figure 2.18. Spending on incapacity-related benefits 57
Figure 3.1. Structure of general government expenditures by function (2010) 71
Figure 3.2. Social assistance/METR 2009 74
Figure 4.1. Distribution of ministry responsibilities: Disability allowance 81
Figure 4.2. Complexity of social security funds: Example of the ETAA 84
Figure D.1. Annual income thresholds used for targeting and average incomes 127
Figure D.2. Cumulated distribution of beneficiaries along the household income distribution in 2009 129
Figure D.3. Cumulated distribution of beneficiaries along the income distribution in 2009 131
Figure D.4. Long-term unemployed in Greece 136
Figure E.1. Administrative records and national accounts data 154
Figure F.1. Total government expenditures as a share of GDP (2010) 159
Figure F.2. Structure of general government expenditures by function as a share of GDP (2010) 161

Figure F.3. Structure of general government expenditures by function as share of total (2010) 162
Figure F.4. Expenditures on general public services by sub-group as a share of total (2010) 163
Figure F.5. Expenditures on general public services across levels of government as share of total (2010) 164
Figure F.6. Structure of general government expenditures by economic category (2010) ... 165
Figure F.7. Employment in general government as share of labour force (2001 and 2009) 166
Figure F.8. Government employment as a share of total employment (2009) 166
Figure F.9. Structure of general government expenditures by function as a share of GDP (weighted average), 2010 172
Figure G.1. Use of family and individual income for means testing (2010) 177
Figure G.2. Phase-out rates across employment-conditional benefits (2010) 180

Note to readers

Significant developments took place between early 2011, when the work on this report started, and the end of 2012. These developments reflect a determination on the part of the Greek Ministry of Labour, Social Security and Welfare to move forwards speedily with deep reforms.

An active reform agenda is currently implementing many of the reforms recommended in this report, as well as others, including:

Institutional leadership

- The Ministry of Labour, Social Security and Welfare has been given the overall leadership of social assistance and social insurance (as recommended by the OECD), which includes the transfer of social welfare responsibilities from the Ministry of Health. The Ministry of Labour, Social Security and Welfare is now vested with the strategic responsibility required to take forward reforms in this critical sector.

Strategic design

- Strategic design decisions have been taken in the direction of means testing as the basis for social welfare programmes. For example, means testing has been introduced for family benefits. A new family benefit has been introduced, following the abolition of five benefits.

Reformed benefits

- Downward adjustments have been made to the minimum wage and unemployment benefits. At the same time, a new means-tested unemployment assistance benefit has been created for those who have been unemployed for more than a year.
- Other reforms have also been made, including the reforms to social solidarity allowance for pensioners and a pilot for a guaranteed minimum income to those living under the poverty threshold.

Benefit delivery and monitoring

- Key practical implementation anchors are being put in place. In order to facilitate the setup of a common database, and to eliminate double counting, the creation of a National Register of Beneficiaries of social welfare benefits has been established. The next step is expected to be a single source of payments for both social insurance and welfare benefits. The AMKA personal identity number has also been adopted.

These issues will be crucial in ensuring that the reform process stays on track:

- The adoption of reforms is not enough; the reforms need to be carefully monitored and assessed during and after their implementation. Progress with mechanisms for the detailed design and implementation of these reforms (specifically, how the enacted laws are being operationalised) will need to be closely monitored by the Greek authorities, against a clear timetable. Thus, it is critical to focus on the pace of the implementation of the reforms.
- The reforms will need to be coherent and complete, covering all the issues necessary to secure effective systemic change to social protection policy, including the relationship between social insurance and welfare, the design and implementation of a new data collection system, and effective service delivery at the local level. Linking the reforms with reforms to the tax system will also be critical to success.

Abbreviations and acronyms

AMKA (Gr)	Greek social security number *Αριθμος Μητρώου Κοινωνικής Ασφάλισης*
APW	Average production wage
AW	Average wage
EKAS (Gr)	Pensioners' Social Solidarity Benefit *Επίδομα Κοινωνικής Αλληλεγγύης Συνταξιούχων*
EOPYY (Gr)	Greek central healthcare fund *Εθνικός Οργανισμός Παροχής Υπηρεσιών Υγείας.*
ESSPROSS	European System of Integrated Social Protection Statistics
ETAA (Gr)	Fund for a selected group of professionals including doctors, engineers and lawyers *Ενιαιο Ταμειο Ανεξαρτητα Απασχολουμενων*
ETAP-MME (Gr)	Fund for journalists and other media workers *Ενιαίο Ταμείο Ασφάλισης Προσωπικού Μέσων Μαζικής Ενημέρωσης*
EU	European Union
GDP	Gross domestic product
IKA-ETAM (Gr)	Social insurance organisation for private sector employees *Ιδρυμα Κοινωνικών Ασφαλίσεων*
KEPs (Gr)	Citizen service centres *Κέντρο Εξυπηρέτησης Πολιτών*
KEPA (Gr)	Newly Established Disability Certification Committee *Κέντρο Πιστοποίησης Αναπηρίας*
MoH	Ministry of Health
MTFS	Medium Term Fiscal Strategy
NAT (Gr)	Organisation for marine employees *Ναυτικό Απομαχικό Ταμείο*
NGO	Non-governmental organisation
NHS	National Health System
OAED (Gr)	Manpower Employment Organisation *Οργανισμός Απασχολήσεως Εργατικού Δυναμικού*
OAEE (Gr)	Social security organisation for the self-employed *Οργανισμος Ασφάλισης Ελευθέρων Επαγγελματιών*
OEE (Gr)	Workers Fund Organisation *Οργανισμος Εργατικής Εστίας*
OEK (Gr)	Housing Organisation *Οργανισμος Εργατικης Κατοικιας*

OGA (Gr)	Agricultural Insurance Organisation *Οργανισμός Γεωργικών Ασφαλίσεων*
SILC	Statistics on Income and Living Conditions
SSFs	Social security funds
TAP-DEI (Gr)	Fund for National Power Co-operation *Ταμείο Ασφάλισης Προσωπικού- Δημόσια Επιχείρηση Ηλεκτρισμού*
TAP-OTE (Gr)	Fund for national telecommunications company *ΤαμείοΑσφάλισης Προσωπικού- Οργανισμός Τηλεπικοινωνιών Ελλάδος*

Key findings

- Greece urgently needs to reform its social welfare system if it is to meet its fiscal consolidation targets and establish an effective social safety net.
- The reform process so far has established some important anchors, but needs to be taken much further, through a comprehensive strategy and an implementation process to ensure that the strategy is given effect on the ground.
- An appropriate balance needs to be struck between fiscal consolidation, growth and societal well-being. This is possible, with clear leadership from the centre, careful reform design and an effective reform process.
- This report's recommendations can be expected to yield significant savings in the medium to long term, through a massive boost to the efficiency of the system, including reduced fraud, elimination of overlaps and efficiency gains, as well as some short-term savings. The recommendations should also help reduce poverty.
- The establishment of the Ministry of Labour, Social Security and Welfare as the lead ministry is very promising and proof of a clear determination to move forward speedily with reforms.
- The following issues will be crucial in ensuring that this reform process stays on track:
  - The adoption of reforms is not enough; they need to be carefully monitored and assessed during and after their implementation. Progress with mechanisms for the detailed design and implementation of these reforms (specifically, how the enacted laws are being operationalised) will need to be closely monitored by the Greek authorities, against a clear timetable. Thus, it is critical to focus on the pace of the implementation of the reforms.
  - The reforms will need to be coherent and complete, covering all the issues necessary to secure effective systemic change to social protection policy, including the relationship between social insurance and assistance, the design and implementation of a new data collection system, and effective service delivery at the local level. The most recent reforms are a step forward, but have not been assessed by the OECD against this criterion. More broadly, central administration capacities for leading and steering the reform process, and linking the reforms with reforms to the tax system will be critical to success.
  - Practical and technical assistance of the international community could be provided in order to enhance in-country capacity and activate existing resources, skills and knowledge. Technical assistance should be tailored to the capacity of the public administration to absorb support and adapt international experience to the Greek context.

Executive summary

This report needs to be read in the broader context of continued measures to address Greek fiscal challenges, and their social consequences, which are summarised in the box below.

Fiscal and social challenges

Following the grave deterioration of its public deficit and its current account in the years 2000-09, Greece continues to be engaged in a very difficult period of economic adjustment. Since 2010, the government has taken a wide range of measures in order to bring public finances back on a sustainable track, leading to a reduction in the budget deficit to GDP ratio from 15.5% in 2009 to 9.5% in 2011, with an expected additional reduction of 2.5 percentage points of GDP in 2012. However, not all of the goals of the adjustment programme were met, especially in terms of structural reforms, and public debt remained on an unsustainable path. In November 2012, the Greek Parliament approved a revised Medium Term Fiscal Strategy (MTFS) to take into account the deeper and longer-than-expected recession, and provide a roadmap for the adjustment effort up to 2016. The MTFS initially required that social programmes (excluding pensions and health) contribute 1.5% of GDP to fiscal consolidation. This has now been brought down to 0.7%, following a recommendation by the OECD. The overall target is to turn the primary balance from a deficit of 2.7% of GDP in 2011 to a surplus of 4.5% of GDP in 2016.

The social context also remains highly challenging, with implications for both social stability and growth. The social pressures generated by the deep recession and strong fiscal retrenchment are already significant, and it is likely that they will intensify in the short to medium term, as growth is expected to resume only at the end of 2014 according to the OECD[1]. In 2013, Greece will experience its sixth consecutive year of recession against a rapidly rising unemployment rate, which doubled in two years to around 27% in October 2012. The reduction of the fiscal deficit since 2009 also came at a social cost, with cuts in average wages of approximately 12.5% between 2009 and end-2012.[2] In 2012, the minimum wage was also reduced.

Expenditure on social welfare excluding pensions and health is a relatively small part of government programme expenditure. Total spending on social insurance and assistance schemes excluding disability and other pensions and health is approximately 4.6% of GDP. Social welfare expenditure is relatively low in international comparison, but a significant rise can be expected as a consequence of deteriorating economic conditions. It may be necessary to widen the search for fiscal savings to other government programmes, given the possible difficulty of finding enough savings without a significant negative impact on the poverty rate.

Notes: 1. Projections as of February 2013. 2. OECD estimates based on national accounts data on total economy compensation per employee.

Strategic considerations

The social context for reform is challenging, with a high and rising poverty rate

Relative to other countries with important austerity programmes, Greece had the highest poverty rate before the cuts, and the austerity measures have pushed more people into poverty. There has been a sharp rise in the number of recipients of social welfare since 2008, and the poverty rate in 2011 was over 30%, based on pre-crisis median income.

The current social welfare system only has a limited impact on poverty, benefits are poorly targeted and coverage of the poorest is inadequate

Social transfers (other than pensions) have reduced the rate of poverty by only 4 percentage points. Only 50% of beneficiaries belong to the poorest 30% of the population. As in some other countries, some benefits are available to all income brackets. Given the tight fiscal context, some prioritisation would help rebalance the Greek social welfare system towards those most in need. With the most recent reforms, this process now appears to be underway.

There is as yet no complete social welfare reform strategy, though recent developments are promising

The Greek social welfare system has evolved for decades without any clear strategy, resulting in a highly complex, fragmented, duplicative and inefficient system. Reforms have been undertaken but they are fragmented and unfinished, and have fallen significantly short of what is needed to put the social welfare system on a sound footing. There is an urgent need to continue the work which has started to take shape under the Ministry of Labour, Social Security and Welfare, and define and implement a coherent and comprehensive strategy in order to strengthen the efficiency and effectiveness of social welfare policy and governance.

The current benefits raise a range of issues requiring significant reform

The unemployed are an especially vulnerable group. Unemployment benefits are generally conditional on insurance contributions, are low in international comparison, and take-up is limited. The unemployment rate has risen sharply in line with negative GDP growth. There is a rising proportion of long-term unemployed, which reached 50% in 2011 and exceeded 60% in 2012. The young unemployed are an especially vulnerable group, who mostly do not qualify for benefits, and there has been a sharp increase in youth unemployment since 2008. Poverty of the unemployed has risen, with long-term unemployed and youth especially vulnerable.

Families, especially lone parents, need more effective support. Family benefits are numerous, but thinly spread. The benefit system mainly supported large families until the last reform in November 2012. Family benefits were essentially targeted to households

with three or more children, nearly all of which receive benefits, compared to only 10% of lone parents. There is low support for poor families in international comparison.

Disability benefits are complex and inefficient. There are many and overlapping categories of disability, and relatively large coverage and expenditure for this category. The benefits are poorly controlled although the new National Register of Beneficiaries of social and welfare benefits is an important step toward addressing this problem. A significant proportion of the working-age population receives disability pensions. Large numbers of disabled persons out of the workforce may raise serious challenges. Expenditure on disability benefits is rising steadily.

Housing benefits support construction and rent; little is available for the homeless. Most housing benefits were targeted at subsidising rent. There is little effective handling of the rising problem of homelessness. Compared with other countries, housing benefits reach out less to families, and seldom cover lone parents.

Responsibilities for social welfare within government have been fragmented and without a clear lead

The current social welfare system has been framed by a complex institutional structure at the centre, undermining efficiency, accountability and effective implementation. A large number of ministries, agencies and their local networks are involved. Centre of government structures for the oversight and steering of the social welfare system have been fragmented, weak and inadequate, with no lead ministry, leading to overlaps and confusion of responsibilities. The lack of effective structure and co-ordination is not helpful for the financial sustainability of the system, or for accountability.

A clear institutional lead player, with an agreed mandate to develop and implement a reform strategy, is essential for reform

Until now there has not been any clear champion or champions to work on reform. An empowered structure at the centre of government is urgently needed if a coherent reform strategy is to emerge, and crucially, be implemented. The recent decision to set up the Ministry of Labour, Social Security and Welfare with consolidated responsibilities for both social insurance and social assistance is a promising development.

Data collection and management are in urgent need of reform

There are serious deficiencies in the collection and management of data on social welfare programmes, with no systematic record keeping, which impedes evidence-based reform. Recent developments with the establishment of the National Register of Beneficiaries are, again, promising.

Towards more effective system design

This report's cost-benefit analysis of reform options strengthens the case for the Greek social welfare system to become anchored in means testing, and for distinct programmes to be retained for different groups

The calculations suggest that significant savings are possible, potentially with a significant positive effect on the poverty rate. The alternative of a single universal means-tested benefit is not recommended because of the length of time, transitional cost and administrative difficulties of such a radical development in the current Greek context.

Identifying the most appropriate reform package ideally requires further analysis against a set of clear criteria

The cost/benefit analysis is only illustrative of the possibilities. Further analysis is needed to pin down the reform package that is most suitable. Reform options should be assessed against a range of criteria – fiscal impact, impact on the poverty rate, practical feasibility, implications for government operational costs/savings, legal considerations and timescales for implementation.

The funding mechanisms for social programmes require attention and government revenues need to be clearly directed at social assistance

Social insurance is currently partly funded by government revenues. Further, some social insurance funds are partly financed through mandatory levies on economic transactions. Some funds are also used for policies such as financing trade unions or the tourism industry that have no clear relationship to social assistance. The system's poor performance in reducing poverty and covering basic needs can be explained in part by the fact that even resources from the general budget are concentrated on those categories of the population that are already affiliated to a social security scheme.

The impact of taxation in relation to redistributive goals also appears to need attention

Greece's taxation is, to a large extent, progressive, but social assistance plays a limited role in facilitating redistribution. Some revision of the combination of benefits and taxes may be needed. The relatively narrow tax base combined with tax evasion may be limiting the effective redistributive impact of taxation.

Towards more effective system governance

The management of social insurance funds needs urgent attention

Despite reforms, the consolidation of the social security funds (SSFs) remains limited, often superficial and slow. The management of social insurance is spread across a tangle of over 40 different SSFs, requiring rationalisation. The current structure of SSFs remains very complex. The reform process initiated a few years ago is progressing too slowly and with great difficulty. The consolidation of SSFs remains limited, and in many cases, superficial. Merged funds have generally retained financial and accounting independence, and separate administration structures and information systems. Implementation of reforms is slow.

The management of the funds is strikingly ineffective, and raises a number of issues including ITC systems, human resources, control of fraud and collection of contributions. ITC strategy and architecture is not yet adequate to the task of supporting efficient and effective fund management. Information systems are not harmonised, or even non-existent, meaning that systems cannot be connected or exchange information (this includes links to the tax administration). The ITC competences of staff are often low. The systems for controlling abuse and fraud are inadequate and not supported by the appropriate tools. The collection of contributions is inefficient and contribution evasion is acknowledged to be a serious problem. The dual role of IKA-ETAM in managing overall cash flow across the funds as well as its own cash is a serious cause of concern.

Reporting and accounting obligations of social security funds and welfare benefits are minimal. Auditing and control are almost non-existent, and there is a striking lack of information about the beneficiaries. Not all of the funds produce annual reports. Social programmes in the government sector are not managed on the basis of appropriate information.

The provision of benefits, which is mostly done at the local level, is weakly managed

As well as overlap among ministries, local governments are heavily involved through their provision of most welfare benefits and social care. Most of the welfare benefits and social care are provided by the local authorities, and financed by block grants to each municipality from the Ministry of Interior and the Ministry of Health. The block grants are earmarked, but there is no control at the central level to ensure that the money is spent according to the preconditions. An overlapping and complex network of offices and departments provide social services at the local level. The capacity and incentives for local government to provide benefits efficiently and effectively needs to be addressed.

Summary of key recommendations

Managing the economic, social and systemic context

- Base the reform of social welfare programmes on a carefully assessed balance between support for deficit reduction and growth, and sustaining the social fabric.
- Define and implement a coherent and comprehensive reform strategy for social welfare in order to strengthen the efficiency and effectiveness of social welfare policy and governance.
- Link up the reform of social welfare with other reforms, including a comprehensive strategy to address data collection and management.
- Establish a government-wide task force steered by the Ministry of Labour, Social Security and Welfare and reporting to the Prime Minister, in order to strengthen collective commitment for the definition and implementation of reform.
- Establish a communication strategy.

Addressing the issues with the current benefit system

- Extend unemployment assistance and its duration, based on a means test, and develop workfare and active labour market programmes.
- Complete the implementation of the reform of family benefits already underway.
- Consider replacing existing disability benefits with a means-tested benefit compatible with existing legal and practical constraints and base disability benefits and pension levels to the extent possible on the ability to work, in order to encourage activity.
- Introduce a new means-tested housing benefit.

Moving towards more effective benefit system design

- Systematically assess key design features of means testing, and balance administrative costs and programme effectiveness, including incentives to work and save.
- Distinguish between social insurance and social assistance schemes.
- Review the impact of taxation on redistributive goals and the interplay between taxation and social assistance.

Moving towards more effective system governance

- Streamline responsibility for social welfare within the central administration and continue transferring responsibility for social welfare programmes (with the exception of healthcare services) to the Ministry of Labour, Social Security and Welfare.
- Ensure that the Cabinet has adequate opportunity to discuss the social budget (which is included within the state budget) prior to debate on the state budget in Parliament.
- Secure the effective supervision of social security funds, including the mandatory publication of certified national accounts, the setting of annual objectives and *ex post* evaluation of achievements.
- Define a plan and timetable for the more effective administration of social assistance benefits at the local level.

Chapter 1

Economic, social and systemic context of social welfare reforms in Greece

This chapter presents the economic, social and systemic context for the reform of Greek social insurance and welfare programmes. It starts with a review of the fiscal and economic situation, including fiscal consolidation objectives and the share of social programmes in government expenditure. It then presents data on trends in social expenditure and international comparisons. It goes on to consider trends in the poverty rate. The chapter concludes with a strategic review of the current system and a strategy for social protection, and the weaknesses that need to be addressed.

Introduction

Against a background of continuing fiscal consolidation, the current Greek system of social protection needs urgent reform. It only has a limited impact on poverty, and the poverty rate is high and rising. The system is also deeply inefficient. Two linked strategic issues need attention if reform is to succeed. The first is to strengthen and rationalise the institutional framework for the design, steering and implementation of reforms. The current system has rested on highly fragmented and overly complex structures, preventing any clear vision or ownership of reform. The second issue is the development of a clear and comprehensive strategy for reform. A third issue of fundamental technical importance is to address serious deficiencies in data collection and management.

Fiscal and economic context

The fiscal and economic context is challenging

Following the grave deterioration of its public deficit and its current account in the years 2000-09, Greece continues to be engaged in a very difficult period of economic adjustment. Since 2010, the government has taken a wide range of measures in order to bring public finances back on a sustainable track, with the support of the Troika (the International Monetary Fund, the European Commission and the European Central Bank). These measures led to a reduction in the budget deficit to GDP ratio from 15.5% in 2009 to 9.5% in 2011, with an expected additional reduction of 2.5 percentage points of GDP in 2012. However, not all of the goals of the adjustment programme were met, especially in terms of structural reforms. Moreover, with the economy not showing signs of recovery and public debt remaining on an unsustainable path, a second Economic Adjustment Programme was adopted in February 2012, including a large-scale debt restructuring operation. The large uncertainties concerning the implementation of this second programme led to early general elections in May 2012, which were repeated in June 2012 and led to a three-party coalition with the mandate to maintain Greece in the euro area. A new set of measures was adopted to offset part of the substantial delays accumulated after the electoral period. In November 2012, the Parliament approved a revised Medium Term Fiscal Strategy (MTFS) to take into account the deeper and longer-than-expected recession, and provide a roadmap for the adjustment effort up to 2016. The 2013 budget, also adopted in November 2012, entailed additional fiscal measures to realign with the targets of the new MTFS.

The MTFS comprising new fiscal measures amounting to around 9.5% of GDP until 2016 is frontloaded with a consolidation package of around 7.5% of GDP for 2013 and 2014. It largely relies on expenditure restraints and fiscal reform to restructure the public sector and rationalise public spending. The adoption and implementation of this comprehensive reform programme, which also includes important structural reforms in the labour and product markets, aims at securing the continued disbursement of international financial assistance, the conditions of which have been adjusted to the revised targets of the MTFS. The MTFS initially required that social programmes (excluding pensions and health) contribute 1.5% of GDP to fiscal consolidation. This has now been brought down to about 0.7%, following a recommendation by the OECD. Other programmes (including health, education, pensions and defence) are also required to contribute to fiscal consolidation. The overall target is to turn the primary balance from a deficit of 2.7% of GDP in 2011 to a surplus of 4.5% of GDP in 2016.

In the meantime, the Greek economic and social context remains highly challenging, with implications for both social stability and growth. The social pressures generated by the deep recession and strong fiscal retrenchment are already significant, and it is also likely that they will intensify in the short to medium term, as growth is expected to resume only at the end of 2014 according to the OECD (projections as of February 2013). In 2013, Greece will experience its sixth consecutive year of recession against a rapidly rising unemployment rate, which doubled in two years to around 27% in October 2012. The reduction of the fiscal deficit since 2009 also came at a social cost, with cuts in average wages of approximately 12.5% between 2009 and end-2012.[1] In 2012, the minimum wage was also reduced.

Expenditure on social welfare excluding pensions and health is a relatively small part of government programme expenditure

Spending on social insurance schemes is about 22% of GDP (Table 1.1). Most of this spending is related to pensions and health, with other social insurance benefits adding up to just under 3% of GDP. With the inclusion of disability pensions, which are covered in this report, social insurance spending would account for approximately 4% of GDP. Spending on social assistance schemes amounts to nearly 2% of GDP. Total spending on social insurance and assistance schemes excluding disability and other pensions and health is approximately 4.6% of GDP. It accounts for approximately 5.6% of GDP if disability pensions are included.

Table 1.1. **Spending on social insurance and assistance programmes**

Social insurance	22.5	Social assistance	1.5
Pension	14.6	Pension for uninsured elderly	0.2
– Old-age and survivor's	13.6	Pension supplement (EKAS)	0.4
– Disability	1.0	Family benefits	0.4
Healthcare	5.0	Families with a third child under age of 6	0.1
Other social insurance benefits	2.9	Families with three children under age of 23	0.1
Benefits to the disabled	0.2	Families with more than three children	0.1
Supplement for blindness to disability pension	0.1	Lifetime benefits for mothers of three or more children	0.1
Supplement for total disability	0.1	Third child birth grant	0.0
Non-residential benefit for paraplegics	0.0	Support to disabled persons (MoH)	0.4
Maternity	0.2	Support of social care organisations (MoH)	0.1
Sick leave	0.5	Programmes for students (MoEdu)	0.0
Unemployment (OAED)	1.5	Other	0.0
Unemployment benefits	1.2		
Transfers to third parties	0.3		
OEE	0.1		
OEE programmes	0.0		
Transfers to third parties	0.1		
OEK	0.5		
Housing loans	0.1		
Transfers to third parties	0.2		
Investments	0.1		

Source: Estimations based on data provided by Greek authorities to the OECD, 2011-12.

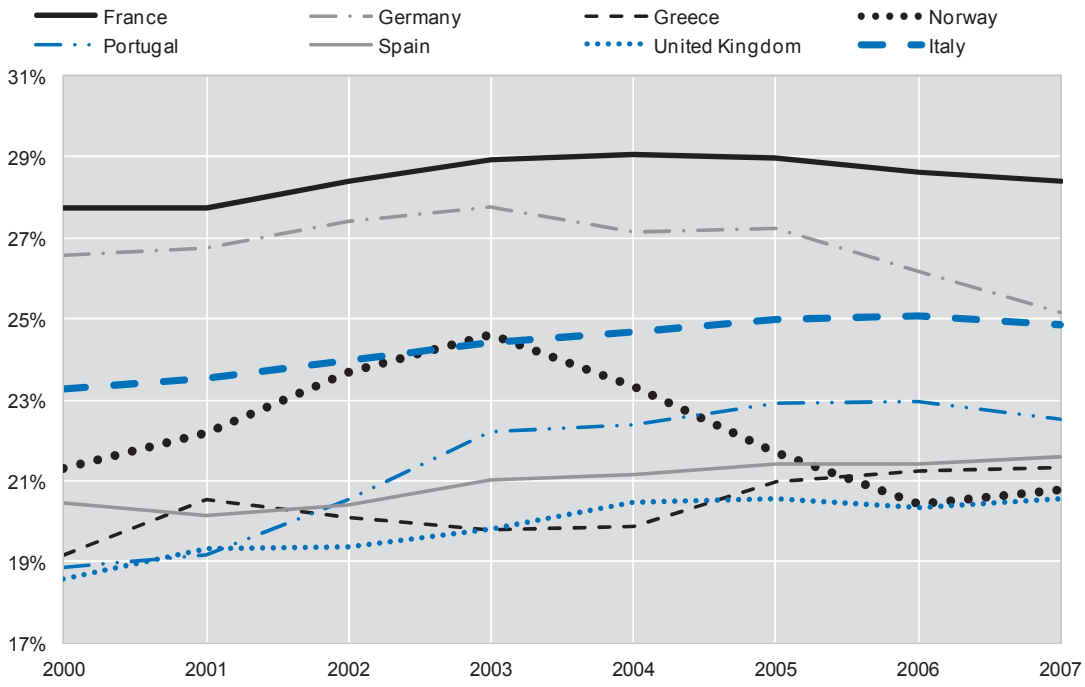
The social welfare schemes falling within the scope of this report concerned an estimated 21.8% of the working-age population in Greece in 2009-10 (Table A.1).

Social expenditure is relatively low in international comparison

International comparison (Figure 1.1) shows that Greek expenditure on social welfare (including pensions and health) has been relatively low.

Figure 1.1. **Total social expenditure across OECD countries (2000-07)**

% of GDP



Note: Social protection is defined here according to ESSPROS/SOCX taxonomy. The social protection branches considered are: old-age, survivor's, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing, and other social policy areas.

Source: OECD *Social Expenditure Database* (SOCX), doi: *10.1787/socx-data-en*.

A significant rise in social expenditure can, however, be expected

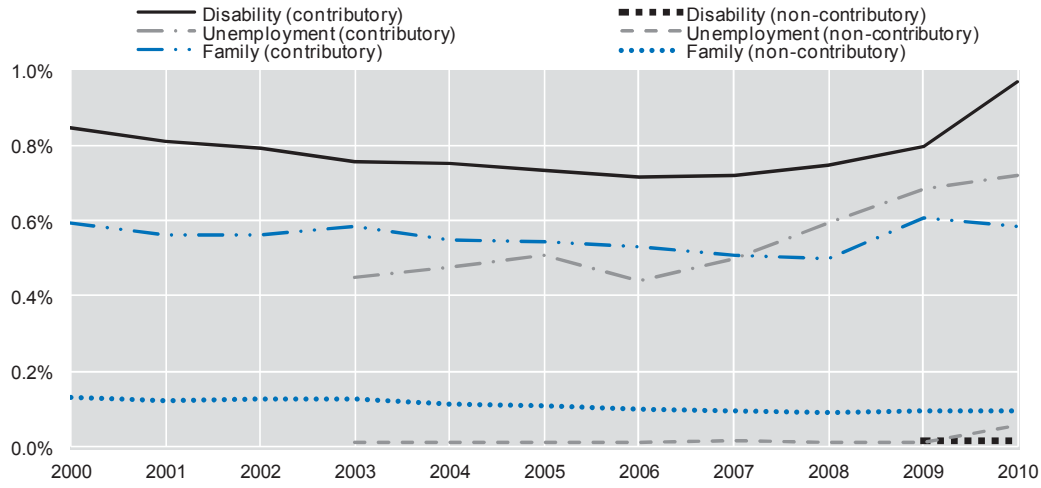
Pressure for social expenditure can be expected to rise as a consequence of deteriorating economic conditions.

Figure 1.2 shows the trend in Greek social expenditure for benefits in cash, the benefits analysed in this report, over the period 2000-09, based on administrative data (see Glossary for a definition). It shows an upward trend for expenditure on several benefits in recent years, and a strong recent rise in expenditure on disability benefit.

Figure 1.3 shows that between 2000 and 2010, expenditure on unemployment benefits rose significantly. It also underlines the insurance-based nature of the current system (virtually no unemployment expenditure is assistance-based).

Figure 1.2. **Total social expenditure in Greece (2000-10)**

% of GDP

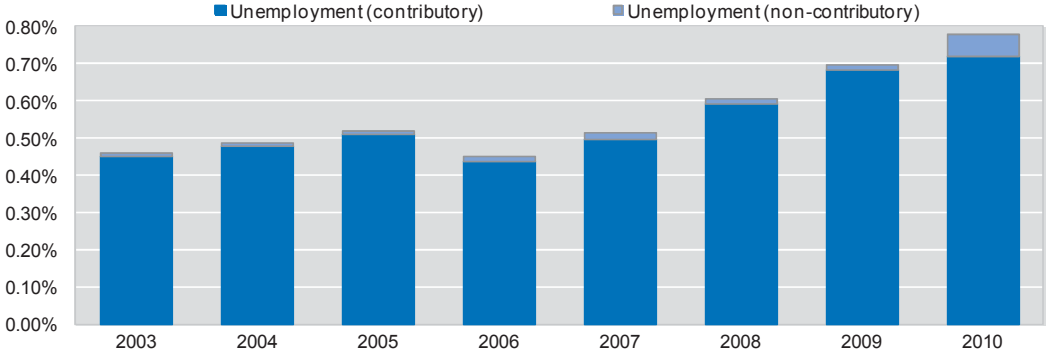


Notes: i. The data for old-age, survivor's and other social benefits have not been included in the general results as the data provided was insufficient to draw accurate results. *ii.* The data for a large number of unemployment benefits (contributory and non-contributory) are missing for 2000-03. *iii.* The data for the disability benefits (non-contributory) are only available for 2009 and 2010. For all previous years, the data is missing.

Source: Estimates based on data provided by the Greek authorities 2011-12 (administrative data).

Figure 1.3. **Expenditure on unemployment benefits (2003-10)**

% of GDP



Notes: i. The programmes included in the data are the following: unemployment benefit/*Επίδομα Ανεργίας*, special unemployment benefits/*Ειδικές επιδοτήσεις*, long-term unemployed/*Μακροχρόνια άνεργοι*, emergency financial assistance/*Εκτακτες οικονομικες ενισχυσεις*, special assistance after end of unemployment rights/*Ειδικο βοηθημα μετα τη ληξη της επιδοτησης λογω ανεργιας*, special assistance after a three-month period of unemployment/*Ειδικο βοηθημα μετα την τριμηνη παραμονη στα μητρωα ανεργων*, special financial assistance for released prisoners/*Ειδικο βοηθημα σε οσους εξετισαν ποινη στερητικη της ελευθεριας*, conscription allowance/*Εφεδρικό Επίδομα* (*στρ/σης*), financial assistance for political refugees/*Οικονομικη ενισχυση πολιτικων προσφυγων*, young professional/*Νεοειρχόμενοι*, administrative leave allowance/*Επιδομα διαθεσιμοτητας*, benefit for insolvency/*Προστασια των δικαιωματων των εργαζομενων σε περιπτωση αφερεγγυοτητας του εργοδοτη*, special seasonal benefits/*Ειδικο εποχιακο βοηθημα*, returning expats/*Παλλινοστούντες*, special benefit for children over 16 years old who leave special centres/*Ειδικο βοήθημα για παιδιά άνω των 16 ετών που αφήνουν τα ειδικά κέντρα*, unemployment benefit/*Επίδομα Ανεργίας*, financial aid for some categories of unemployed seamen during the holiday seasons/*Οικονομική Ενίσχυση σε ορισμένες Κατηγορίες Ανέργων Ναυτικών λόγω εορτών Πάσχα – Χριστουγέννων*. *ii.* The data is provided for 2003-10, as the data provided was incomplete for 2000-02 to draw an accurate conclusion.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Social context

The poverty rate is high and rising

Among some of the countries that have put in place important austerity plans, Greece had the largest share of the population living in poverty before cuts in public spending were introduced (Table 1.2).

Table 1.2. **Poverty rates before the introduction of austerity measures in selected EU countries**

	Estonia	Greece	Ireland	Portugal	United Kingdom
Poverty rates	18.6	19.6	12.4	18.5	16.6

Note: Poverty rates are calculated as the percentage of people with equivalised household income below 60% of the median, using the modified OECD equivalence scale.

Source: Tim Callan et al. (2011), "The Distributional Effects of Austerity Measures: A Comparison of Six EU Countries." *EUROMOD Working Paper*, No. EM6/11; Matsaganis, M. and C. Leventi (2011), "The Distributional Impact of the Crisis in Greece", *EUROMOD Working Paper*, No. EM3/11; European Commission updates.

The austerity measures have pushed more people into poverty. In 2009, 19.6% of the Greek population was poor. This figure is based on the conventional calculation of poverty rates, which uses the percentage of the population that has an annual income of less than 60% of the median income, including old-age and survivor pensions. The rate would increase only marginally after the economic recession and the introduction of the austerity measures in 2010 and 2011. This modest increase is not surprising as the median income fell. However, measuring poverty taking as a base the 2009 median income, i.e. the pre-crisis income, suggests a significant increase in poverty. With the combined effects of austerity and recession, the poor would account for 25.83% in 2010 and 30.49% in 2011 (Table 1.3).

Table 1.3. **Poverty rates before and after austerity and recession**

	2009	2010		2011	
		Austerity alone	Austerity and recession	Austerity alone	Austerity and recession
Fixed poverty line	19.96	23.54	25.83	26.26	30.49
Conventional poverty line	19.96	20.24	20.61	19.01	19.83

Note: Calculations are based on the assumption that the 2011 government measures cut public sector pay and pensions and raised taxation, but left nominal pre-tax incomes and jobs in the private sector at their 2009 level.

Source: Matsaganis, M. and C. Leventi (2011), "The Distributional Impact of the Crisis in Greece", *EUROMOD Working Paper*, No. EM3/11; European Commission updates.

Poverty is on the rise, in particular among the unemployed (Table 1.4). The significant increase in unemployment would push more households into poverty, thus increasing the relative weight of households with a primary earner who is unemployed. In addition, there are indications that poverty among households with an unemployed primary earner tends to be extreme, with almost 40% of these households living on an income that is less than 40% of the median income (Matsaganis and Leventi, 2011).

Table 1.4. **Poverty rates by household head**

	2009	2010		2011	
		Conventional	Fixed	Conventional	Fixed
All	19.96	20.61	25.83	19.83	30.49
Unemployed	51.48	59.58	63.14	58.20	67.45
Employee (public sector or banking)	0.31	0.42	1.39	0.75	4.16
Employee (private sector excluding banking)	12.38	11.81	16.41	10.46	20.40
Liberal profession	3.79	3.72	3.72	3.69	7.29
Self-employed	16.63	18.08	22.96	17.33	25.10
Farmer	46.88	45.48	51.79	43.37	54.96
Pensioner	24.67	24.29	29.14	20.51	31.62
Other	20.65	20.40	28.88	18.07	31.57

Source: Matsaganis, M. and C. Leventi (2011), "The Distributional Impact of the Crisis in Greece", *EUROMOD Working Paper*, No. EM3/11; European Commission updates.

Administrative data collected by the OECD for this report confirms this finding. Figure 1.4 shows that the proportion of recipients of social protection relative to the working-age population was relatively stable until around 2008. The proportion of beneficiaries of non-contributory incapacity benefits and of contributory unemployment benefits has since risen sharply. This rise suggests a worsening of the poverty rate in these two groups, and highlights the strong effect of the crisis since 2008. This deterioration is further confirmed by EU-SILC data released by the Hellenic Statistical Authority at the end of 2012. The poverty rate calculated using the conventional poverty line was 21.4% in 2010, more than 1 percentage point higher than the estimates presented in Table 1.3 (Hellenic Statistical Authority, 2012).

Systemic context

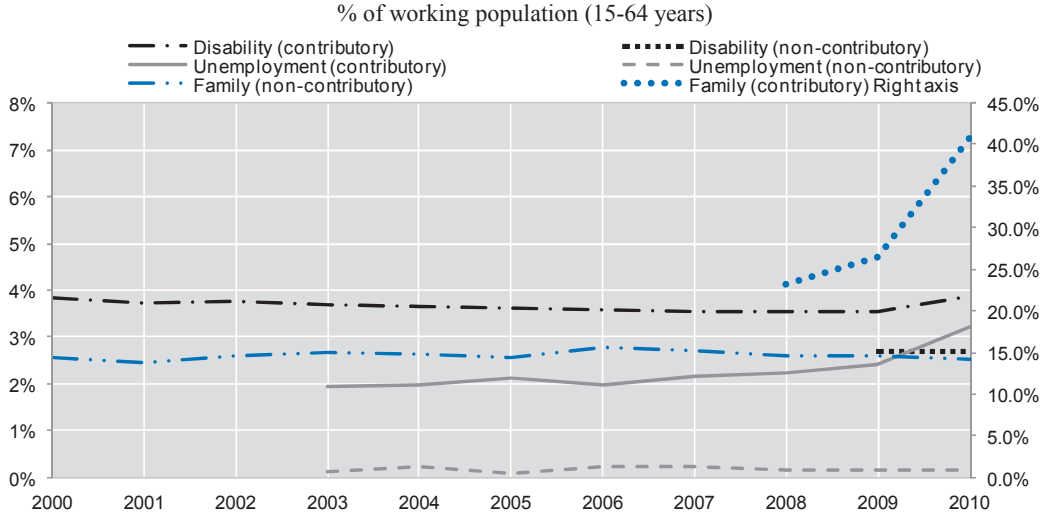
There is as yet no complete social welfare reform strategy

The social protection system developed since the 1950s is characterised by the fragmentation of funds, heterogeneous measures for treating specific issues and a complete lack of overview and planning.

Despite important achievements, such as policies to reduce poverty among the elderly, the reforms undertaken between the early 1990s and 2008 were too limited and had no underpinning overall strategy. Major reforms to secure the viability of the social welfare system have been postponed, while extensions of social protection were enacted more easily. The need to reduce the number of social security funds and improve their management has been on the agenda for more than a decade. Several rounds of consolidation have been decided, but in almost all cases, the merged funds have maintained such a degree of autonomy that, in practice, they have continued to exist under an umbrella organisation. The fight against fraud and abuses has also been heralded many times, with few actual achievements.

The reforms introduced since 2010 triggered substantial improvements in a range of areas. However, they are best described as emergency management measures, and cannot be defined as a clear and coherent long-term strategy for reform. Reforms initiated in the past have not been fully implemented.[2]

Figure 1.4. **Total social benefit recipiency in Greece (2000-10)**



Notes: i. The results include the beneficiaries of the main pensions but not the supplements to avoid possible double counting. *ii.* The data for old-age, survivor's and other social benefits have not been included in the general results as the data provided was insufficient to draw accurate results. *iii.* The data for the benefits on unemployment (contributory and non-contributory) are missing for 2000-03. *iv.* The data for the disability benefits (non-contributory) are only available for 2009 and 2010. For all previous years, the data is missing. *v.* The data for family benefits (contributory) is incomplete for 2000-07. *vi.* Incapacity: disability and sickness.

Source: Estimates based on data provided by the Greek authorities to the OECD, 2011-12 (administrative data).

However, the most recent developments give rise to optimism (Box 1.1).

Box 1.1. **Recent steps to a strategy**

Strategic anchors to support reform were put into place in the second half of 2012:

- Strategic design decisions have been taken, in the direction of means testing as the basis for social welfare programmes. For example, means testing has been introduced for family benefits.
- Key practical implementation anchors are being put in place. In order to facilitate the setup of a common database, and to eliminate double counting, the creation of a National Register of Beneficiaries of social welfare benefits has been established. The next step is expected to be a single source of payments for both social insurance and welfare benefits. The universal use of a personal ID (AMKA number) has been established.

There has been no institutional structure with a clear mandate to develop and implement a reform strategy

The current institutional structure for the oversight of social welfare programmes (discussed in more detail in Chapter 3 on system governance) has been complex and confused. There has been no clear champion or champions to work on reform. An empowered structure at the centre of government is urgently needed if a coherent reform strategy is to emerge, and crucially, be implemented. Recent changes point to a promising direction (Box 1.2).

Box 1.2. **Recent steps to leadership**

The Ministry of Labour, Social Security and Welfare has been given the overall leadership of social welfare and social insurance (as recommended by the OECD), which includes the transfer of social welfare responsibilities from the Ministry of Health. The Ministry of Labour, Social Security and Welfare is now vested with the strategic responsibility required to take forward reforms in this critical sector.

The starting point for developing the reform strategy and consultation need to be clear, such as the need to stay within an agreed fiscal envelope, the move to means testing as the basis for the new system, or the allocation of institutional leads for future steering and oversight. A phased approach to implementation might be considered in order to minimise negative budgetary effect, allow for a longer period for fiscal adjustment, and allow the Greek administration the time to develop and shape out an implementation plan, with the support of the international community. Mechanisms to adjust the reform strategy may also be needed as new data comes in.

The success of the proposed reforms has important links to other ongoing reforms in Greece

The public administration reforms documented in the OECD's 2011 *Review of the Central Administration*, and which are now being taken forward under the direction of the Greek Governmental Council for Reform, are critical to ensuring that the reforms to social programmes can be designed and implemented effectively and efficiently. Parallel reforms to the tax administration are also essential to support the effective implementation of the OECD's recommendations, notably on effective governance of the social programmes, reduction of fraud and effective means testing for benefits.

The OECD's 2011 report on the Greek central public administration identifies major shortcomings: pervasive corruption, little co-ordination within the government for collective action, slow implementation of reforms, inadequate skills and competences in the central public administration, crucial shortcomings in data management and collection, and a complex legal framework. These issues are now being addressed. The other areas of reform that need to interact with social welfare reform include:

- central administration;
- tax system;
- local authorities;
- ICT architecture.

Data collection and management are in urgent need of attention

The analysis carried out in order to produce this report has revealed very serious deficiencies in the collection, management and analysis of data on social welfare programmes. All of the sources used for the report (documented in Annexes A and B) suffer from gaps or weaknesses, which are largely due to the underlying weaknesses of Greek data. For example, some data does not appear to exist. The OECD's 2011 report on the Greek central administration had already drawn attention to a generalised and crucial shortcoming in data collection and management, which impedes effective and evidence-based reform. The report noted that there was no systematic record keeping and

a chronic lack of factual evidence and data as a basis for policy making. It noted that the Greek central administration does not have a habit of keeping records, or the capacity to extract information from data, or generally of managing organisational knowledge. Recent changes, however, suggest a promising move towards addressing some of these shortcomings (Box 1.3).

Box 1.3. **National Register of Beneficiaries**

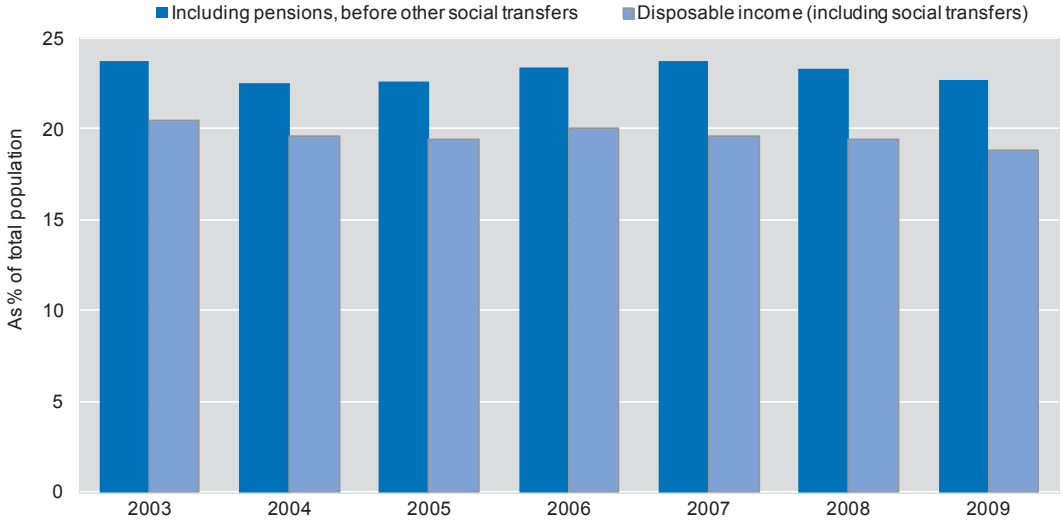
A National Register of Beneficiaries of social and welfare benefits has been established (Law 4025/2.11.2011), which will facilitate the establishment of a database. Its establishment has led to the creation of a systematic monitoring system of the implementation of the financial aid assistance programmes implemented by the municipality agencies. Further development of the National Register can provide for a wide range of auditing and rationalisation processes, such as the performance of electronic crosschecks with several agencies' archives/data, thus forming a crucial tool for policy making and timely improvement measures.

The current social welfare system only has a limited impact on poverty

Figure 1.5 shows that Greece's social protection system had only a limited impact on poverty between 2003 and 2009. Social transfers (other than pensions) reduced the rate of poverty by only 4 percentage points. In Portugal, a country with a comparable level of social expenditure, the poverty rate was lowered by 8 percentage points in 2009. In France, with admittedly higher levels of expenditure, the corresponding figure was 12 percentage points.

Figure 1.5. **Rate of poverty (2003-09)**

As a % of total population



Notes: Percentage of total population with resources below 60% of the median income.

Source: Eurostat, *http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tessi124* (data extracted on 21 September 2011).

Benefits are poorly targeted, in relation to the lowest income brackets

The current Greek social welfare system blends compulsory social insurance with elements of solidarity that are not clearly assessed and chosen as tools of a redistributive policy. Most social welfare systems, to some extent, blend insurance and solidarity and have elements of income redistribution. A common example is the capping of unemployment benefits. The distinction is, however, important in order to clearly identify policy goals, relate these to appropriate funding mechanisms and assess outcomes. This is not currently possible in Greece.[3]

The Greek social welfare system includes a very large number of benefits, but it does not comprise a general income support mechanism. However, it partly provides benefits that should be universally available to all people in need (e.g. family benefits, minimum income support and housing benefits) through social insurance schemes, thus limiting their coverage to the insured population and excluding some of the most vulnerable groups such as the young unemployed.

The system is thus poorly targeted. As Figure 1.6 shows, there is scope for considerable improvement in terms of targeting social welfare at the poorest income brackets. As matters stand, only 50% of beneficiaries belong to the poorest 30% of the population. Conversely, some benefits are available up to and including the highest income decile.

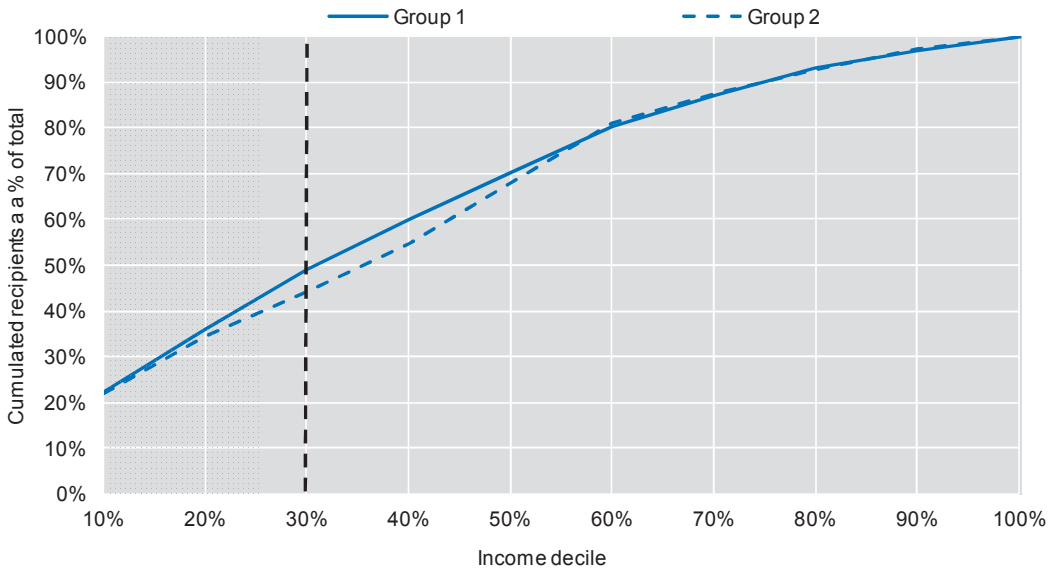
Coverage of the poorest is therefore inadequate. Rebalancing the Greek social welfare system emerges as a priority in order to target those most in need. The OECD considers that given the context of fiscal austerity and the importance of minimising the poverty rate in the current social context, this is the most appropriate approach. It therefore recommends that the Greek social welfare system essentially abandon universal benefits and become anchored in means testing. This process is now underway (Box 1.4).

Box 1.4. **Towards means-tested benefits**

Strategic design decisions have been taken in the direction of means testing as the basis for social welfare programmes. For example, a new benefit that is provided according to the family's income replaced a number of family benefits at the end of 2012.

It should be noted, however, that there could be social, legal and financial consequences to such reforms, especially if the means testing as applied to all benefits, including temporary ones such as maternity and sickness benefit. There could also be possible legal implications of removing benefit entitlements (especially social insurance programmes for which people have paid insurance contributions). Gate-keeping and control of working ability and job search efforts should be strong, in order to ensure that a means-tested safety net benefits only those who cannot work and who are at genuine risk of poverty, and to maintain its costs at reasonable levels. These caveats would need to be taken into account in taking forward a new system based on means testing.

Figure 1.6. **Cumulated distribution of beneficiaries based on income brackets**



Note: The grey area corresponds to beneficiaries living in households below the poverty threshold.

Explanation: in 2009, 49% of beneficiaries of the Group 1 programmes belonged to the 30% of poorest households in the country, based on household income before social transfers (but including old-age and survivor's pensions).

Group 1 includes benefits mainly targeted at inactive people (those not normally in work and not looking for a job), plus supplements. Group 2 includes benefits mainly targeted at active people, normally in work but temporarily out of work.

The list of Group 1 benefits considered for the computation is: social solidarity allowance; allowances to repatriations, refugees, released from prisons, drug addicts, alcoholics; amount for assistance to poor households in mountainous and disadvantageous areas; allowances to children under 16 years old who live in poor households (pre-school and school allowance); benefits to households that faced an earthquake, flood, etc.; other social allowances; lifelong pension for mothers with more than 3 children; allowance for families with more than 3 children; third child allowance; lump-sum amount to women who give birth to third, fourth child, etc.; allowance for families with 3 children; family allowance for public servants; incapacitated children care benefit; parental leave allowance (not for maternity reason); birth grant; student's allowance; other family allowances; disability pension; benefit for persons with special needs; care allowance for incapacitated persons; nutrition allowance for people suffering kidney disease; other disability benefits/allowances; benefit for spa therapy, airing, etc.; assistance for movement of sick persons; other sickness benefits/allowances; benefit received for participation in research programmes; scholarships; other educational benefits/allowances.

The list of Group 2 benefits considered for the computation is: full unemployment allowance; exceptional financial allowance due to dishonest dismissal; early retirement for labour market reasons, early retirement for farmers; vocational training allowance for unemployed; reimbursement due to dismissal from work; seasonal unemployment benefit for seasonal workers (e.g. actresses, musicians, building workers, hotel staff, etc.); allowance for young persons aged 20-29 years; allowance for joining the army; placement, resettlement or rehabilitation benefit; other unemployment allowances; pregnancy-puerperal benefit; paid sick leave; benefit for accident at work.

Additional clarifications on Group 1 and 2 are available in Annex D.

The benefits considered cover approximately 22% of the working-age population.

Source: Statistics on Income and Living Conditions (2009), *http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc*.

Conclusions and recommendations

Conclusions

- The overall fiscal and economic context in Greece remains challenging. Under the latest Medium Term Financial Strategy, new fiscal measures amounting to around 9.5% of GDP until 2016 are frontloaded with a consolidation package of around 7.5% of GDP for 2013 and 2014. In 2013, Greece will experience its sixth consecutive year of recession, and growth is expected to resume only at the end of 2014 (projections as of February 2013).
- The fiscal demands on social welfare are high. The current requirement on Greece is that social programmes (excluding pensions and health) contribute 1.5% of GDP to fiscal consolidation. However, expenditure on social welfare excluding pensions and health is a relatively small part of government programme expenditure. Overall government expenditure on social insurance including old-age and survivor's pensions and health is 22.5% of GDP. Total spending on social insurance and assistance schemes excluding old-age and survivor's pensions and health and including disability pensions is approximately 5.6% of GDP. Social welfare expenditure is also relatively low in international comparison, although a significant rise can be expected, with upward trends already visible.
- The poverty rate is high and rising. Relative to other countries with important austerity programmes, Greece had the highest poverty rate before the cuts, and the austerity measures have pushed more people into poverty. There has been a sharp rise in recipients of social welfare since 2008, and the poverty rate in 2011 was over 30%, based on pre-crisis median income. The unemployment rate doubled in two years, to more than 25% in August 2012, and has been multiplied by more than three since 2008.
- There is as yet no complete social welfare reform strategy, though recent developments are promising. The Greek social protection system has evolved over decades without any clear strategy, resulting in a highly complex, fragmented, duplicative and inefficient system. Reforms have been undertaken but they are fragmented and unfinished, and have fallen significantly short of what is needed to put the social welfare system on a sound footing. There is an urgent need to continue the work which has started to take shape under the Ministry of Labour, Social Security and Welfare, and define and implement a coherent and comprehensive strategy in order to strengthen the efficiency and effectiveness of social welfare policy and governance, against a background of rising social expenditure and rising poverty.
- There has been no institutional structure with a clear mandate to develop and implement a reform strategy. Until now there has not been any clear champion or champions to work on reform. An empowered structure at the centre of government is urgently needed if a coherent reform strategy is to emerge, and crucially, be implemented. The recent decision to set up the Ministry of Labour, Social Security and Welfare with consolidated responsibilities is a promising development.
- Data collection and management are in urgent need of reform. There are serious deficiencies in the collection and management of data on social welfare programmes, with no systematic record keeping, which impedes evidence-based

reform. Recent developments with the establishment of the National Register of Beneficiaries are, again, promising.

- The current social welfare system only has a limited impact on poverty. Social transfers (other than pensions) have reduced the rate of poverty by only 4 percentage points.
- Benefits are poorly targeted and coverage of the poorest in inadequate. Only 50% of beneficiaries belong to the poorest 30% of the population. Similar to some other countries, some benefits are available to all income brackets. Given the tight fiscal context, some prioritisation would help rebalance the Greek social welfare system towards those most in need. This process now appears to be underway.

Recommendations

- Ensure that reform of social welfare programmes is based on a carefully assessed balance between support for deficit reduction and growth, and sustaining the social fabric.
- Define and implement a coherent and comprehensive reform strategy for social welfare in order to strengthen the efficiency and effectiveness of social welfare policy and governance.
- Link up the reform of social welfare with other reforms, including a comprehensive strategy to address data collection and management. Consider the establishment of strategic central ministry units covering, among others, data collection and management. Identify via these units essential social welfare data for collection and establish a robust system for data collection and management. Consider whether the data collected by the OECD (administrative data) could form a starting point for the new system. As data becomes more complete and robust, use the information to further shape and adjust the social welfare programme reform trajectory.
- Establish a government-wide task force steered by the Ministry of Labour, Social Security and Welfare and reporting to the Prime Minister, in order to strengthen collective commitment for the definition and implementation of reform. Ensure a balanced, but not too large, membership including the Ministry of Finance and a small number of selected academics. Ensure strong connections to other stakeholders, both internal and external. Designate high-ranking project managers responsible for the implementation of specific laws and decisions to give effect to the reform, reporting regularly to the task force.
- Confirm and define the starting point for the design of a new social welfare system and its governance, such as a move to a means-tested system. Move progressively to a system of means-tested benefits for various societal groups in hardship. Restrict access to social programmes to the poorest income brackets before transfers. Clarify the issues that have already been agreed, and distinguish between actions that can be taken now and those which require consultation and further development. Prioritise actions.
- If possible, given the urgent need to move forward without delay, establish feasibility studies to define and shape the detail of the reforms.

- Establish a communications strategy. Ensure that all relevant stakeholders (central government, social security funds, social partners, local authorities, NGOs and academics) are engaged and understand the reform objectives. Decide on the processes for doing this, for example a white paper and the Internet.
- Set a clear timetable for the design and implementation of the new system, including its operational implementation in the field. Consider whether a phased approach makes more sense than a "big bang" one.

Notes

1. OECD estimates based on national account data on total economy compensation per employee.
2. This echoes a key finding from the OECD's 2011 review of the Greek central administration: the implementation of reforms in Greece is a major and debilitating weakness.
3. For example, one of the key objectives of the pension reform law of 2010 was to improve transparency by achieving a better separation of the insurance and solidarity elements in the pension system. However, no significant implementation step has been taken in this direction since the adoption of the law.

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Chapter 2

The current Greek benefit system*

Preamble: the analysis presented in this chapter does not take account of the most recent reforms. Please see Annex B for an overview of these reforms.

This chapter presents information on four main categories of social benefits: unemployment benefits, benefits for families, disability benefits, and housing benefits. It analyses these benefits in an international comparative context, in terms of the beneficiaries, the relative proportion of assistance and insurance-based expenditure, trends in expenditure, and in relation to key indicators such as the unemployment rate. It uses this analysis to draw conclusions on where and how benefits could be reformed in order to be more efficient and effective in reaching those in real need.

* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Current Greek benefits are often complex and poorly targeted. Important categories such as the unemployed, families and the homeless need more effective support. The design of benefits is inefficient, and their purpose and focus require fresh thinking. Evidence-based proposals are made in this chapter to review the scope of unemployment assistance, alongside active labour market measures. Proposals are also put forward for Greece to undertake a fundamental review of family benefits based on means testing. Greece would also gain from a fundamental review of disability benefits towards means testing. Housing benefits, finally, also need deep reforms toward a new system based on means testing.

Unemployment benefits

The unemployed are an especially vulnerable group

Unemployment benefits are generally conditional on insurance contributions

The main unemployment benefits provide income replacement at a flat rate of EUR 360 (about two-thirds of the current level of the minimum wage) for up to a maximum of 12 months.[1] As in most other countries, unemployment benefits are only available to those who have made unemployment insurance contributions and to those aged 45-65 under certain conditions. Figure 2.1 highlights the fact that most of the unemployment benefit system is geared to contributory (insurance-based) benefits. Those who have never been in work (such as some unemployed youth) fall outside the system.[2]

Only 17% of the persons declaring themselves unemployed received unemployment benefits in Greece in 2009, compared to 26% in Portugal and 53% in France.

The unemployment rate is rising

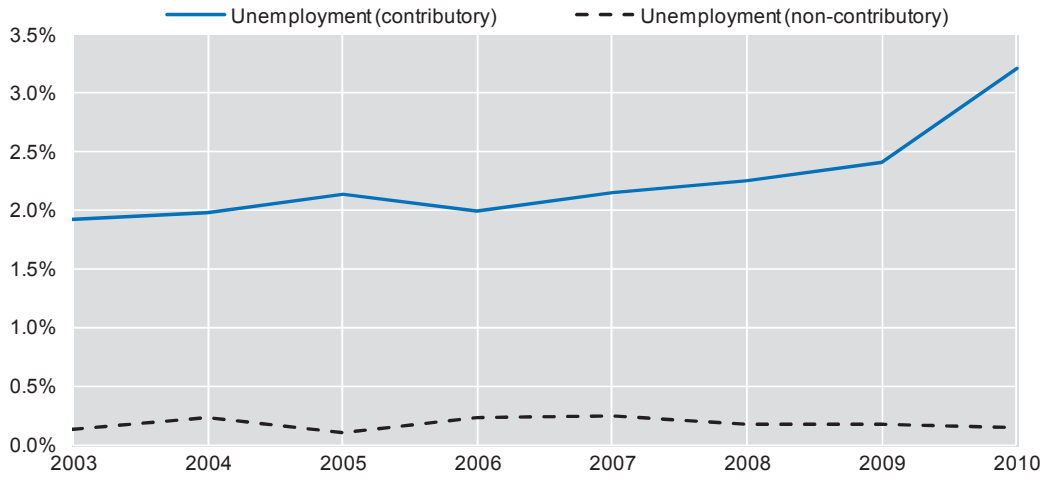
The unemployed are a group especially at risk of poverty. Figure 2.2 shows that the unemployment rate has risen sharply in line with negative GDP growth.

There is a rising proportion of long-term unemployed

The proportion of long-term unemployed (those out of work for at least 12 months) was 50% of total unemployment in 2011 (Figure 2.3). Data provided by the Greek authorities indicates that this figure was more than 56% for the first three months of 2012 and exceeded 60% at the end of 2012 (Figure 2.3).[3]

Figure 2.1. **Unemployment benefit recipiency**

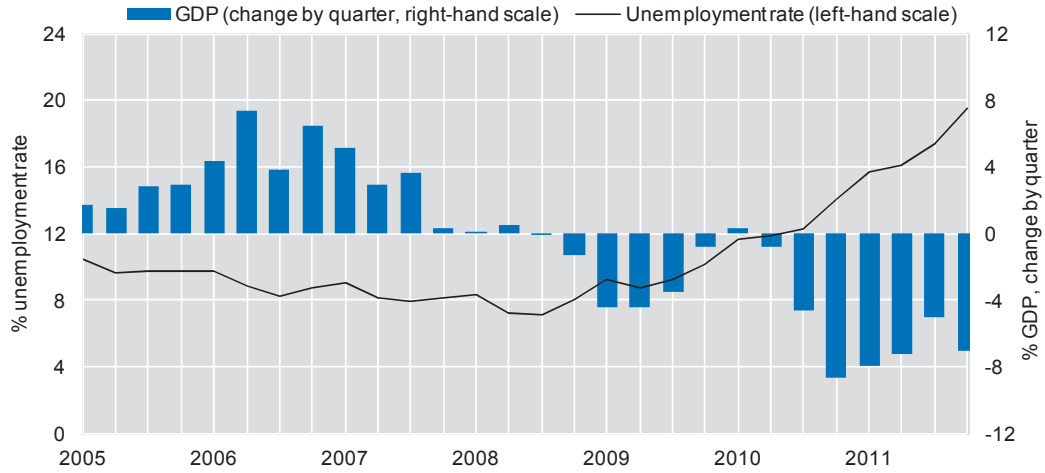
Beneficiaries as a % of the working population (15-64), 2003-10



Notes: i. The programmes included in the data are the following: unemployment benefit/*Επίδομα Ανεργίας*, special unemployment benefits/*Ειδικές επιδοτήσεις*, long-term unemployed/*Μακροχρόνια άνεργοι*, emergency financial assistance/*Εκτακτες οικονομικες ενισχυσεις*, special assistance after end of unemployment rights/*Ειδικο βοηθημα μετα τη ληξη της επιδοτησης λογω ανεργιας*, special assistance after a 3-month period of unemployment/*Ειδικο βοηθημα μετα την τριμηνη παραμονη στα μητρωα ανεργων*, special financial assistance for released prisoners/*Ειδικο βοηθημα σε οσους εξετισαν ποινη στερητικη της ελευθεριας*, conscription allowance/*Εφεδρικό Επίδομα* (*στρ/σης*), financial assistance for political refugees/*Οικονομικη ενισχυση πολιτικων προσφυγων*, young professional/*Νεοειρχόμενοι*, administrative leave allowance/*Επιδομα διαθεσιμοτητας*, benefit for insolvency/*Προστασια των δικαιωματων των εργαζομενων σε περιπτωση αφερεγγυοτητας του εργοδοτη*, special seasonal benefits/*Ειδικο εποχιακο βοηθημα*, returning expats/*Παλλινοστούντες*, special benefit for children over 16 years old who leave special centres/*Ειδικο βοήθημα για παιδιά άνω των 16 ετών που αφήνουν τα ειδικά κέντρα*, unemployment benefit/*Επίδομα Ανεργίας*, financial aid for some categories of unemployed seamen during the holiday seasons/*Οικονομική Ενίσχυση σε ορισμένες Κατηγορίες Ανέργων Ναυτικών λόγω εορτών Πάσχα – Χριστουγέννων*. *ii.* The data provided is only available for 2003-10. For 2000-02, the data is missing. *iii.* The results include the beneficiaries of the main pensions but not the supplements to avoid possible double counting.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

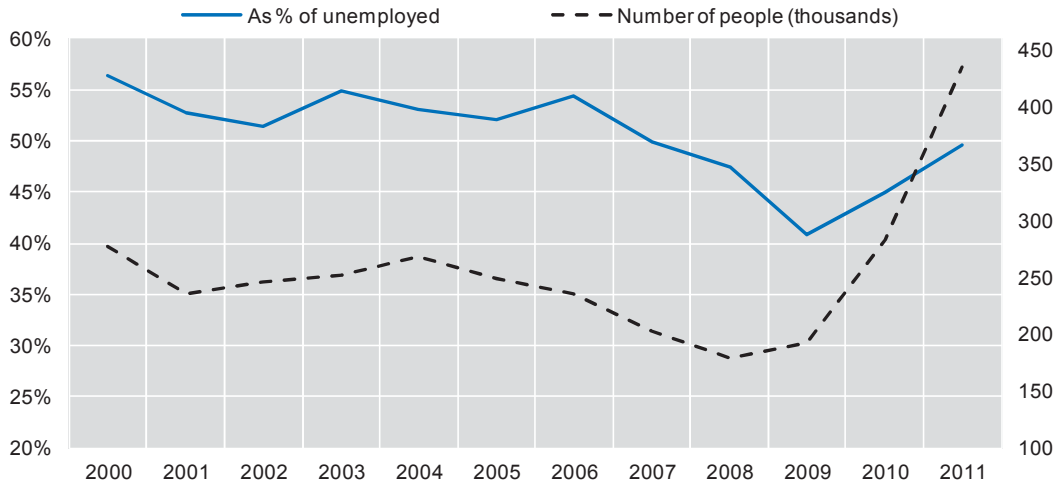
Figure 2.2. **GDP growth rate and unemployment rate**



Notes: The unemployment rate for 2011 is based on the monthly rates for October and November only.

Source: El.Stat, quarterly national accounts and monthly labour force statistics.

Figure 2.3. **Long-term unemployed in Greece**



Source: OECD Labour Force Survey, doi: *10.1787/lfs-lfs-data-en*.

Assistance for the long-term unemployed existed in the form of a monthly allowance of EUR 200 provided for up to 12 additional months under conditions of resource and age: family means have to be estimated at under EUR 12 000 per year, and the recipient must be more than 45 years old. The scheme only had 1 850 beneficiaries in 2010.

A new long-term unemployment assistance has been introduced for those who have been unemployed for more than 12 months and it will be enforced at the beginning of 2014 (Law 4093/2012). It will be provided to persons between 20 and 66 years if their annual family income does not exceed EUR 10 000. The monthly allowance still amounts to EUR 200 per month for a maximum duration of 12 months. Currently only people who are over 45 are entitled to unemployment assistance under means-tested conditions.

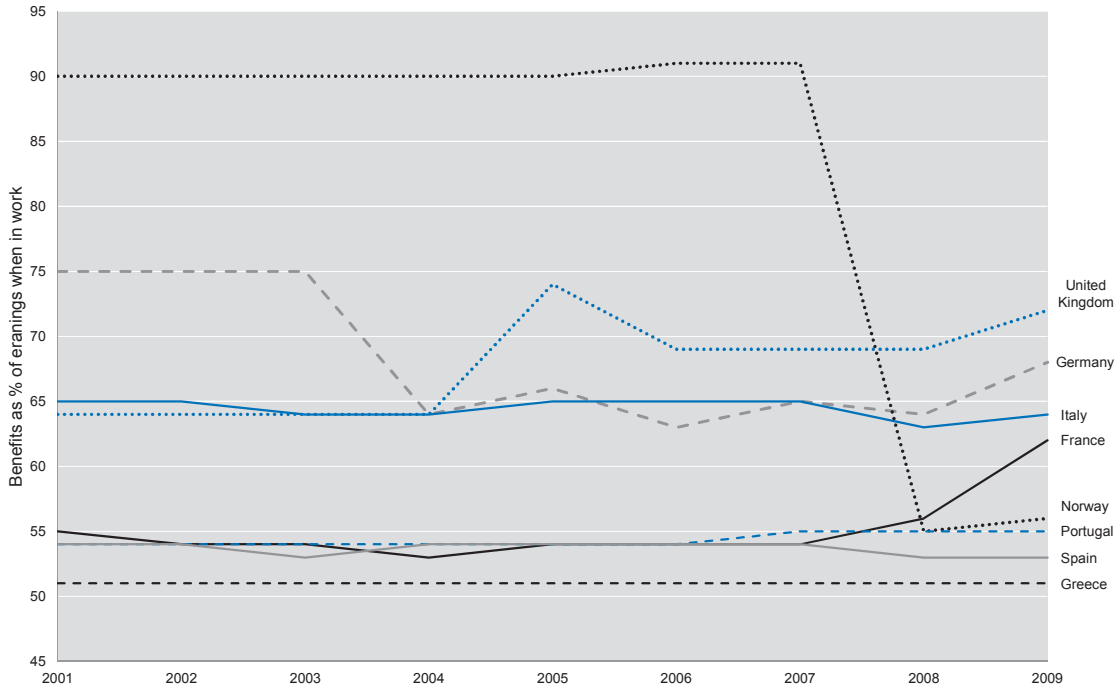
Unemployment benefits are low in international comparison

Unemployment benefits are low in international comparison. Greek unemployment benefits relative to net earnings when on the job have been consistently below those of France, Germany, Italy, Norway and Portugal since 2001 (Figure 2.4). The simulation considers a hypothetical two earner married couple with two children earning less than or the average wage.

In the case of a lone parent, Greece's unemployment benefits as a share of earnings when in work remain below those of all countries with the exception of Italy (Figure 2.5).

Figure 2.4. **Average net replacement rates for long-term unemployment (2001-09)**

A. 67% average wage, two-earner married couple, two children



B. 100% average wage, two-earner married couple, two children

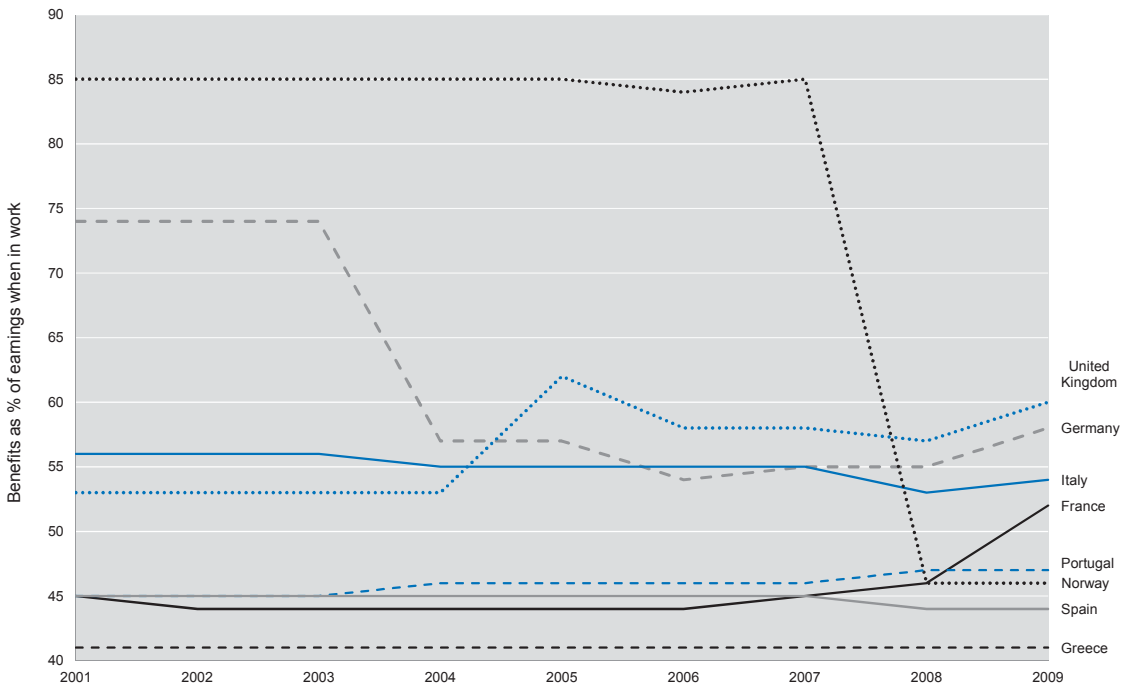
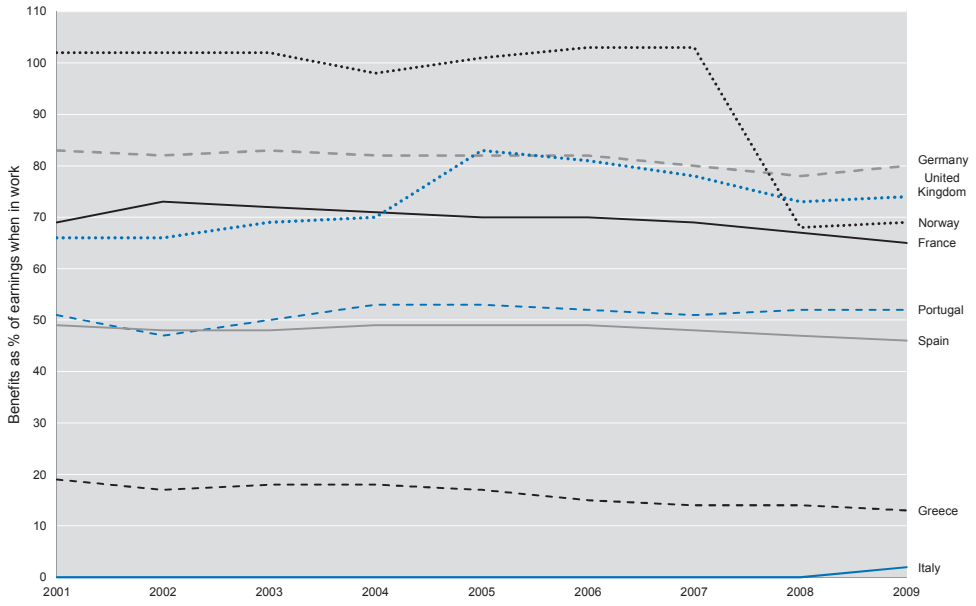
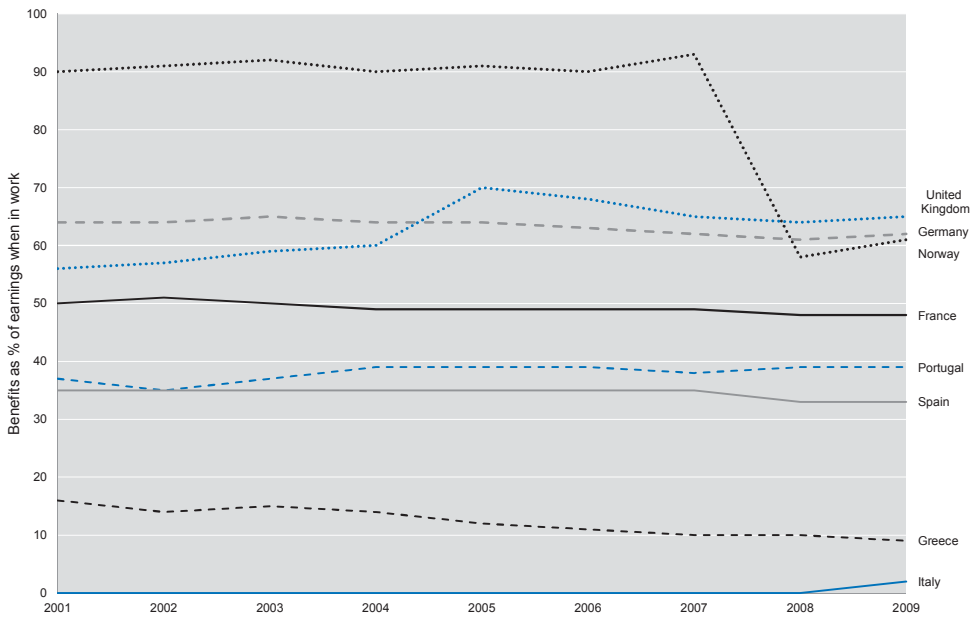


Figure 2.5. **Average net replacement rates for long-term unemployment (2001-09)**

A. 67% average wage, lone parent, two children



B. 100% average wage, lone parent, two children



Notes: i. After tax and including unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt. For married couples, the percent of average wage relates to one spouse only; the second spouse is assumed to be "inactive" with no earnings in a one-earner couple and to have full-time earnings equal to 67% of average wage in a two-earner couple. Children are aged 4 and 6 and neither childcare benefits nor childcare costs are considered. *ii.* Calculations are based on average wage (AW).

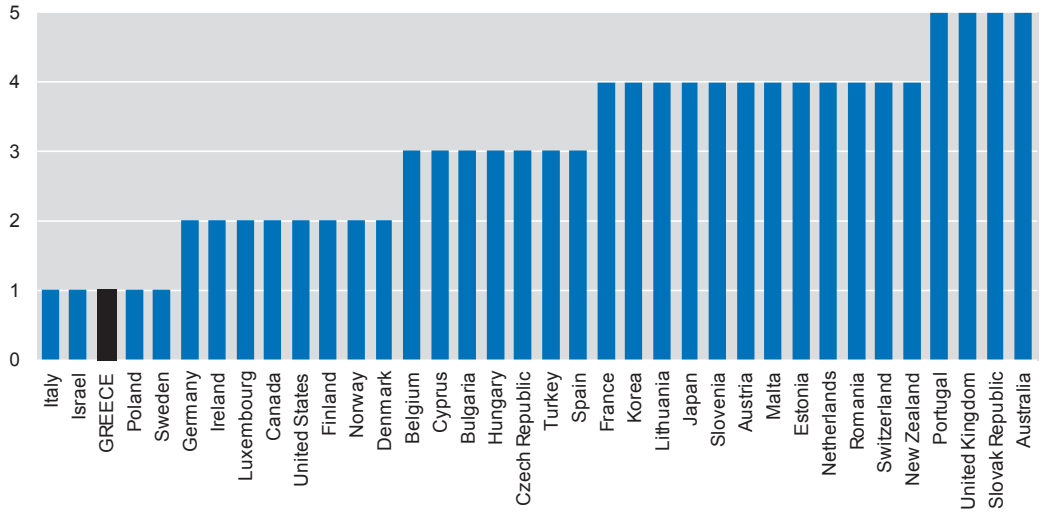
Source: OECD, Tax Benefit Calculator, *www.oecd.org/social/soc/benefitsandwagestax-benefitcalculator.htm*.

Mutual obligations are elusive but important to keep in sight

It is fair and reasonable to expect unemployed people receiving income support to do their best to find work, undertake activities that will improve their skills and increase their employment prospects and, in some circumstances, contribute something to their community in return for receiving income support. In Greece, however, beneficiaries of unemployment benefits seem to have no strict obligation to show that they are actively looking for a job, receiving at the same time little job counselling and training (Figure 2.6).

Figure 2.6. **Job search monitoring in OECD and EU countries**

Scored from 1 (least strict) to 5 (most strict)



Notes: The score reflects criteria for job search monitoring in place in early 2011. Data were collected through a questionnaire sent to delegates to the OECD Employment, Labour and Social Affairs Committee and/or the Indicator Sub-Group of the European Commission's Social Protection Committee.

1. Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue". 2. Note by all the European Union member states of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Score description: 1. No check of job search activity. 2. Job search activity can be checked upon request. 3. Unemployed must prove job search activity when referred to a vacancy by the public employment service. 4. The unemployed must regularly prove job search activity. 5. The unemployed must often, i.e. every week or every second week, prove job search.

Source: Venn, D. (2012), "Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries", *OECD Social, Employment and Migration Working Papers*, No. 131, OECD Publishing, doi: *10.1787/5k9h43kgkvr4-en.*

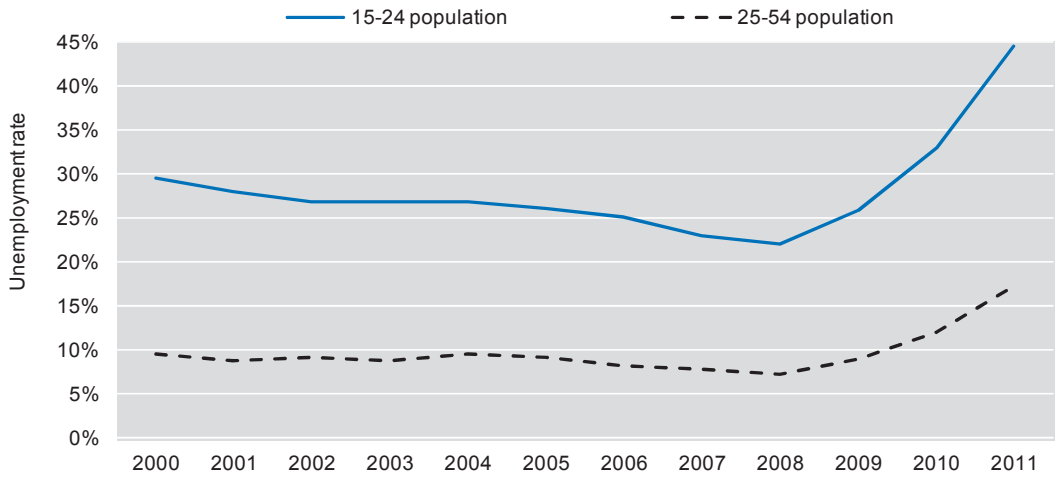
Some form of structured participation in training and educational programmes not only for the unemployed receiving benefits but also for those registered unemployed not eligible for any benefit could help prepare the workforce for a restructured economy. These programmes would, of course, need to be calibrated in relation to the financial constraints imposed by the fulfilment of the objectives of the Memorandum of Economic

and Social Policies, and taking account of the difficult labour market prospects, pending economic recovery.

The young unemployed are an especially vulnerable group

Like a number of other OECD countries, Greece has experienced a sharp increase in youth unemployment since 2008 (Box 2.1). Unemployment among people aged 15-24 went up by approximately 22 percentage points between 2008 and 2011 (compared with a 10 percentage point increase for people aged 25-54). In 2011, youth unemployment had reached 44% (compared to 17% for those aged 25-54) (Figure 2.7). Since then, the situation has further deteriorated. Greek authorities' and OECD estimates suggest that youth unemployment was between 51% and 52% in the first quarter of 2012. In such adverse labour market conditions for the youth, fewer young people are covered by unemployment benefits in Greece: only 8% of beneficiaries were aged 16-24 in 2009 compared with 17% in France.

Figure 2.7. **Youth and adult unemployment in Greece**



Note: The unemployment rate measures the number of unemployed persons as a percentage of the labour force (the people employed and the people unemployed).

Source: OECD Labour Force Survey, doi: *10.1787/lfs-lfs-data-en*.

An important contextual issue is that private transfers have in the past played a crucial role in Greece, especially for young people: 18% of people aged 16-24 received transfers from relatives in 2009, compared to 4.5% in Portugal and 9% in France. To a lesser extent, older people are also concerned (8% of people above 50 received private transfers, compared to 5% in Portugal, and 4% of retired people compared to 1% in Portugal). These transfers have likely been strained by the deterioration of economic conditions.

Family benefits

Families also need more effective support

Family benefits are numerous, but thinly spread

Many family benefits currently exist in Greece, but they are spread too thinly and poorly targeted. Existing programmes mostly support fertility. In general, the benefits are

poorly targeted with respect to household income. Greece is not the only country in this situation: universality of family benefits is frequent (notably in France, Germany and Austria). However, this is not necessarily a desirable feature, notably during a period of fiscal adjustment.

Box 2.1. **Youth unemployment and the "Great Recession" across OECD countries**

Youth unemployment has risen significantly in the OECD countries that were hit particularly hard by the "Great Recession" of 2008-09, including Estonia, Greece, Ireland, Portugal, the Slovak Republic and Spain. In the first quarter of 2012, the unemployment rate for young people aged 15-24 was approximately 17% across OECD countries compared with approximately 7% for adults.

Youth unemployment can have important negative effects on growth and development as it can increase the risk of permanent marginalisation of an important part of the labour force as a result of skill depreciation and the loss of self-worth and motivation.

There are no easy solutions for tackling youth unemployment, and each country needs to identify policies that are best adapted to its fiscal, social and economic conditions. Cross-country experience points to the importance of a two-pronged approach that complements policies aimed at addressing structural barriers with actions that tackle the effect of the sharp rise in youth unemployment.

- Addressing underlying structural barriers would include:
  - strengthening early childhood education and care;
  - better match skills to labour market needs;
  - overcoming highly segmented labour markets.
- Tackling the rise in youth unemployment would include:
  - focusing on cost-effective interventions that target the most disadvantaged, including through job search assistance programmes;
  - temporarily extending social safety nets.

Source: OECD data released ahead of the G20 Labour Ministers (May 2012); OECD (2011), *OECD Employment Outlook 2011*, OECD Publishing, doi: *10.1787/empl_outlook-2011-en*.

The main types of benefit in 2008 (see Annex D for more detail) were:

- Allowance for families with more than three children. It was paid monthly to mothers with four or more children (of any age and irrespective of whether they live together with their parents or not). Since 2006, it was also paid to lone parents with three children, disabled parents with three children and children orphaned from both parents if there are two or more siblings. Since 2008, a large-family benefit is also provided to mothers of three children. The benefit rate was EUR 42.71/month in 2008.
- Allowance for families with three children. It is paid to families with three (or more) children until the third child reaches the age of six. The benefit is claimed by the mother, unless she is dead or has left the household, in which case it is paid to the father. The benefit rate in 2008 was EUR 170/month.

- Lifetime pension for mothers with more than three children. It was paid to mothers with four or more children (of any age and irrespective of whether they live together with their parents or not) who were no longer eligible for the "many children benefit". The benefit rate in 2008 was EUR 98.27/month.
- Birth grants (third child and over). The benefit, introduced on 1 January 2006, was paid as a lump sum to mothers giving birth to a third child and to each child after the third. It was not taxed. In 2008, the lump sum was EUR 2 000 per child.
- Family allowance for civil servants.
- Family allowance for employees in the private sector not covered by a collective agreement.

Large-family benefits and lifetime pensions for mothers with more than three children were abolished at the end of 2012. They have been replaced by a new family benefit that is provided according to the family's income. The benefit amounts to EUR 40 per month for one child, EUR 80 per month for two children, EUR 130 per month for three children, EUR 180 per month for four children, with EUR 60 paid for each additional child.

Benefits to help unprotected children living in poor families and lone parents also exist. Targeted support to low-income families was anecdotal until the above reform. It is important for this reform to be effectively monitored and assessed. Families with annual incomes under EUR 3 000 per year and with children attending primary or secondary school are entitled to a benefit of EUR 300 per child per year. Families living in remote parts of the country with annual incomes under EUR 4 700 are entitled to a benefit of between EUR 300 and EUR 600 per year depending on their level of income. Together, the two programmes represented an overall spending of less than EUR 25 million in 2010.

The benefit system supported mainly large families

Family benefits have aimed to support large families and therefore were essentially targeted to households with three children and more: almost all families in this category were receiving benefits in 2009, compared to 10% of lone parents with one child and 17% of couples with two children. In France, about 80% of single parent families with one child received support, and almost 100% of single parents with several children. The situation in Portugal is comparable to that of France.

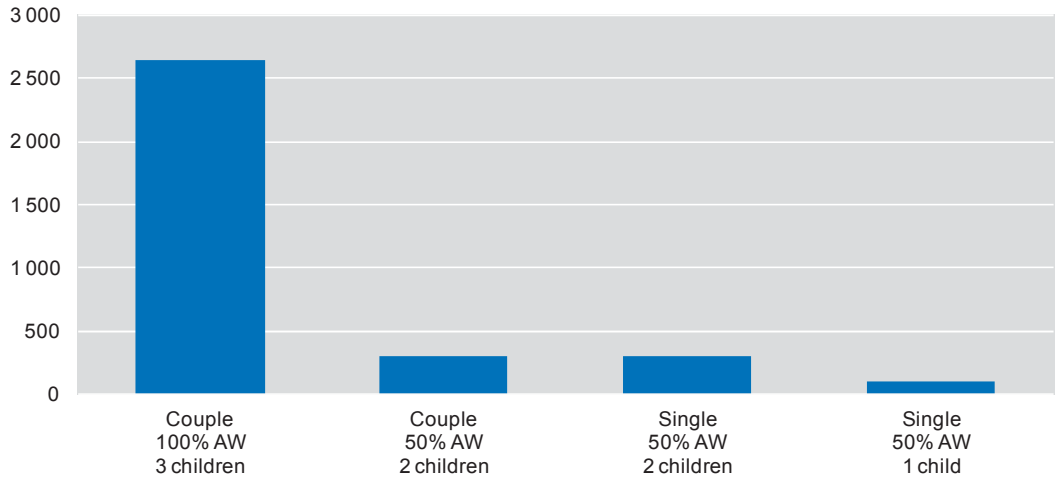
Figure 2.8 shows that the Greek family benefit system that was in place until recently massively favoured large families (three children or more), did considerably less for families with fewer than three children, and did even less for single parent households.

There is low support for families in international comparison

Compared to a number of European countries, Greece spends relatively little on support for families (Figure 2.9). Support is to a large extent provided in cash (approximately 0.7% of GDP) and, to a lesser degree, in the form of services (approximately 0.4% of GDP). No tax breaks are provided to families (on taxation, see Chapter 3). France, which spends the most on supporting families among the countries examined, spends approximately twice as much as Greece on cash support (1.4% of GDP) and almost four times more by providing services to families (approximately 1.7% of GDP).

Figure 2.8. **Annual family benefit levels according to the type of household**

EUR

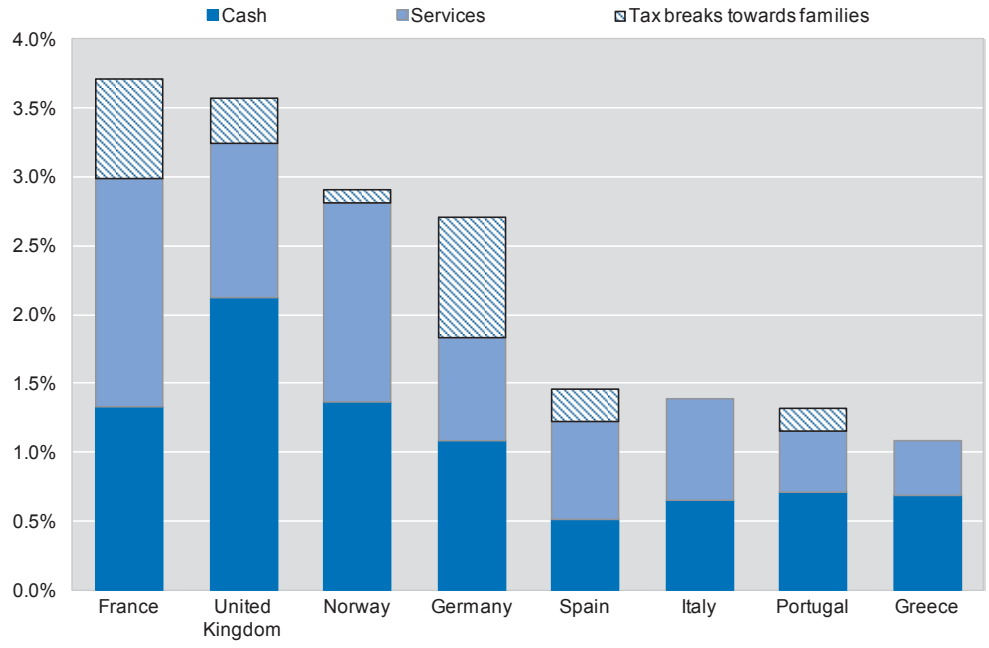


Note: Family benefit levels are based on the assumption that couple-parent households have two full-time earners, single-parent households have one full-time earner, and the youngest child is 12 months old. AW: average wage.

Source: OECD Family Benefit Calculator 2008, *www.oecd.org/social/soc/benefitsandwagestax-benefitcalculator.htm*.

Figure 2.9. **Public spending on family benefits in cash, services and tax measures**

% of GDP



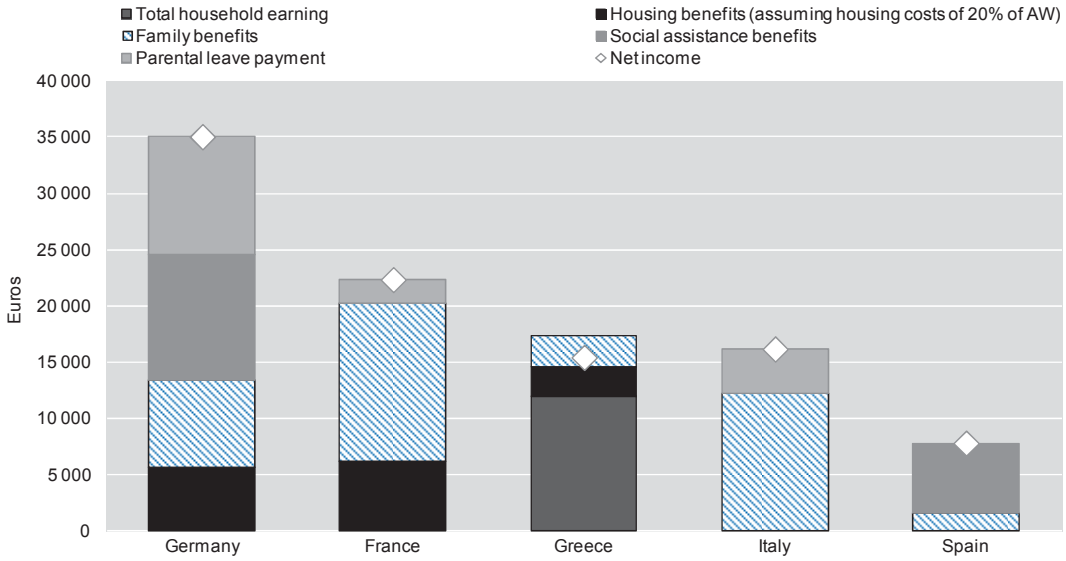
Notes: Public support accounted here only concerns public support that is exclusively for families (e.g. child payments and allowances, parental leave benefits and childcare support). Spending recorded in other social policy areas as health and housing support also assists families, but not exclusively, and is not included here.

Source: OECD *Social Expenditure Database*, doi : *10.1787/els-socx-data-en*; ESSPROS, *http://epp.eurostat.ec.europa.eu/portal/page/portal/social_protection/data*, 2010.

Whereas benefits are more generous for large families, they are relatively limited in comparison to other countries (Figure 2.10). In Greece, parental leave does not appear to be linked to a benefit that is sufficient to replace earned income. Accordingly, a hypothetical large family whose primary earner receives 50% of the average wage will need to rely to a large extent on its own earnings. Benefits will account for approximately 30% of gross income. In France, Germany, Italy and Spain, family income is likely to come in its entirety from benefits linked to parental leave.

Figure 2.10. **Income situation of a single-parent household in 2008**

One adult earning 50% of the average wage, four children in the household, with the youngest child being six months old

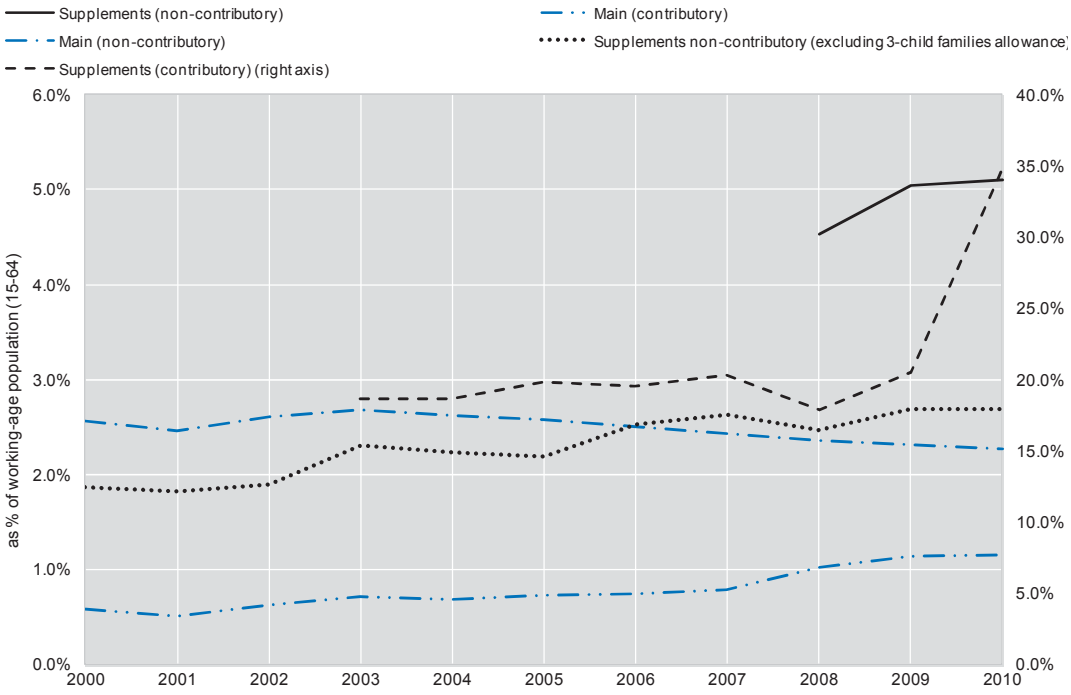


Notes: The results are based on the criteria: one adult earning 50% of the average wage (AW), four children in the household, with the youngest child being six months old. *i.* Parents are always assumed to be in full-time work except during the leave periods. Thus, couple-parent households have two full-time earners and single-parent families have one full-time earner. *ii.* Parents are assumed to take all available parental leave in one spell and at the earliest possible opportunity regardless of the amount of the payment (including unpaid leave). This may result in mothers starting maternity leave during late pregnancy (before birth). All countries with the exception of Greece provide a benefit that can replace earnings during parental leave. *iii.* The parent in single-parent families is assumed to be the mother for the purpose of maternity and parental leave payment calculations. *iv.* The two youngest children are assumed to be aged 2 years (24 months) apart. All subsequent older children are assumed to be aged 5 years (60 months) apart. *v.* Income tax calculations are presented in combination with tax credits. Thus, a positive number can result if total tax credits are greater than the total income tax paid. *vi.* All results are presented in national currency units.

Source: OECD Family Support Calculator 2008, *www.oecd.org/social/soc/benefitsandwagestax-benefitcalculator.htm*.

Figure 2.11. **Family-related benefits recipiency**

Beneficiaries as a % of working-age population (15-64), 2000-10



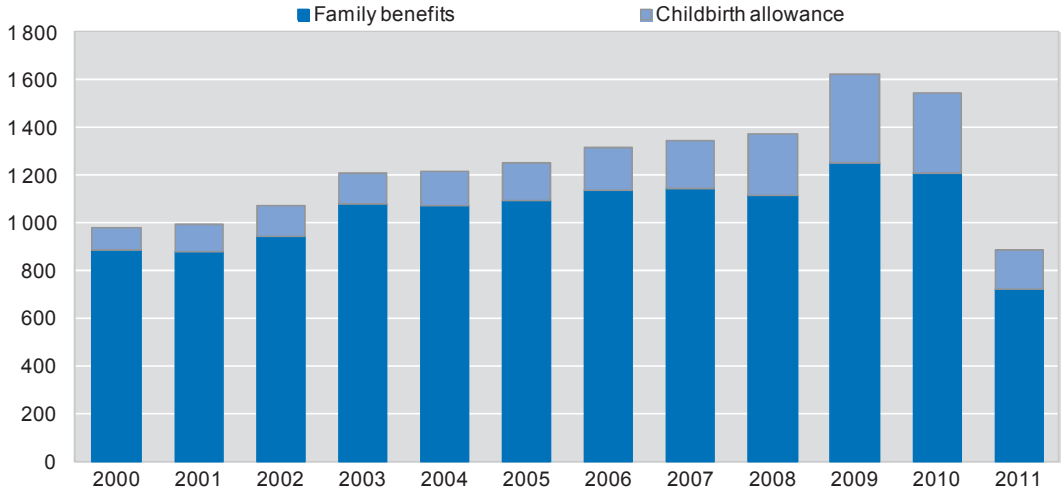
Notes: i) The programmes included in the data are the following: family allowance to employees/*Οικογενειακο επιδομα* (ΟΑΕΔ), family allowance/*Οικογενειακο επιδομα* for Ministry of Defence and the OAED from 2003, seamen family allowance, multiple children benefit for three children families, large family allowance/*πολυτεκνικο επιδομα*, third child allowance/*επιδομα τριτου τεκνου*, lump sums for families (for third child and above)/*επιδομα τριτεκνων οικογενειων*, financial support for children without fathers, financial assistance to low-income families with minor children, financial assistance to low-income families in isolated areas, life pension for mothers with four or more children/*ισοβα συνταξη*, maternity benefit for working uninsured mothers, benefit of childbirth/*Επίδομα μαιευτικής περίθαλψης*, benefit of maternity/*Επιδόματα μητρότητας*, childbirth allowance, benefit for maternity + childbirth (if in private hospital), maternity allowance for seamen, seamen childbirth allowance. *ii)* The results include the beneficiaries of the main pensions but not the supplements to avoid possible double counting. *iii)* The data is missing for the supplements provided (non-contributory) for 2000-03. Also, we have provided data for non-contributory supplements for 2008-10 as the rest has not been provided.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Expenditure on family benefits has, however, risen steadily over the last decade

Figure 2.12. **Spending on family benefits**

Breakdown of expenditure by category, 2000-2011 (EUR millions)



Notes: i) Two main categories within the family benefits have been identified: family benefits and childbirth allowance. *ii)* The programmes included in the data are the following: family allowance to employees/*Οικογενειακο επιδομα* (ΟΑΕΔ), family allowance/*Οικογενειακο επιδομα* complete only from 2002, seamen family allowance, multiple children benefit for three children families, large family allowance/*πολυτεκνικο επιδομα*, third child allowance/*επιδομα τριτου τεκνου*, lump sums for families (for third child and above)/*επιδομα τριτεκνων οικογενειων*, financial support for children without fathers, financial assistance to low-income families with minor children, financial assistance to low-income families in isolated areas, life pension for mothers with four or more children/*ισοβα συνταξη*, maternity benefit for working uninsured mothers, benefit of childbirth/*Επίδομα μαιευτικής περίθαλψης*, benefit of maternity/*Επιδόματα μητρότητας*, childbirth allowance, benefit for maternity + childbirth (if in private hospital), maternity allowance for seamen, seamen childbirth allowance. *iii)* The data for some existing programmes, third child allowance (*επιδομα τριτου τεκνου*) and multiple children benefit for three children families, have been interpolated at 200 000 000 for 2000-07. This was carried out in order to obtain a better picture of the situation.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Disability benefits

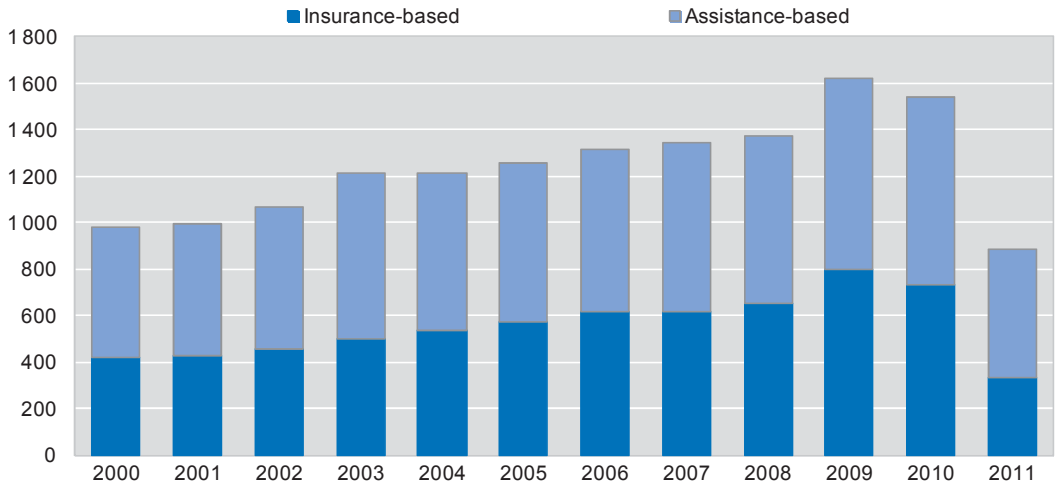
Disability benefits are especially complex and inefficient

Disability benefits are complex

The current system of disability benefits is complex, with numerous and overlapping categories of disability. Disability benefits have a large coverage and relatively high levels in Greece in comparison to other social benefits. There are a large number of cash benefits for the disabled. The disability benefit system recognises a total of 35 categories of disabled (including 10 different social assistance schemes for blind people, e.g. blind workers, blind pensioners, blind children in special schools, and 4 different categories for deaf and mute).

Figure 2.13. **Spending on family benefits (2000-2011)**

EUR millions



Notes: i. The programmes included in the data are the following: family allowance to employees/*Οικογενειακο επιδομα* (ΟΑΕΔ), family allowance/*Οικογενειακο επιδομα* complete only from 2003, seamen family allowance, multiple children benefit for three children families, large family allowance/*πολυτεκνικο επιδομα*, third child allowance/*επιδομα τριτου τεκνου*, lump sums for families (for third child and above)/*επιδομα τριτεκνωυ οικογενειων*, financial support for children without fathers, financial assistance to low-income families with minor children, financial assistance to low-income families in isolated areas, life pension for mothers with four or more children/*ισοβα συνταξη*, maternity benefit for working uninsured mothers, benefit of childbirth/*Επίδομα μαιευτικής περίθαλψης*, benefit of maternity/*Επιδόματα μητρότητας*, childbirth allowance, benefit for maternity + childbirth (if in private hospital), maternity allowance for seamen, seamen childbirth allowance. *ii.* The data for some existing programmes, third child allowance (*επιδομα τριτου τεκνου*) and multiple children benefit for three children families, have been interpolated at 200 000 000 for 2000-07. This was carried out in order to obtain a better picture of the situation.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Most social insurance funds provide both contributory disability allowances and disability pensions. Depending on the insurance fund, the eligibility conditions and rates of different benefits, and even the benefits themselves, can vary considerably. Following the SILC methodology, these benefits are grouped into three broad families of benefits:

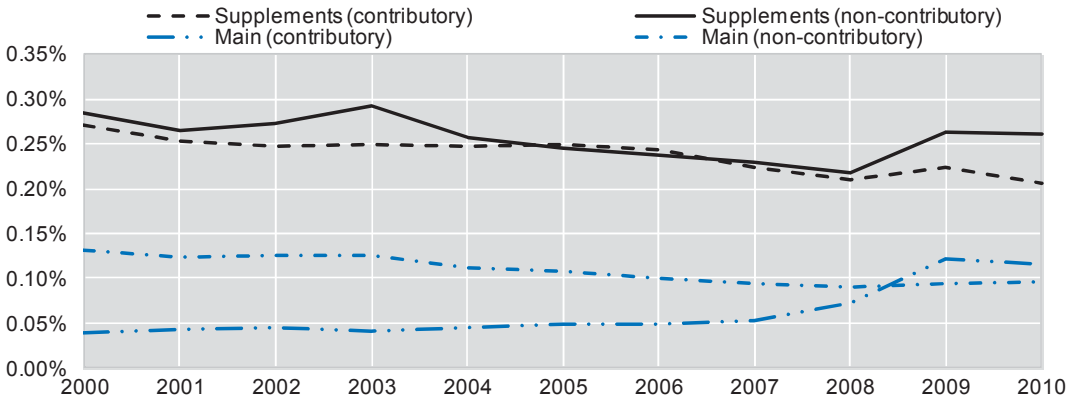
- Disability pensions. Disability pensions are on average EUR 570 per month, on average paid 14 times per year over 2009.[4]
- Benefit for persons with special needs. This benefit is EUR 420 per month, paid on average 14 times per year over 2009.
- Other benefits/allowances.

Non-contributory disability benefits are also numerous and heterogeneous. In many cases, the target of the benefit is a specific disease or condition. These benefits are grouped according to the SILC questionnaire as follows:

- Care allowance for incapacitated persons. This is on average EUR 390 per month, paid during 12 months in 2009.
- Nutrition allowance for people suffering kidney disease. This is on average EUR 229 per month, also paid during 12 months in 2009.
- Other benefits/allowances.

Figure 2.14. **Family-related expenditure (2000-10)**

% of GDP



Notes: i. The programmes included in the data are the following: family allowance to employees/*Οικογενειακο επιδομα* (ΟΑΕΔ), family allowance/*Οικογενειακο επιδομα*, seamen family allowance, multiple children benefit for three children families, large family allowance/*πολυτεκνικο επιδομα*, third child allowance/*επιδομα τριτου τεκνου*, lump sums for families (for third child and above)/*επιδομα τριτεκνων οικογενειων*, financial support for children without fathers, financial assistance to low-income families with minor children, financial assistance to low-income families in isolated areas, life pension for mothers with four or more children/*ισοβα συνταξη*, maternity benefit for working uninsured mothers, benefit of childbirth/*Επίδομα μαιευτικής περίθαλψης*, benefit of maternity/*Επιδόματα μητρότητας*, childbirth allowance, benefit for maternity + childbirth (if in private hospital), maternity allowance for seamen, seamen childbirth allowance. *ii.* The data for some existing programmes, third child allowance (*επιδομα τριτου τεκνου*) and multiple children benefit for three children families, have been interpolated at 200 000 000 for 2000-07. This was carried out in order to obtain a better picture of the situation.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Disability benefits cover 500 000 beneficiaries (main income-replacement only) according to administrative data. Based on surveys, only half of beneficiaries are self-declared having a reduced capacity to perform activities and average household income is EUR 7 300 in 2009.

Disability benefits are also poorly controlled

This is also one of the most problematic areas of social spending in terms of the adequacy of control mechanisms. Currently, approximately half of the self-declared disabled get a benefit in Greece, compared to 35% in France and 26% in Portugal (including social assistance and unemployment). The newly established National Register of Beneficiaries of social and welfare benefits (Box 1.3), which includes all beneficiaries of invalidity benefits, is an important step towards strengthening control mechanisms. Its effectiveness will depend in part on the extent to which the data and information collected in the registry is used by control institutions as well as the degree to which controls bring about necessary adjustments in the provision of benefits.

Disability pensions go to a significant proportion of the working-age population

As in many countries (including France and Portugal), over 60% of disability benefit recipients (either insurance- or assistance-based) are over 50. This situation is unlikely to improve following the recent pension reform, without adequate gate-keeping. There are probably margins for tighter control and activation in this category of benefits in the future: one disability benefit recipient out of four claims no limitation due to health

problems (twice as much as in Portugal), and only 5% of beneficiaries are working (compared to 24% in France).

Almost 4% of the working-age population (or 288 000 persons) received a disability pension from one of the three main social funds IKA-ETAM, OGA and OAEE alone in 2011, for a total cost exceeding EUR 2.1 billion – this represented an average annual pension of EUR 7 611 per person. One out of six OGA pensioners received a disability pension.

The benefits are not provided to compensate for extra costs or income losses related to the health condition, and are not means-tested. Without undermining legitimate claims and existing legal obligations, it would be advisable to consider a more targeted approach to the provision of disability benefits.

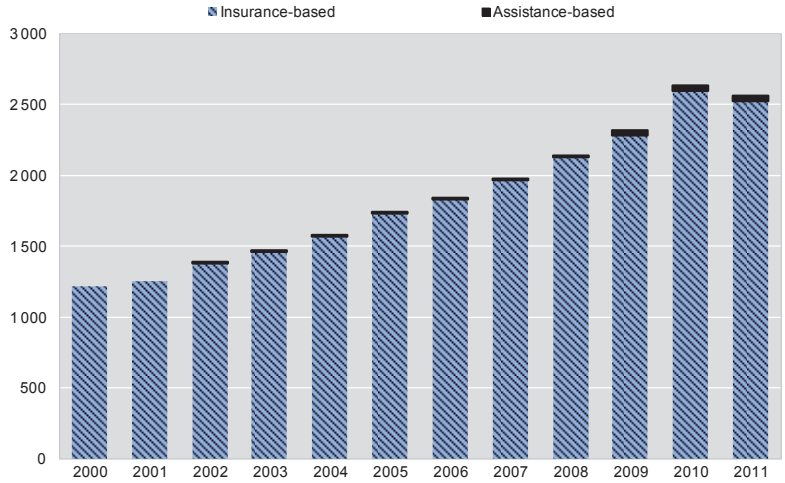
Large numbers of disabled persons out of the workforce may raise serious challenges: substantial expenditures on the government budget for years ahead, loss of income from taxes for the state and reduced income and increasing risk of poverty for the disabled person and his/her family. Experiences from programmes in several European countries trying to reintegrate disability pensioners into the workforce show poor results. Once disability pensioners are out of the workforce, they are likely to stay there.

Expenditure on disability benefits is generally insurance-based, but non-contributory benefits have risen steeply

Figure 2.15 shows that expenditure on disability is nearly all insurance-based.

Figure 2.15. **Spending on incapacity-related benefits (2000-2011)**

EUR millions



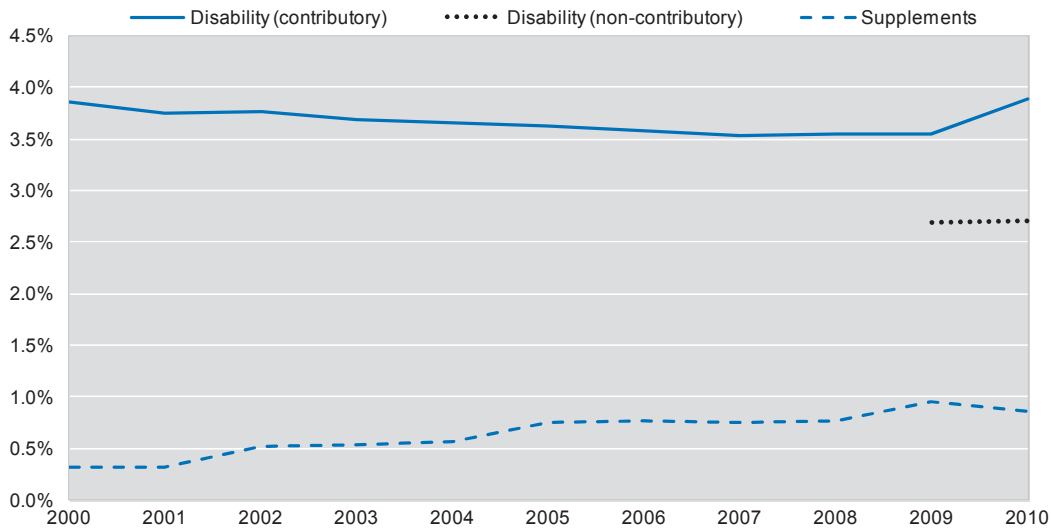
Notes: i. The programmes included in the data are the following: disability pension due to illness (Συνταξη αναπηριας απο κοινη νοσο) or work accident (Συνταξη αναπηριας απο εργατικο ατυχημα – Κοινο ατυχημα), no age limit pension for persons with handicapped children or spouses/Συνταξη γηρατος χωρις οριο ηλικιας, total invalidity pension, benefit for non-residential care (paraplegic and tetraplegic), invalidity pension due to blindness/Προσαυξηση στο ποσο της συνταξης γηρατος λογω τυφλοτητας, supplementary invalidity pension to pensioners due to full incapacity/Προσαυξηση στο ποσο της συνταξης λογω απολυτης αναπηριας μονο στους συνταξιουχους κυριας συνταξης αναπηριας, support disability allowance (allowance for respiratory problem, severe mental retardation, paraplegic and tetraplegic, mobility allowance, Hansen's disease, blood diseases, Cerebral Palsy, deafness, blindness, severely disabled), financial assistance for people having received transplants (kidneys, heart, etc.) for better food quality/διατροφικό επίδομα στους νεφροπαθεις καθώς και στους μεταμοσχευμενους. *ii.* The results do not include any paid sick leave as the data provided was incomplete.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Figure 2.16 shows the steep rise in non-contributory disability benefit since 2008.

Figure 2.16. **Incapacity-related recipiency (2000-10)**

Beneficiaries as a % of the working population (15-64 years old)



Notes: i. The programmes included in the data are the following: disability pension due to illness (*Συνταξη αναπηριασ απο κοινη νοσο*) or work accident (*Συνταξη αναπηριας απο εργατικο ατυχημα – Κοινο ατυχημα*), no age limit pension for persons with handicapped children or spouses/*Συνταξη γηρατος χωρις οριο ηλικιας*, total invalidity pension, benefit for non-residential care (paraplegic and tetraplegic), invalidity pension due to blindness/*Προσαυξηση στο ποσο της συνταξης γηρατος λογω τυφλοτητας*, supplementary invalidity pension to pensioners due to full incapacity/*Προσαυξηση στο ποσο της συνταξης λογω απολυτης αναπηριας μονο στους συνταξιουχους κυριας συνταξης αναπηριας*, support disability allowance (allowance for respiratory problem, severe mental retardation, paraplegic and tetraplegic, mobility allowance, Hansen's disease, blood diseases, Cerebral Palsy, deafness, blindness, severely disabled), financial assistance for people having received transplants (kidneys, heart, etc.) for better food quality/*διατροφικό επίδομα στους νεφροπαθεις καθώς και στους μεταμοσχευμενους*. *ii.* The data for the disability benefits (non-contributory) is not presented as a large number of data for 2000-08 is missing for the support disability allowance (allowance for respiratory problems, severe mental retardation, paraplegic and tetraplegic, mobility allowance, Hansen's disease, blood diseases, Cerebral Palsy, deafness, blindness, severely disabled). *iii.* The results include the beneficiaries of the main pensions but not the supplements to avoid possible double counting. The results do not include any paid sick leave as the data provided was incomplete.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12.

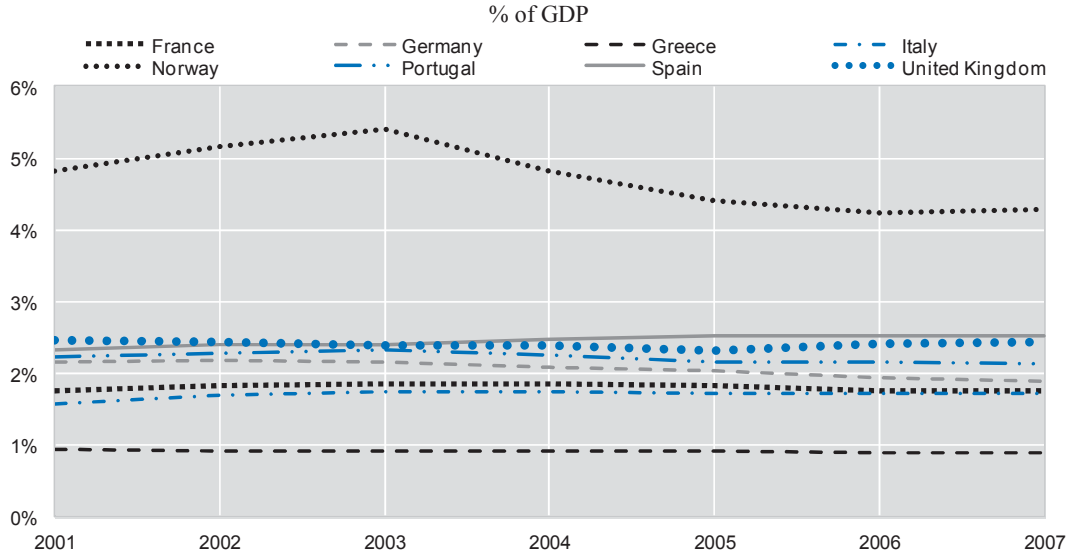
Disability benefits are low in international comparison

Figure 2.17 shows that Greece ranks the lowest in international comparison on expenditure as a percentage of GDP for disability benefits. Expenditure in 2001-07 was just below 1% of GDP, compared with 2-5% for the comparator countries.

Expenditure on disability benefits has, however, risen steadily

Figure 2.18 shows that there has been a steady rise since 2000 in expenditure on disability-related benefits, mainly on disability pensions.

Figure 2.17. **Incapacity-related social expenditure (2001-07)**

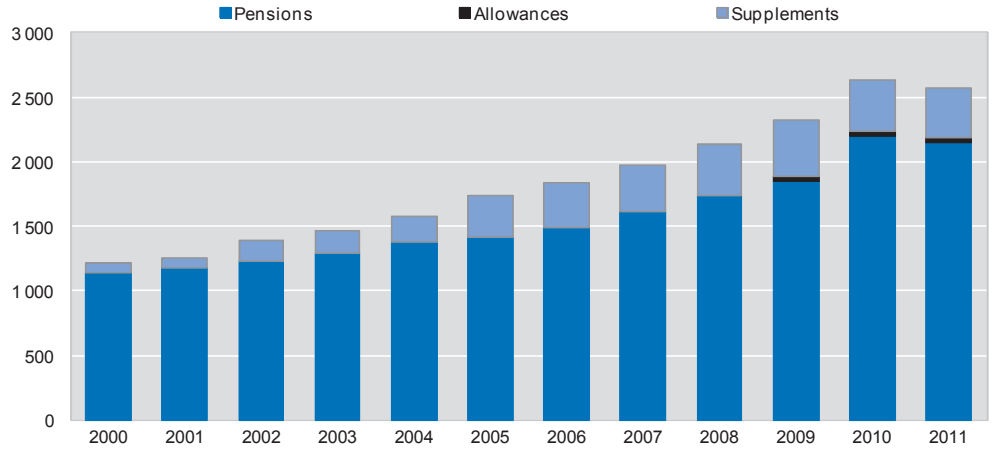


Note: The data represented above includes all incapacity-related benefits, both cash and in-kind, disability pensions, paid sick leave, residential care and other benefits.

Source: *OECD Statistical Database* (SOCX), doi: *10.1787/socx-data-en*.

Figure 2.18. **Spending on incapacity-related benefits**

Breakdown of expenditure by category, 2000-2011 (EUR millions)



Notes: i. The programmes included in the data are the following: disability pension due to illness (*Συνταξη αναπηριας απο κοινη νοσο*) or work accident (*Συνταξη αναπηριας απο εργατικο ατυχημα – Κοινο ατυχημα*), no age limit pension for persons with handicapped children or spouses/*Συνταξη γηρατος χωρις οριο ηλικιας*, total invalidity pension, benefit for non-residential care (paraplegic and tetraplegic), invalidity pension due to blindness/*Προσαυξηση στο ποσο της συνταξης γηρατος λογω τυφλοτητας*, supplementary invalidity pension to pensioners due to full incapacity/*Προσαυξηση στο ποσο της συνταξης λογω απολυτης αναπηριας μονο στους συνταξιουχους κυριας συνταξης αναπηριας*, support disability allowance (allowance for respiratory problems, severe mental retardation, paraplegic and tetraplegic, mobility allowance, Hansen's disease, blood diseases, Cerebral Palsy, deafness, blindness, severely disabled), financial assistance for people having received transplants (kidneys, heart, etc.) for better food quality/*διατροφικό επίδομα στους νεφροπαθεις καθώς και στους μεταμοσχευμενους*. *ii.* The results do not include any paid sick leave as the data provided was incomplete. *iii.* The data for the support disability allowances (allowance for respiratory problems, severe mental retardation, paraplegic and tetraplegic, mobility allowance, Hansen's disease, blood diseases, Cerebral Palsy, deafness, blindness, severely disabled) are missing for 2000-08.

Source: Estimates based on data provided by the Greek authorities to the OECD 2011-12 (administrative data).

Housing benefits

Housing benefits support construction and rent, and do not address the growing issue of homelessness

Most housing benefits are targeted at rent subsidy

Data collected by the OECD from the Greek authorities show that in 2009 housing benefits represented about EUR 255 million, i.e. 0.11% of GDP. About 66% (EUR 167 million) of this expenditure corresponds to the main housing benefit (rent subsidy), supplied by the housing fund "OEK". This benefit goes to 105 200 families, covering 4-5% of children. The rest of the benefit-related expenditure corresponds to the aggregation of other benefits, like the OEK interest rate subsidy programme and the housing benefit for non-insured elderly. The total cost of OEK is about EUR 600 million (0.25% of GDP), which also includes other types of transfers and subsidies, as well as a construction programme. In 2012, the OEK was closed down. The settlement of the obligations and rights of the OEK was transferred to a special committee (PEDE).

The issue of homelessness is hardly addressed

There is no effective handling of the rising problem of homelessness or of poor families under the threat of becoming homeless because they are unable to pay their rent. A cross-ministerial commission has been convened to propose a precise definition of homelessness, as a first step towards the provision of shelters.

Housing benefits less often reach families with children in Greece (2% of children live in households receiving benefits) than in France or Portugal (39% and 13% of children, respectively), and many recipients of housing benefits are working (over 40%). Lone parents seldom receive this type of benefit (e.g. 12% of lone parents with one child, compared to 13% in Portugal and 72% in France). Consistently, housing benefits appear poorly targeted at low-income households: 60% of beneficiaries have income at or above the median income (34% in France).

Conclusions and recommendations

Conclusions

- The unemployed are an especially vulnerable group. Unemployment benefits are generally conditional on insurance contributions, are low in international comparison, with limited take-up. The unemployment rate has risen sharply in line with negative GDP growth. There is a rising proportion of long-term unemployed, which reached 45% in 2011 and could reach or exceed 60%. The young unemployed are an especially vulnerable group, who mostly do not qualify for benefits, and there has been a sharp increase in youth unemployment since 2008. Poverty of the unemployed has risen, with the long-term unemployed and youth especially vulnerable.
- Families, especially lone parents, need more effective support. Family benefits were numerous, but thinly spread. The benefit system that was in place until recently mainly supported large families. Family benefits aimed to increase fertility and essentially targeted households with three children and more, which

nearly all receive benefits, compared with only 10% of lone parents. There is low support for poor families in international comparison.

- Disability benefits are complex and inefficient. There are numerous and overlapping categories of disability, and relatively large coverage and expenditure for this category. The benefits are poorly controlled, although the new National Register of Beneficiaries of social and welfare benefits is an important step towards addressing this problem. A significant proportion of the working-age population receives disability pensions. Large numbers of disabled persons out of the workforce may raise serious challenges. Expenditure on disability benefits is rising steadily.
- Housing benefits support construction and rent, little is available for the homeless. Most housing benefits were targeted at rent subsidy. There is little effective handling of the rising problem of homelessness. Compared with other countries, housing benefits reach out less to families, and seldom cover lone parents.

Recommendations

- Extend unemployment assistance and its duration, based on a means test. Specifically, extend unemployment benefits by an additional 12 months for existing eligible unemployed, and cover those registered unemployed with no initial entitlement for the same period (i.e. 12 months), based on means testing.

NOTE: the extension of unemployment benefits for existing eligible unemployed will be implemented in 2014.

- Consider at the same time the development of workfare and active labour market programmes, through which registered unemployed people not eligible for any benefit can receive some support if they participate in a temporary form of civil service or national programme. Promote structured participation in training and educational programmes for people in need of new skills in order to prepare them for a restructured economy.
- Close existing family benefits and replace them with a new single means-tested benefit. Close the current family programmes and replace them with a new means-tested family programme. Create a single means-tested family allowance financed through general taxation, with rates depending on the number of children. The allowance should replace, at no additional cost, the present benefits for multiple children families, the contributory benefit for families provided by the OAED, the financial assistance to low-income families with minor children provided by the Ministry of Finance, as well as the childbirth lump-sum benefit.
- Reform the governance of the family benefit system. Put the management of the new programme with the Ministry of Labour, Social Security and Welfare, distributed by the OGA. Centralise payments and the management of applications in one single organisation nationwide.

NOTE: the reform of family benefits has been launched. Existing benefits for large families were replaced with a new benefit which is provided according to the family's income. The Ministry of Labour, Social Security and Welfare is progressively taking primary responsibility for the management of the new benefit system.

- Consider replacing existing disability benefits with a means-tested benefit compatible with existing legal and practical constraints and base disability benefits and pension levels to the extent possible on the ability to work, in order to encourage activity. Ensure that there are incentives to limit the inflow into disability schemes: workers (through the level of benefits and some conditionality on regular health tests), firms (through financial responsibility in case of prolonged sickness) and public authorities.
- Introduce a new means-tested housing benefit. Complete the phasing out of the housing benefits provided by the OEK and the OEE and replace all existing housing benefits with a new means-tested benefit, or only for households below the threshold with at least one child. Place this under the supervision of the Ministry of Labour, Social Security and Welfare and the management of the OGA.

Notes

1. The monthly level of unemployment benefit was reduced to EUR 360 in March 2012 to adapt it to the reduction in the minimum wage introduced in February 2012. The simulations presented in the review, however, are based on the level of benefits prior to this change (i.e. EUR 460). See the "Approach and main results" section in Annex D (page 123).
2. Unemployment benefits in OECD countries are generally for periods of unemployment between jobs, and are insurance-based. Social benefits may cover the unemployed who are not insured.
3. OECD estimates based on trends in other countries, and taking account of the already high level of unemployment in Greece.
4. Pension payments were reduced to 12 times per year following the first Memorandum of Understanding Greece signed with the Troika in 2010.

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Chapter 3

Towards more effective benefit system design in Greece

Preamble: this chapter has not been updated to take account of the most recent reforms. Please see Annex B for an overview of these reforms.

This chapter starts with an explanation of the cost-benefit analysis of reform scenarios, based on means testing, which has been carried out by the OECD. The simulations of different reform options consider their expected impact on fiscal consolidation and on the poverty rate. The chapter then proposes further, more detailed criteria, against which reform options should be assessed by Greece: practical feasibility, legal obligations and operational costs and savings. The chapter goes on to consider the issues around the introduction of means testing. Finally, the relationship between social welfare funding and taxation is highlighted.

Introduction

Greece needs to define a clear reform path and pay careful attention to the detail of reform design. The OECD's cost-benefit analysis of reform options strengthens the case for means testing whilst retaining distinct programmes. However, further analysis based on clear criteria is needed in order to define in more detail the best reform path. It will also be important for Greece to review the funding mechanisms for social programmes in order to even out current distortions which mean that government revenue partly supports social insurance. The impact of taxation on redistributive goals will also need attention.

Reform options

The OECD has carried out a preliminary cost-benefit analysis of reform options

The OECD has carried out costing of reform options aimed at rebalancing the social welfare system, taking account of the issues raised by the current system and analysed in the previous chapter, especially the issue of poor overall targeting of benefits. Annex D presents the methodology, its caveats and detailed results.

The analysis assumes that the Greek social welfare system should become anchored in means testing, as recommended in the previous chapter.

The analysis is also based on a framework (as analysed in Chapter 2) that retains distinct programmes for different groups. There is a choice between investing effort in reforms that are based on the continuation of distinct programmes for different types of beneficiaries (unemployed, disabled, etc.) even if the programmes themselves are reengineered, and investing effort in the development of a single universal means-tested benefit.

This report does not recommend the second option, because of the length of time, transitional cost and administrative difficulties of such a radical development in the current Greek context. The creation of a unified scheme would raise short-term costs due to the transition from the old system, which would need to be dismantled, to the new one. The experience with such reforms in other OECD countries shows that creating a unified system is costly in the short term, before savings are possible, and that the reform takes several years to implement (Box 3.1). In OECD experience, universal benefit systems risk generating high levels of structural unemployment if the control systems are not in place to adjust for the incidence of undeclared work. They also risk not being able to target benefits effectively to those most in need. In Greece, it will be especially hard to administer a benefit based on the sole criteria of earned income, given the significant incidence of undeclared work (about 25%). There would also be negative fiscal consequences if the system cannot control for people who collect benefits and work at the same time. Cases of fraud and abuse in the current schemes are widespread, and income testing has proved a major challenge even for simpler schemes, implying the need for progress on combating evasion and fraud before tackling such a reform. Annex G considers means testing in more detail.

Significant savings are possible

Achieving the saving target of 1.5% of GDP might increase poverty. Table 3.1 (based on Table D.1) shows that significant savings are possible by reforming the social welfare programmes. However, these savings may fall short of the current target of 1.5% GDP, if the reforms are to sustain a balance between savings and social objectives (at the very

least, not raising the poverty rate). The only reform that would clearly achieve the current target would be option 1.1 (means testing of nearly all social programmes by targeting the poorest 20%). However, this option would increase the poverty rate, already very high, by 1.6 percentage points.

Box 3.1. **Transitioning to a universal means-tested benefit in the United Kingdom**

The United Kingdom is introducing a Universal Credit that will provide a basic amount plus additional amounts for disability, caring responsibilities, housing and children. The Universal Credit will replace most means-tested support, namely the Housing Benefit, Child Tax Credit and Working Tax Credit, Income Support, means-tested Jobseeker's Allowance, and the means-tested Employment and Support Allowance). The new scheme was launched in 2010, is expected to be applied to new claims in October 2013 and be progressively phased in for existing benefits and tax credit recipients.

The United Kingdom represents a mature system which has developed and reformed in stages with the Universal Credit reform representing the most recent stage in an evolution. It does not necessarily represent the best pathway for other countries. Moreover, all but one of the programmes that the Universal Credit is replacing are already administered by the same ministry, the Department for Work and Pensions.

Source: Department for Work and Pensions and HM Treasury (2010), "Universal Credit White Paper", Department for Work and Pensions, London; National Audit Office (2011), "Means Testing", National Audit Office, London; Department for Work and Pensions (2012), "Explanatory Memorandum Universal Credit Regulations", Department for Work and Pensions, London.

Significant savings might still be found without increasing poverty. Table 3.1 highlights where important savings might be still found without a negative effect on the poverty rate, and often with a significant fall. The table draws out the options for reform that merit further attention in the view of the OECD (in bold in Table 3.1). The options which appear to be the most interesting to pursue in terms of achieving a balance between fiscal saving and poverty reduction are the following:

- Targeting the poorest 20% for social programmes, if disability pensions are excluded, would generate GDP savings of up to 1.2%, with a neutral effect on the poverty rate (option 1.2).
- If the poorest 25% are targeted this would generate savings of up to 1.3% of GDP, with a neutral effect on poverty (option 1.3).
- Targeting the poorest 20% with extended unemployment benefits would cost 0.2% of GDP but with the significant effect of reducing the poverty rate by 1.3 percentage points (option 2.1).
- Targeting the poorest 30% for family benefits would save 0.4% of GDP and reduce the poverty rate by 0.1 percentage points (option 4.3).
- Targeting the poorest 30% for disability benefits would save 0.4% of GDP and reduce the poverty rate by 0.2 percentage points (option 5.2).

Table 3.1. **Summary of options for reform**

Proposed reform	Fiscal impact	Poverty impact
1. Means test (nearly) all social programmes[1] – Restrict access to social programmes to the poorest income brackets before transfers. – Current programmes are NOT dismantled as such, but are means tested.	*Option 1.1*	
	Targeting the 20% poorest would generate saving of up to 1.5% of GDP.	Targeting the poorest 20% would increase the poverty rate by 1.6 percentage points.
	Option 1.2	
	If disability pensions are also excluded from the aggregate, the saving from targeting the poorest 20% would be up to 1.2% of GDP.	**If disability pensions are also excluded from the aggregate, the effect on the poverty rate would be neutral.**
	Option 1.3	
	Targeting the poorest 25% would generate saving of up to 1.3% of GDP.	**Targeting the poorest 25% would be neutral for the poverty rate.**
2. Extend unemployment assistance based on means test Extend duration of unemployment benefits by an additional 12 months for existing eligible unemployed, and cover those with no initial entitlement for the same period, based on means testing.	***Option 2.1***	
	Targeting the poorest 20% with extended benefits would cost 0.2% of GDP.	**Targeting the poorest 20% with extended benefits would reduce the poverty rate by 1.3 percentage points.**
	Option 2.2	
	If the benefit is only extended for those with at least six months of unemployment insurance behind them, the effect is neutral (there is no cost and no saving).	If the benefit is only extended for those with insurance, the poverty rate does not change or only very marginally downwards.
3. Replace existing housing benefit with a new means-tested benefit Close the current programme and replace with a new means-tested benefit, or only for households below the threshold with at least one child.	*Option 3.1*	
	Targeting the poorest 20% would cost 0.1% of GDP.	The poverty rate is reduced by 0.1 percentage points.
	Option 3.2	
	Under some scenarios where the benefit is adjusted to target family size, the fiscal effect is neutral.	Under some scenarios where the benefit is adjusted, depending on the assumptions, the poverty rate does not change or can rise by 0.2 percentage points.
4. Replace existing family benefits with a new single means-tested benefit Close the current family programmes and replace with a new means-tested family programme.	*Option 4.1*	
	Targeting the poorest 20% would save 0.4% of GDP.	Targeting the poorest 20% would raise the poverty rate by 0.4 percentage points.
	Option 4.2	
	If the benefit excludes lifelong benefit for mothers with more than three children this would save 0.3% of GDP.	If the benefit excludes lifelong benefit for mothers with more than three children this would raise the poverty rate by 0.4 percentage points.
	Option 4.3	
	Targeting the 30% poorest would save 0.4% of GDP.	**Targeting the 30% poorest would reduce the poverty rate by 0.1 percentage points.**
5. Replace existing disability benefits with a new single means-tested benefit Close the current disability programmes and replace with a new means-tested benefit.	*Option 5.1*	
	Targeting the 20% poorest would save 0.6% of GDP.	Targeting the 20% poorest would raise the poverty rate by 0.2 percentage points.
	Option 5.2	
	Targeting the 30% poorest would save 0.4% of GDP.	**Targeting the 30% poorest would reduce the poverty rate by 0.2 percentage points.**

Notes: i. The reform options which appear to be the most interesting to pursue are in bold. *ii.* The full calculations (Annex D) on which the summary tables are based, assess the effect of targeting under three scenarios: the population below each of the three income thresholds of 20%, 30% and 40%. The poorest 20% of the population are those with incomes (before transfers) which fall within the bottom 20% decile income bracket (and so on for the poorest 30%, 40%). *iii.* The calculations use a combination of sources: SILC, supplemented by the data collected from the Greek authorities by the OECD in 2011-12, and some other sources such as the Greece EUROMOD country report. *iv.* The calculations are based on data which can be two or three years old (for example SILC data is from 2009). *v.* Negative impacts (for costs and/or the poverty rate) may be underestimated if beneficiaries are under-declared in the databases used to construct the scenarios (as they probably are). *vi.* We assume no change in the contributions to social funds even though contribution-based benefits will be replaced by new targeted ones. *vii.* The poverty rate is the percentage of the population that falls below the poverty line. The poverty line uses the OECD standard, which is 60% of the median equivalised (adjusted for household size) disposable income before social transfers. *viii.* Taxation of benefits is not taken into account (because of inadequate information and recent changes). *ix.* No provision has

been made to take account of how households may adjust their behaviour on the labour market to new programme eligibility conditions (they may adjust their income). *x.* Some non take-up of benefits is assumed. The OECD averages between 40-80% for social assistance and 60-80% for unemployment benefit. Taking account of documented low Greek take-up of benefits, the assumption is 60% take-up for new means-tested benefits, and 70% for unemployment benefit. Adjusting up or down would change the fiscal impact in the same proportions. *xi.* There is no simulation of differential rates for benefits after targeting, which would decrease the level of benefits as disposable income gets closer to the eligibility threshold. If this is not done and the threshold for means testing is set close to the poverty line, some individuals above but close to the line would lose benefits after the reform and could fall below the poverty line, increasing the poverty rate (but we judge that this effect would be minor). *xii.* If poverty/unemployment rises, proposed reforms could be more costly than the simulations.

It is crucial to note that each proposed reform has been analysed independently of the others. This means that the costs/savings of several or all of these reforms cannot be simply added up, because there will be interactive effects. For example, the first reform (means testing of nearly all programmes) would impact the second (extending unemployment coverage) by raising the number of likely unemployment benefit applicants (those who would no longer be able to access the other programmes). Once reform choices have been made, there would be a need for further analysis to establish these interactive effects.

With this important proviso, the calculations suggest that an adjusted reform option 1 targeting the 25% poorest, together with reform option 2 (the unemployed) targeting the 20% poorest, combined with reform options 4 (families) and 5 (disabled) targeting the 30% poorest, would achieve the most positive effect both fiscally and for the poverty rate, with possible savings that meet the fiscal target, and a significant reduction in the poverty rate of over 1.5 percentage points. Table 3.1 summarises key aspects of Annex D, which needs to be read in order to gain a full picture and understanding of the OECD calculations.

Towards a reform package

Identifying the most appropriate reform package requires further analysis against a set of clear criteria

Reform options should be assessed against a range of criteria (Box 3.2). The first two criteria are embedded in Table 3.1: fiscal impact and impact on the poverty rate. Three other criteria are proposed.

First, the practical feasibility of the reforms needs to be assessed. Each option would also need to be carefully analysed in terms of feasibility of practical implementation in the near future. For all options, it is assumed that means testing could be implemented with considerable precision, and that inappropriate behaviour would be minimised (for example, it would be difficult for households to under-declare their income in order to be eligible for means-tested benefits). This is a somewhat heroic assumption in the current Greek context. The capacity of the administration (including not least at the local level) to administer means testing effectively, when there is evidence that tax evasion through undeclared income is an issue (for example, declared income is about 10% higher in household surveys than in the tax records). Underestimating income is likely to be an especially important concern with farmers and independent workers. For this reform to yield the expected savings, it is crucial to have reliable information on income.

Practical and technical assistance of the international community could be provided, in order to enhance in-country capacity and activate existing resources, skills and knowledge. Technical assistance should be tailored to the capacity of the public administration to absorb support and adapt international experience to the Greek context.

For some of the reform options, there are further issues to be addressed, including existing entitlements, which would require careful assessment, a clear implementation roadmap and an estimate of the likely implementation costs. Thus, reform options 3, 4 and 5 (housing, family and disability benefits) each involve the closure of existing programmes, which if poorly handled would result in immense, if temporary, disruption. These issues can delay reform if not appropriately addressed, but they should not be regarded as an insurmountable barrier. Other OECD countries have successfully moved from contributory systems to systems that combine contributory and means-tested components. For example, the United Kingdom's Jobseekers' Allowance halved the entitlement for contributory benefits and introduced means-tested benefits that can be claimed by those who do not meet the conditions for contributory Jobseeker's Allowance or have exhausted the benefit. In the Netherlands, a means test has been introduced for survivor's' pensions.

Second, legal obligations at both the national, EU and international levels need to be carefully assessed so that the reform can be designed in a way that supports these obligations and can resist possible legal challenges. Reform will need to be designed around the rights of the citizens and the safety net that these legal instruments have put in place (Box 3.2).

Box 3.2. **Assessing national, EU and international legal issues**

National, EU and international legal instruments have contributed to establishing a socket of minimum social rights on which a possible reform of social protection needs to build. The following is by no means a comprehensive list of the legal instruments to be assessed, and only provides an indication of the legal challenges and opportunities that reform design will need to take into account.

Article 21 of the Greek Constitution provides for an obligation for the state to protect young people, the elderly and the disabled. It also grants the disabled the right to measures that ensure self-sufficiency, professional integration and participation in the social, economic and political life of the country. Any reform of the disability programmes would thus need to ensure that those who lack resources can enjoy these rights.

EU Directive 92/85/EEC provides for the right to receive maternity leave and to maintain employment rights during this period. Reform of social benefits will need to safeguard the right to maternity leave while ensuring that those in greater need can fully enjoy this right.

Article 34 of the Charter of Fundamental Rights of the EU provides for the right to social and housing assistance. The 2008 European Council conclusion calls for inclusive polices aimed at extending social protection to those who do not have access to safety nets. Reform will need to build on these instruments to safeguard basic social rights and extend benefits like unemployment assistance to those who are currently excluded.

The 2012 ILO Recommendation on National Floors of Social Protection calls for approaches to providing social protection that are efficient and effective in guaranteeing basic income security to those in need. Reform will need to ensure financial, fiscal and economic sustainability of national social protection floors taking into account the contributory capacity of different population groups.

Third, government operational costs and savings from reforms would also need to be examined. The calculations focus on government programme costs and savings. They do not, however, include government operational costs and savings of implementing the reforms, which can be divided into the transition costs of implementing the new system

and the ongoing costs and savings of administering the reformed social programmes when the system reaches a "steady state". On the cost side this would include costs such as staff time, hiring of experts, redundancies. On the savings side, this would include the savings from a more efficient system, linked to governance changes that are likely to be very significant in the medium to long term. These costs and savings cannot be estimated with any precision. However, improved governance (see Chapter 4) can be expected to have a significant positive impact. Finally, the timescales of different options would need to be assessed. Some reforms are likely to take longer than others. Feasibility studies, if there is time and opportunity to do these, should include timescales. The time needed for effective implementation would need to be assessed.

Box 3.3. **Identifying the most appropriate reform package: Criteria for further analysis**

The choice of the reform to pursue needs to take into consideration the complex social, fiscal, legal and governance context. Social, fiscal and legal consequences need to be evaluated in the light of the capacity constraints Greece is facing. To the extent possible, the costs and savings should be estimated for both government operational as well as programme expenditure, accounting for the administrative costs and savings as well as the impact on the provision of benefits. In addition, reforms can create costs and savings that are spread over a relatively long period of time.

Policy makers should therefore ideally carefully evaluate a series of key criteria in the search for the most appropriate reform package:

- Fiscal impact:
  - What are the potential budgetary savings?
  - What are the potential impacts of introducing means-tested programmes on the financing of contributory programmes?
- Impact on the poverty rate:
  - How would the overall poverty rate be affected?
  - Which social groups would experience a change in the poverty rate?
- Practical feasibility:
  - Can the proposed reform option be implemented given the existing administrative and data constraints?
  - Are there legal obligations that would need to be considered in the design of the reforms?
  - Do existing policies and programmes provide lessons and good practices that can be scaled up and relied on to design and roll out reforms?
- Implications for government operational costs/savings:
  - What are the costs of implementing the reforms (i.e. the costs of transitioning to a reformed social protection system and the costs of the system once it is in place)?
  - What are the savings created by a more efficient system?
- Timescales for implementation:
  - What is the timetable for implementation?
  - When would costs and savings take place?

Appropriate design will help reap the full benefits of means testing

Means testing is more effective in redistributing income, provides stronger support for social cohesion and higher net benefits to society. It can be, however, more demanding for the public administration. In particular, administrative costs can be high compared to universal benefits as reliable and timely information on applicants' income and assets is paramount (Box 3.4).

Box 3.4. **Benefits and costs of means testing**

The fiscal savings from the application of means testing can be very significant. For example, in the United Kingdom, where means-tested social benefits accounted for 2.7% of GDP in 2005 (compared to an OECD average of 1.5% of GDP), beneficiaries of the means-tested Working Tax Credit received, on average, GBP 3 173 per year in 2011. If this amount were provided universally, the cost would be more than 16 times the current expenditure. The UK government estimates that spending on means-tested transfers is more redistributive than other transfers, with possible additional social welfare benefits estimated at GBP 0.75 for every pound spent (National Audit Office, 2011).

Compared to universal benefits, means testing can entail greater administrative (running) costs. In the Netherlands, the government estimated that the administrative costs of means-tested social insurance accounted for 8% of total expenditure in 2000 (compared to 4% of total expenditure of non means-tested social insurance). In the United Kingdom, the Department for Work and Pensions estimates that maintaining existing claims for Pension Credit cost GBP 47 per claim in 2010-11, compared to GBP 17 for the non means tested State Pension. Appropriate design can reduce these costs.

Sources: Immervoll, H. (2010), "Minimum Income Benefits in OECD Countries: Policy Design, Effectiveness and Challenges", *OECD Social, Employment and Migration Working Papers,* No. 100, OECD Publishing, doi: *10.1787/218402763872*; National Audit Office (2011), "Means Testing", report by the Comptroller and Auditor General, HC1464, Session 2010-2012, National Audit Office, London; Van Oorshot, W. (2002), "Targeting Welfare: On the Functions and Dysfunctions of Means-Testing in Social Policy", in P. Townsend and D. Gordon (eds.), *World Poverty: New Policies to Defeat an Old Enemy*, The Policy Press, Bristol, United Kingdom.

OECD member countries have chosen different design features depending on fiscal constraints, implementation capacity and programme objectives. Annex G provides more details.

Greek policy makers will need to evaluate carefully:

- At what level, individual or household, is the income considered?
- Which kind of income is taken into consideration?
- How is the information on income obtained and updated? And
- In which way are benefits withdrawn as income increases?

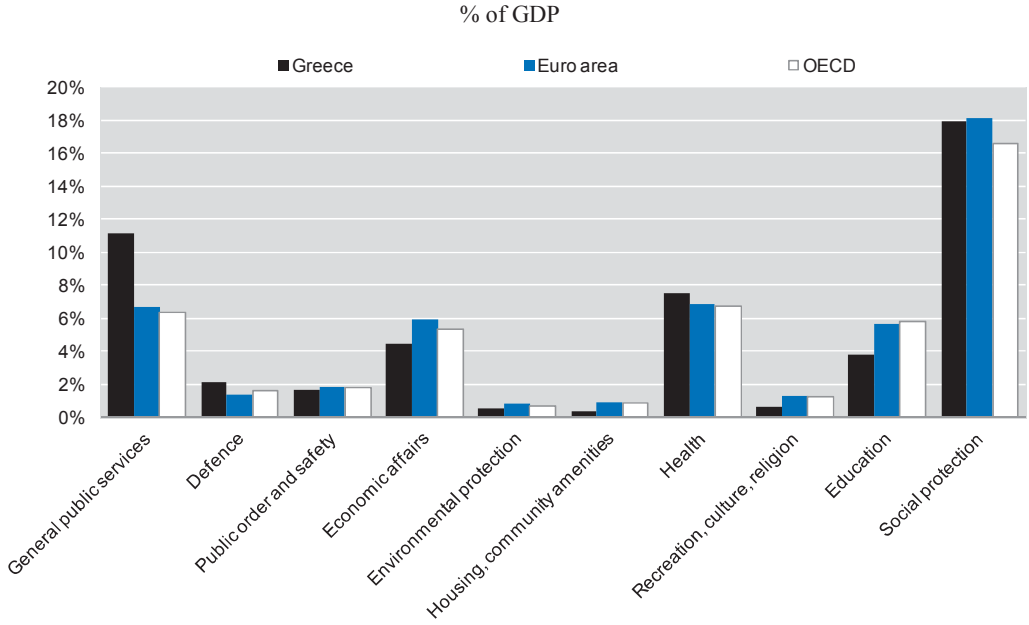
Different options for each of these features entail different levels of complexity and a trade-off between administrative costs and programme effectiveness. In particular, the impact of means testing on the incentives to work and save will need to be considered very carefully. Entitlement to a means-tested benefit depends on income. Accordingly, a rise in income can entail a reduction or withdrawal of the benefit. Beneficiaries could thus avoid taking up employment or reduce their savings to maintain the same level of benefits if they estimate that the advantages of being employed or saving more do not compensate for the loss in benefits. Avoiding withdrawing benefits too abruptly above a certain

income can help address these disincentives. However, smoother rates at which benefits are withdrawn (i.e. the phase-out rates) will require more refined controls and benefit revisions. It will therefore be key to support the transition to means testing with an appropriate capacity-building effort that would involve capacity support from OECD countries with substantial experience in designing and implementing means-tested programmes.

It may be necessary to widen the search for fiscal savings to other government programmes

The possible difficulty of finding enough savings from social welfare programmes implies the need to consider a rebalancing of the savings expected of different programmes within the overall fiscal consolidation envelope. The issue falls outside the strict scope of this report. One possibility is rebalancing to put more of the savings effort on to the elderly, who appear relatively more advantaged than the categories covered in this report. However, this possibility could have adverse social consequences, as the recent pension reforms may increase the poverty rate for the elderly. Other programmes beyond social welfare and pensions may need to be considered. For example, Greece spends more on general public services, defence and health than the euro area and the OECD averages, largely due to greater than average expenditures to service government debt (5.8% of GDP) and general services (4.1% of GDP) (Figure 3.1). Annex F includes more details on the different categories of government expenditures.

Figure 3.1. **Structure of general government expenditures by function (2010)**



Note: Expenditure data are disaggregated according to the Classification of the Functions of Government (COFOG) developed by the OECD. General public services include executive and legislative organs, financial and fiscal affairs, external affairs, foreign economic aid, general services, basic research, research and development, public debt transactions, transfers of a general character between different levels of government. Economic affairs include general economic, commercial and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, manufacturing and construction, transport and communication. Social protection includes sickness and disability, old-age, survivor's, family and children, unemployment, housing. See Table F.1 for a complete list of the sub-groups for each function.

Source: OECD *National Accounts Database* (2012), doi: *10.1787/na-data-en*; OECD (2011), *Government at a Glance 2011*, OECD Publishing, doi: *10.1787/gov_glance-2011-en*.

Social welfare funding and taxation

Funding mechanisms for social welfare and insurance require attention, and government revenues need to be clearly directed at social welfare

As matters stand, social insurance is partly funded by government revenues. Social insurance is provided through a number of social security funds (SSF). SSFs generally restrict benefits to contributors. SSFs are financed by contributors, but also partly financed by general tax revenues through substantial state transfers. To a large extent, these transfers are not related to a particular use. They cover the gap between the contributions collected by the funds and their expenditure.

In 2011, these state transfers exceeded 7% of GDP (about EUR 15 billion), which compare with about 10% of GDP (EUR 21 billion) of employer and employee contributions (Table 3.2). Their largest recipients were the OGA (the agricultural insurance organisation), the IKA-ETAM (the social insurance organisation for private sector employees) and two of its constituent funds the TAP-OTE and the TAP-DEI (the respective funds of the national telecommunications and power companies), the OAEE (the social security organisation for the self-employed) and the NAT (the organisation for marine employees).

Table 3.2. **Main revenues of social security funds (2009)**

EUR millions

	Total	Main pensions	Supplementary and lump-sum pensions	Healthcare
Earmark for EKAS	1 220	1 220	0	0
"Social resources"	1 839	1 370	202	268
"State grant"	12 791	11 178	134	1 479
Total state budget transfer	15 850	13 768	336	1 747
Contributions				
Employee	11 363	6 046	3 028	2 290
Employer	10 040	6 283	1 484	2 272
Total SSF revenues	37 254	26 097	4 848	6 308

Note: The state grant for healthcare under the IKA-ETAM (total about EUR 5.5 billion) has been allocated to main pensions in this table, while in practice it is intended to cover both pensions and health.

Source: Estimates based on data provided by Greek authorities.

Some funds, in addition, are partly financed through mandatory levies on economic transactions, including media advertising (which represents about a third of the overall revenues of the ETAP-MME, the fund for journalists and other media workers) and building permits (in the case of the fund for engineers). Importantly, these transfers are often called "social resources", and considered neither as taxes nor as state grants by the funds. This, however, does not correspond to international practice, for which these levies are a form of tax.[2]

The Greek government has also used some SSFs as vehicles for policies that do not appear to still meet any clear social welfare goals, such as the financing of trade unions or support to the tourism industry through the Workers Fund Organisation (OEE). Some social insurance benefits did not seem to play any obvious social protection role. These were, in particular, the housing benefits provided by the OEK. Various "recreational"

benefits were also provided by the OEE, such as tourism, excursion and visual arts programmes, book vouchers, 25 day-care centres (in parallel to government centres), at the cost of 0.7% of gross wages (of which two-thirds are actually used to directly finance unions). While originally some of these programmes were aimed at providing subsidised holidays for those in need, they became costly subsidies to particular industries. Moreover, these benefits have been targeted at low wage earners since 2010, but like the housing benefits, they only benefit insured people, i.e. those with a job. In 2012, the OEE and the OEK were closed down, with their rights and obligations transferred to a special committee (PEDE) and the OAED.

Both state transfers and "social resources" are paid by a large part of the population (taxpayers) for the benefit of a small part (a particular fund's beneficiaries), without being justified by considerations of income distribution. In a number of cases, the transfers have been granted as a compensation for changes in the actuarial conditions of the pension systems introduced by the government. Such retroactive changes represent a breach in the contractual foundations of contributory pensions. This does not mean, however, that taxpayers should fully bear the cost, particularly at a time when public resources are severely limited and such transfers crowd out other uses of these resources.

Two of the most salient features of Greece's social protection system are the degree to which it amalgamates insurance- and solidarity-based principles of social protection and the fact that it provides insufficient coverage to those categories of the population that need it most. These aspects are connected: the system's poor performance in reducing poverty and covering basic needs can be explained in part by the fact that even resources coming from the general budget are concentrated on those categories of the population that are already affiliated to a social security scheme.

The impact of taxation in relation to redistributive goals also appears to need attention

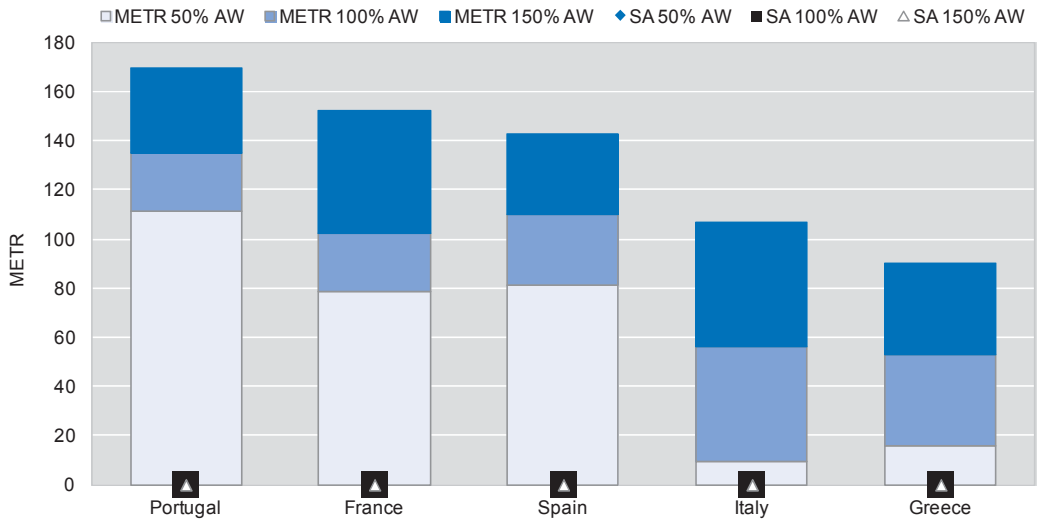
Taxation and benefits can be used to facilitate the redistribution of income. A progressive tax system would modulate tax rates to income so that higher income households will pay more. Tax revenues could then be in part redistributed to lower income households through assistance that can benefit more those who have less.

Marginal effective tax rates, which measure the fraction of any additional euro earned that goes to taxes, social contributions or corresponds to losses of benefits, can provide some insights into the degree to which a tax system is progressive. A progressive tax system would have progressively higher marginal effective tax rates as the income of a household increases. Combining this information with information on benefits for households with different levels of income can shed some light on the way in which taxation and benefits work together to provide some degree of redistribution.

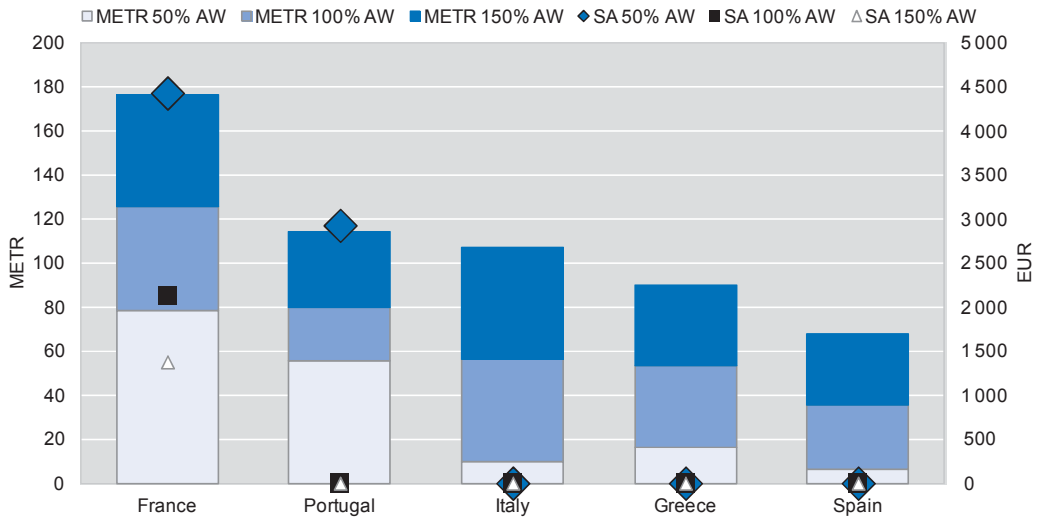
Greece's taxation is to a large extent progressive, but social assistance plays a limited role in facilitating redistribution. For a hypothetical family with two children and only one earner, Greece has marginal tax rates that are higher as the income level increases. Similar to other EU member countries, no social assistance is provided beyond unemployment benefits. A couple who is not eligible for unemployment benefits would also not receive any social assistance. The approaches taken by France and Portugal are instructive. France modulates social assistance to the level of income, providing some benefits to three levels of income presented in the simulation. Portugal chooses to provide social assistance only to the poorest households (Figure 3.2).

Figure 3.2. **Social assistance/METR 2009**

A. One earner couple with two children, eligible for unemployment insurance benefits



B. One-earner-couple with two children, not eligible for unemployment insurance benefits



Notes: The tax benefit charts and calculations are made available as part of the OECD's *Benefits and Wages* publication series. They show the social assistance (SA) in the national currency (EUR) and the calculated "marginal effective tax rates" (METR) for families where one individual has just moved from unemployment to a state of employment, earning between 0% and 200% of the average worker wage (AW).

Definitions:

METR: Marginal effective tax rate, i.e. the fraction of any additional earnings that is taken away by the combined effect of taxes and social contributions. METR = 1 – (change in NET / change in GROSS). METRs are computed for an earnings change of 1% of AW. SA: Social assistance or minimum income benefits.

For a full explanation of the uses and implications of these figures, see Chapter 3 of *Benefits and Wages 2007* (OECD, 2007). These figures were prepared by the OECD Secretariat based on information received from OECD member countries. The selected order of countries has been determined based on the largest to the smallest number.

Description of the legal tax and benefit rules used to create this figure, as well as information and figures for other countries and years are available at *www.oecd.org/els/social/workincentives*.

Source: OECD (2007), *Benefits and Wages 2007*, OECD Publishing, doi: *10.1787/ben_wages-2007-en*.

Some revision of the combination of benefits and taxes may be needed in Greece. The relatively narrow tax base combined with tax evasion may be limiting the effective redistributive impact of taxation. Designing social assistance to cater for the neediest might in turn provide an alternative method to facilitate redistribution and provide some cushion against the effects of the crisis.

Conclusions and recommendations

Conclusions

- The OECD's cost-benefit analysis of reform options assumes that the Greek social welfare system would become anchored in means testing (see Chapter 2), and that distinct programmes are retained for different groups. The alternative of a single universal means-tested benefit is not recommended because of the length of time, transitional cost and administrative difficulties of such a radical development in the current Greek context.
- The calculations suggest that significant savings are possible, potentially with a significant positive effect on the poverty rate.
- Identifying the most appropriate reform package requires further analysis against a set of clear criteria. The OECD cost-benefit analysis is only illustrative of the possibilities. Further analysis is needed to pin down the reform package that is most suitable. Reform options should be assessed against a range of criteria – fiscal impact, impact on the poverty rate, practical feasibility, implications for government operational costs/savings, legal considerations and timescales for implementation.
- It may be necessary to widen the search for fiscal savings to other government programmes, given the possible difficulty of finding enough savings without a significant negative impact on the poverty rate. In particular, public expenditures on general services, defence and health appear to be above the average for euro area countries.
- The funding mechanisms for social welfare require attention, and government revenues need to be clearly directed at social assistance. Social insurance is currently partly funded by government revenues. Further, some social insurance funds are partly financed through mandatory levies on economic transactions. Some funds are also used for policies such as financing trade unions or the tourism industry that have no clear relationship to social assistance. The system's poor performance in reducing poverty and covering basic needs can be explained in part by the fact that even resources from the general budget are concentrated on those categories of the population that are already affiliated to a social security scheme.
- The impact of taxation in relation to redistributive goals also appears to need attention. Greece's taxation is to a large extent progressive, but social assistance plays a limited role in facilitating redistribution. Some revision of the combination of benefits and taxes may be needed. The relatively narrow tax base combined with tax evasion may be limiting the effective redistributive impact of taxation.

Recommendations

- If possible in the time available, carry out evaluation and feasibility studies to identify the most positive mix of reforms to achieve fiscal and social objectives, taking account of practical considerations for implementation, operational costs and savings, and likely timelines.
- Assess systematically key design features of means testing and balance administrative costs and programme effectiveness, including incentives to work and save. Consider at what level income will need to be assessed for different programmes (individual or household), which income is taken into consideration (employment income only or also assets) and how information on income is obtained for different programmes. Evaluate carefully the rate at which benefits are withdrawn to minimise disincentives to work and save.

NOTE: The Ministry of Labour, Social Security and Welfare and the Ministry of Finance are developing a guaranteed minimum income scheme targeting the poor, whose pilot is expected to start in 2014.

- Consider whether the search for savings should be widened to other government programmes. Start with programmes and government functions which appear misaligned with the average for euro area countries and review the drivers of above-average spending.
- Distinguish between social insurance and social assistance schemes. Use social contributions paid by employers and employees exclusively to finance insurance systems, and systematically relate the use of general tax revenues to solidarity objectives and mechanisms. Systematically relate the financing of social security funds by general tax revenues to well-identified solidarity objectives, and develop tools for evaluating the outcomes. Phase-out as fast as possible, in all cases that are not strictly justified on these grounds, the financing of social insurance through general tax revenues. Consider what share of government programme expenditure should be devoted to social programmes financed through taxation.
- Review the impact of taxation on redistributive goals and the interplay between taxation and social assistance.

Notes

1. Housing benefits are not included in this aggregate.
2. For the OECD, the term tax designates any compulsory payment to the general government that does not give access to a benefit in proportion to the amount paid. Naturally, social security funds are part of the general government.

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Chapter 4

Towards more effective system governance in Greece

Preamble: Recent institutional developments have been only briefly referenced in this chapter. See Annex B for an overview of recent developments.

This chapter considers the governance of social welfare in Greece. It starts with an examination of the current central governance structures and ministry responsibilities. It then considers the current structures and governance of social security funds, with reference to information and communication technology (ICT) systems, human resources, control of fraud and the collection of contributions. It also considers the reporting and accounting obligations of social security funds, and the provision of benefits on the ground.

Introduction

If reform is to be successful, the governance arrangements for social programmes will need a radical overhaul. Greece will need to address this at a number of levels, starting at the top, with a stronger and simpler structure of responsibilities within central government. Secondly, the social security funds themselves also need urgent attention, in order to rationalise their management at a faster pace than in the past. Internal systems for staff management, ITC and for combating fraud also need strong reforms. The third area is the provision of benefits by the local authorities which suffers from weak oversight, inefficient overlaps, poor capacities and poor incentives for change.

Institutional framework

The current social welfare system is framed by a complex institutional structure, undermining efficiency, accountability and effective implementation

A large number of central public entities and their local networks are involved

A large number of central government entities, agencies and their local networks are involved in the design, financing, implementation and provision of social welfare benefits. This reduces efficiency, raises administrative costs and leads to inconsistent design of social benefits. As a consequence, the current system does not cater effectively to those in real need.

Centre of government structures for the oversight and steering of the social welfare system have been fragmented, weak and inadequate

Until recently, the two main ministries involved in the overall field of social protection were the Ministry of Labour, Social Security and Welfare and the Ministry of Health. The Ministry of Finance plays an important role, and the Ministries of Defence, of Regional Development, Competitiveness and Shipping, and others also have responsibilities. They all enjoy a high degree of freedom in determining policies and proposing expenditures.

There has also been considerable overlap and confusion in the definition of central government responsibilities for social protection. Initially, it seems that the Ministry of Labour, Social Security and Welfare (previously called Ministry of Labour and Social Security) and the Ministry of Health (previously called Ministry of Health and Social Solidarity) were in charge of insurance-based and solidarity-based schemes, respectively. In accordance with this distribution of roles, the Ministry of Labour, Social Security and Welfare was responsible for the supervision of social security funds (SSFs), including for their health branches, while the National Health System, which has a universal nature, was placed under the Ministry of Health.

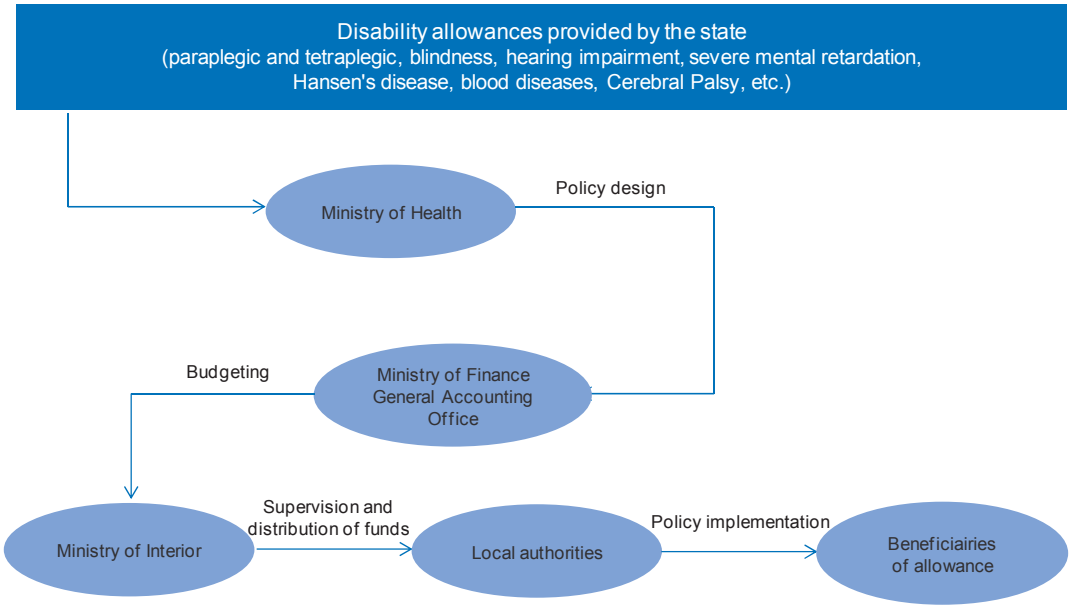
However, the gradual development of an intricate and fragmented landscape of social programmes means that the two ministries became involved in most areas of social protection. The recent decision to establish the Ministry of Labour, Social Security and Welfare as the lead ministry for social insurance and welfare is very positive.

In addition, other ministries have developed interventions in the area of social protection on purely circumstantial grounds (see, for instance, the conditions in which the Ministry of Finance became responsible for the provision of two benefits for low-income families in 2002).

This fragmentation and confusion blurs responsibilities for monitoring and supervision of social assistance programmes and leads to a lack of ownership and accountability. Unclear responsibility is particularly detrimental because of the tradition of legal formalism and the compartmentalised approaches that prevail in Greece's central administration.[1] In such a context, a poorly defined or overly complex sharing of responsibilities often leads to less than adequate co-ordination, the absence of ownership of policy issues and the dilution of accountability. The weakness and fragmentation in central steering mechanisms also undermines the implementation of reforms, which has been a long-standing weakness of Greece's central administration. Many reforms in the past have not been completely achieved. Examples include the consolidation of SSFs or the monitoring at the central level of the devolution of responsibilities to local authorities.

The example of disability benefits is a good illustration of the overlapping responsibilities (Figure 4.1). The Ministry of Health was responsible for the design of disability assistance benefits, the Ministry of Interior for their financing, and municipalities for their administration and relations with beneficiaries. Disability benefits have been poorly monitored and have lacked necessary control mechanisms. This institutional set up has provided little incentive to local authorities to prevent fraudulent claims because spending does not affect their budget. To address this issue, an ongoing exercise to re-register all recipients of such benefits has been recently initiated by the Ministry of Health. New disability certification committees (KEPA) were established in 2010/11, with the aim to eventually re-assess all persons registered as disabled. This is welcome.

Figure 4.1. **Distribution of ministry responsibilities: Disability allowance**



The extension of the responsibilities of the Ministry of Labour, Social Security and Welfare is a promising recent development which a successful reform process will need. Responsibility for the design of disability assistance benefits has been transferred to the Ministry of Labour, Social Security and Welfare. The transfer of the responsibility for the payment of disability benefits, which is currently considered, would be a further positive step towards simplifying administrative procedures and reducing overlapping responsibilities.

Another recent decision to separate the pension and health branches of the SSFs and merge the latter in a new organisation (EOPYY) placed under the authority of the Ministry of Health has also improved the situation. But even here, the work remains unfinished since several funds (TAYTEKO, ETAA) have retained their health activities within the domain of the Ministry of Labour, Social Security and Welfare.

Social insurance management

The management of social insurance is spread across a tangle of different funds, requiring rationalisation

The current structure of social security funds remains very complex

The administration and provision of social insurance benefits is organised across a number of funds (social security funds, SSFs) providing pensions, healthcare, supplementary pensions, unemployment assistance, housing benefits, and supporting recreational activities (Box 4.1). According to ELSTAT (National Hellenic Statistical Office), there are over 40 social security funds in Greece covering main and auxiliary pensions, social insurance and healthcare. The overall system is extremely complex.

Box 4.1. **Social security funds (including pensions and health)**

Overall architecture

There are six funds providing main pensions: the IKA-ETAM for the majority of salaried workers and new entrants to the civil service, the OAEE for the self-employed, the ETAA for a selected group of professionals (including doctors, engineers and lawyers), the ETAP-MME for the press industry, the OGA for farmers and agricultural workers, and the Bank of Greece Pension Fund. These funds often include other smaller funds. These main pension funds are generally responsible for providing social security benefits other than health, supplementary pensions, unemployment, housing and recreational activities. For those under the IKA-ETAM, the OAED (Manpower Employment Organisation) provides unemployment benefits and employment services as well as daycare services since the closure of the OEK and the OEE in 2012.

Healthcare funds have been largely integrated into a central healthcare fund (EOPYY). This fund now includes all the insured under the IKA-ETAM, OAEE, OGA, ETAP-MME (since January 2012), TAYTEKO (since May 2012), ETAA, ETBA, ETE, Emporiki, some private banks (since November 2012) and those in the civil service covering about 90% of the population. The individuals that remain out of the EOPYY systems are those that belong to the TYPET (providing healthcare to the employee of the National Bank of Greece) and the employees of the Bank of Greece, i.e. the central bank.

Supplementary and lump-sum pension funds offer benefits to older individuals to complement their main pensions. These include the ETEAM, TEADY, MTPY, TEAIT, TEAPASA, TAYTEKO, TPDY, TAPIT and TEAPASA.

Description of the main funds

The main funds in Greece covering the largest part of the working population are:

The Institute for Social Insurance (IKA-ETAM)

The IKA-ETAM is the largest social security organisation in Greece. It covers 5 530 000 workers and employees and provides 830 000 pensioners with retirement pension. The IKA-ETAM covers those in dependent employment in Greece or abroad for an employer who is based in Greece, as well as those who offer full-time or part-time personal labour on commissioned work agreements and are not insured with any other main insurance agency. The IKA-ETAM also covers certain groups of people who offer their labour to various employers at various times and whose insurance is realised through their unions or insurance associations, (e.g. porters, newsstand vendors, slaughterhouse workers, etc.) or through special provisions (e.g. exclusive nurses).

Box 4.1. **Social security funds (including pensions and health)** (*cont.*)

It is operationally divided into three main branches:

- a compulsory pension branch (old-age, disability and survivor's' pensions);
- an auxiliary pension branch (TEAM-IKA-ETAM) to which all IKA-ETAM-insured persons are compulsorily affiliated;
- family and unemployment benefits for the IKA-insured people are, however, administered by the OAED (the Manpower Employment Organisation). This public law institution is also in charge of the provision of reservists' benefits.

Based on Law 3655/08, a number of auxiliary, welfare and health funds some funds such as TAP-DEI (Public Utility Corporation) still remain independent merged under IKA-ETAM, but this should change in the following years.

The Agricultural Insurance Organisation (OGA)

The Agricultural Insurance Organisation (OGA), a legal body of public law was founded in 1961 under Basic Law 4169, with the aim of providing retirement and bereavement pensions and medical treatment to the farming population of Greece. The OGA also administers the assistance scheme for uninsured people older than 67 years of age (as amended by Law 4093/2012) without sufficient subsistence means. Moreover, insured and pensioners of the OGA receive in-kind benefits (tourism and entertainment allowances) through a branch established in 2002.

The term farmer is understood to refer to each person who personally carries out an agricultural activity as his main profession. Agricultural activity means an activity in farming, cattle raising or forestry. Also here the scheme is extended to some additional groups of persons, including:

- self-employed people and craftsmen working in villages of less than 2 000 inhabitants;
- employees of all categories living in areas or communities with a population of up to 5 000 persons on the condition that these are not affiliated to any other social insurance institution;
- fishermen, if they are not affiliated to any other social insurance institution;
- Greek priests and nuns working in the agricultural sector.

The Social Security Organisation for the Self-Employed (OAEE)

The main first pillar fund for self-employed small entrepreneurs and traders is the OAEE (Organisation for the Insurance of Liberal Professionals), established during the 1999 reform. OAEE is a legal body of public law supervised by the Ministry of Labour, Social Security and Welfare, which covers the risks of sickness and maternity, disability, old-age and death. People covered by the OAEE have access to voluntary supplementary coverage.

The Insurance Fund for Independent Professionals (ETAA)

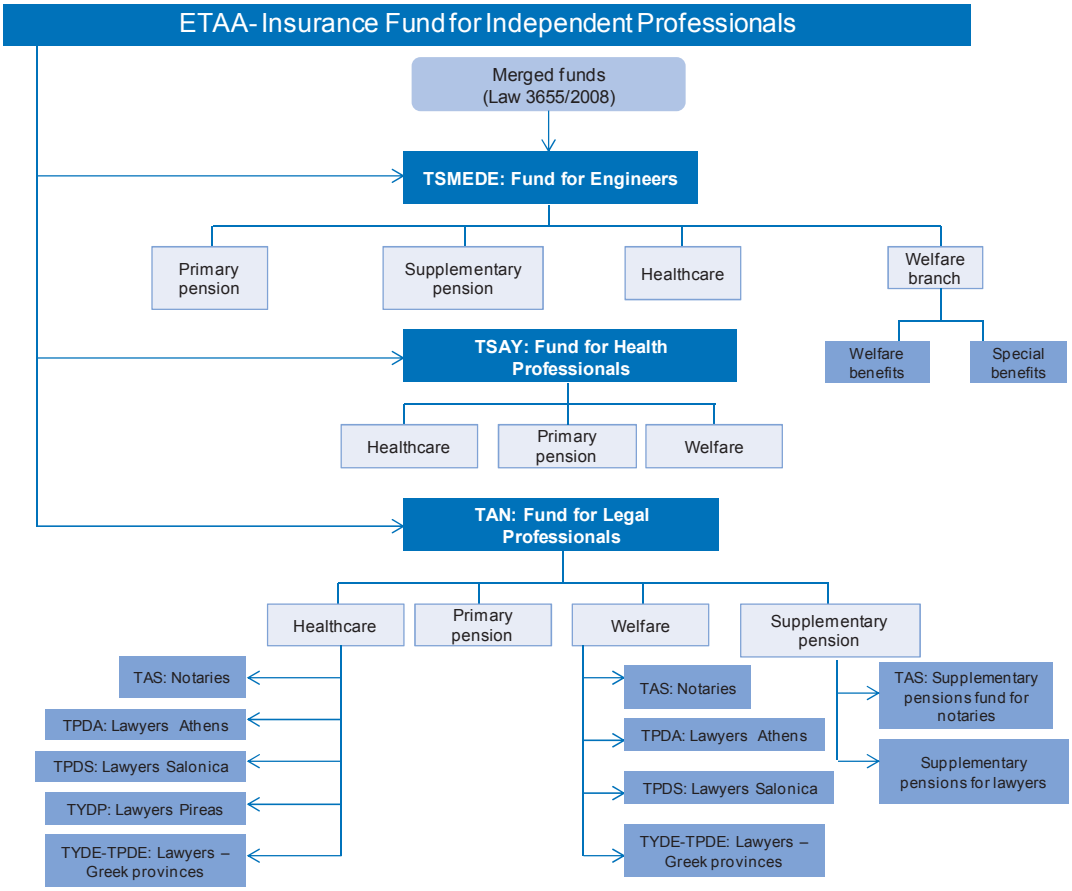
A new fund, the Insurance Fund for Independent Professionals (ETAA), has emerged from the amalgamation of the fund covering different professional occupations (lawyers, doctors, engineers and other professional categories) (Law 3655/2008).

Independent professionals are covered through three main social insurance funds (the effective legal exercise of the profession constitutes the main affiliation condition), which function as legal entities of public law:

- legal professionals are affiliated to the Fund for Legal Professionals (*Tameio Nomikon*);
- doctors, dentists and pharmacists are affiliated to the Fund for Health Professionals (TSAY);
- civil engineers, electronical and mechanical engineers are affiliated to the Pension Fund of the TSMEDE.

The funds can also be internally very complex, as illustrated in Figure 4.2 which shows the structure of the ETAA, the insurance fund for independent professionals.

Figure 4.2. **Complexity of social security funds: Example of the ETAA**



The consolidation of social security funds remains limited

An important reform process for the restructuring of SSFs was established though Law 3655/2008, which laid out an agenda for administrative and organisational rationalisation in three phases. The first phase was bringing to completion provisions already introduced by legislation in 2002, namely the merging of a number of funds. The second phase – with a time horizon until the beginning of October 2008 – paved the way for all other amalgamations stipulated by the 2008 law. The third and final phase was to focus on measures aiming at the progressive elimination of diverse regulations (European Commission, 2009).

These reforms are progressing slowly and with great difficulty, even allowing for major developments such as the recent pension reform. The consolidation of SSFs remains limited and, in many cases, superficial. In the main pension system, two funds (ETAA and ETAP-MME) remain independent and accessible only to restricted occupational groups. The consolidation of health insurance schemes has been progressing slightly faster. Health benefits of the ETAA, the ETAP-MME and a number of private banks have moved under the EOPYY. The health insurance schemes covering the

employees of the National Bank of Greece and Greece's central bank still remain outside the EOPYY. The supplementary pension system also remains highly fragmented.

What is even more problematic, however, is that merged funds have generally maintained "financial and accounting independence", as well as separate administration structures and information systems. For example, the TAP-DEI (the pension fund for the employees of the Public Power Corporation) is under the IKA-ETAM umbrella, but remains independent from the IKA-ETAM in terms of benefits and assets. Information systems are usually incompatible and little efforts have been made to exchange or consolidate data within the umbrella funds. Given the lack of data, there is limited room for managing and controlling the funds' operations of the merged fund. Despite the amalgamation of the funds into the ETAA, the funds still operate as separate entities, with their own accounting and registry systems (see Figure 4.2 on the current structure of the ETAA following amalgamation).

While main old-age pension benefits and disability benefits have been largely equalized across funds, vested rights of existing contributors can differ across funds. This is often brought forward as an explanation for why a real merger of the funds, including their management and administration, is not possible at this stage. In addition, differences remain in other benefits: some funds provide sickness or maternity benefits while others do not; and few funds (for example the OGA) provide additional small benefits, including recreational activities that are not provided by the majority of SSFs.

The implementation of reforms seems to progress slowly. For example, the newly established EOPYY, which is taking over the functions of several health insurance schemes, should have been operational as of January 2012. While EOPYY started operating, further integration – including the unification of information technology systems and the homogenisation of benefits – was expected to happen over the first quarter for 2012. In addition, the recent pension reform sets a new benefit formula applying to all main pension funds for all individuals retiring after 2014, but several of the representatives of the funds seem unaware of these changes.

Social security fund management also raises a number of issues requiring attention including ITC systems, human resources, control of fraud and collection of contributions

ITC strategy and architecture is not yet adequate to the task of supporting efficient and effective fund management

Information systems are not harmonised, and sometimes even inexistent. SSF information systems were built with no sense of consistency, and are currently not compatible with each other. In some cases, no systems of information even existed until very recently (TAYTEKO). Some attempts of improvement have only slightly improved the situation. For instance, following the merger of several SSF into the IKA-ETAM, a common IT system was developed but is hardly functional. This is probably due to the complexity of the existing regulation of the various programmes and professions now encompassed within the IKA-ETAM, which make the system overly complex and difficult to manage. Another example is the allegedly improved system of the OAED for the unemployed, which has limited interoperability with other systems in the realm of social protection due to the absence of use of a unique ID number (such as the AMKA). This situation is pervasive in the Greek social security system which prevents the exchange of information between funds or social services, or with the OGA and the tax

administration. Recent changes point to some positive improvements in data and information exchange (Box 4.2).

Box 4.2. **Data and information exchange**

A census of beneficiaries conducted through citizens service centres (KEPs) has led to the establishment of a National Register of Beneficiaries of social and welfare benefits that is facilitating the systematic monitoring and effective control of the benefits. The register provides for, among others, cross-checks with tax returns, which could in turn constitute a powerful instrument to limit fraud and misuse of social benefits. In addition, the OAED's system is being linked to that of the IKA-ETAM to also facilitate cross-checking.

Human resources in the funds need attention

Staff in SSFs do not always have the necessary skills to use efficiently new IT systems and to respond effectively to the needs of recipients. In some cases, working conditions are poor.[2] Some procedures are outdated, e.g. employers proposing job opportunities have to come to the office and file their vacancy. The staff does not seem trained to provide effective advice and follow-up to job seekers.

The control of abuse and fraud is not supported by appropriate tools

The control of abuse and fraud is not supported by appropriate tools. Main income replacement benefits are usually not compatible with each other (e.g. receiving several disability benefits, or receiving an insurance benefit and an assistance benefit when the insurance benefit is substantial). The absence of unified or compatible IT systems prevents in practice the funds and/or the local administration from checking the accuracy of individual statements. For instance, the actual receipt of another benefit, or the income level for means-tested benefits are currently checked using the tax slip, which is primarily based on self-declaration. A better approach would be to cross-check this declaration with information on benefit recipiency shared directly among funds and administrations. This would require using the same national individual identifier everywhere. Another facilitating factor would be to use a unique network of decentralised offices to register and deliver service and cash to all social protection beneficiaries. Currently, social protection is delivered through the IKA-ETAM and other funds' local offices, by the OGA offices for family benefits, by local authorities for disability benefits and some other welfare benefits, by tax offices for family benefits provided under the Ministry of Finance.

The collection of contributions is inefficient

The social security fund IKA-ETAM, in addition to being responsible for the general (old-age, survivor's and disability) pension scheme for private (and gradually public) employees, plays a pivotal role in the cash flow of the overall social security system. Indeed, the IKA-ETAM-ETAM is responsible for collecting employer and employee social contributions on behalf of other SSFs (such as the OAED and the health organisation EOPYY), and then providing to each fund its fair share of resources. These contributions are, in principle, retained and paid by the employer.

Although, according to some evaluations, the IKA-ETAM is relatively efficient in collecting social contributions, contribution evasion is acknowledged to be a serious problem. Neither the IKA-ETAM nor the ministries seem to have made any precise

estimates regarding the magnitude of evasion. The OECD mission was not in a position to evaluate this point independently.

The distortions brought about by the dual role of IKA-ETAM are a serious cause for concern. The fund does not seem to keep a proper record of the contributions that it owes to other SSFs, and there seem to be delays in the transfer of contributions, occasionally for several years. Due to all the transactions between the funds and the multiple systems of client registration and contribution collection/control, the cash flow from the IKA-ETAM to the other funds is a subject of disagreement. In interviews, some fund managers asserted that the IKA-ETAM withheld contributions for its own uses.

One serious deficiency regarding the cash flow is the lack of detailed and consolidated data on contributions and transfers, particularly at the level of the funds that depend on the provision of such information by the IKA-ETAM, and lack of proper routines and transparency regarding the distribution of contribution payments between the IKA-ETAM and the other funds. Some fund managers claim that the lack of information on arrears regarding contribution transfers has prevented them from closing their accounts. The resulting scarcity of information and opacity of financial situations is an obstacle for policy makers, fund managers and beneficiaries alike.

Reporting and accounting obligations of social security funds are minimal

Reporting and accounting obligations of SSFs and welfare benefits are minimal, auditing and control are almost inexistent. Most of the reporting and control is at macro level, predominantly on budget and expenditures, and in the form of *ex ante* control.

There is a striking lack of information about the beneficiaries, especially data on output and outcome. There is no available data, for example, regarding the effect of social protection on poverty and basic needs, on coverage of risks and incentive effects.

Adopted policies are usually not controlled or evaluated

The Ministry of Labour, Social Security and Welfare approves the funds' budgetary proposals and has the actual power to withhold their budgets. It is also in charge of controlling the accounts and book-keeping. The quality of this control may be questioned. The ministry does not elaborate annual guiding objectives regarding the operation and the achievements of the funds. Despite being responsible for the policy design of the social insurance sector and having seats in the boards of all of the SSFs, it seems to exercise limited oversight when it comes to following and assessing their operations, examining annual data on budget plans or budget execution. The SSFs are thus not made accountable for their performance and have little incentive to improve services or efficiency.

Not all of the social security funds produce annual reports. The information provided in the existing reports is primarily on expenditure data, the total number of beneficiaries and in some cases data on inflow and outflow of beneficiaries. The reports are not published for the public at large and are only distributed to the members of the fund's boards and made available to their supervisory authority, i.e. the General Secretariat for Social Security of the Ministry of Labour, Social Security and Welfare. The reports do not seem to be used as a core document in the monitoring of the funds, neither by the boards nor the ministry. The control of benefit entitlements and financial management is determined at the level of funds and varies from case to case.

Social programmes in the government sector are not managed on the basis of appropriate information and a proper monitoring system does not seem to be in place. Sickness benefits are integrated in the payroll bill and it is not possible, for instance for the General Accounting Office, to have an overview of the number of civil servants on sick leave at a given time and the associated expenditures in a given year. Special groups such as the armed forces, uniformed services and doctors are entitled to particular benefits managed by their respective ministries. The General Accounting Office does not have an overview of these benefits.

Provision of benefits

The provision of benefits, which is mostly done at the local level, is weakly managed

Most of the welfare benefits and social care are provided by the local authorities, and financed by block grants to each municipality from the Ministry of Interior and the Ministry of Health. The block grants are earmarked, but there is no control at the central level to make sure that the money is spent according to the preconditions. The ministries do not have registers of the beneficiaries and the local IT systems register very few data on the individual beneficiaries. The control of information regarding the applicants' income and who is eligible for a benefit is insufficient, and the local offices are not in a position to check whether the money is paid to the right persons. Thus, the local authorities have the competence to decide on individual cases, without having accountability or the possibility to monitor the payments.

Target groups, in particular in the most vulnerable segments of the population, do not seem to be informed about the existing social services and benefits, resulting in low take-up rates.

Conclusions and recommendations

Conclusions

Institutional framework

- Despite reforms, responsibilities for social protection within government are fragmented and without a clear lead. The current social welfare system has been framed by a complex institutional structure at the centre, undermining efficiency, accountability and effective implementation. A large number of ministries, agencies and their local networks are involved. Centre of government structures for the oversight and steering of the social welfare system are fragmented, weak and inadequate, with no lead ministry, overlaps and confusion of responsibilities. The lack of effective structure and co-ordination is not helpful for the financial sustainability of the system, or for accountability.

Management of social insurance funds

- Despite reforms, the consolidation of the SSFs remains limited, often superficial and slow. The management of social insurance is spread across a tangle of over 40 different SSFs, requiring rationalisation. The current structure of SSFs remains very complex. The reform process initiated a few years ago is progressing too slowly and with great difficulty. The consolidation of SSFs remains limited, and

in many cases, superficial. Merged funds have generally retained financial and accounting independence, and separate administration structures and information systems. Implementation of reforms is slow.

- The management of the funds is strikingly ineffective and raises a number of issues including ITC systems, human resources, control of fraud and collection of contributions. ITC strategy and architecture is not yet adequate to the task of supporting efficient and effective fund management. Information systems are not harmonised, or even non-existent, meaning that systems cannot be connected or exchange information (this includes links to the tax administration). There is no unique ID number, as yet. The ITC competences of staff are often low. The systems for controlling abuse and fraud are inadequate and not supported by appropriate tools. The collection of contributions is inefficient and contribution evasion is acknowledged to be a serious problem. The dual role of the IKA-ETAM managing overall cash flow across the funds as well as its own cash is a serious cause of concern.
- Reporting and accounting obligations of the SSFs and welfare benefits are minimal. Auditing and control are almost non-existent and there is a striking lack of information about the beneficiaries. Not all of the funds produce annual reports. Social programmes in the government sector are not managed on the basis of appropriate information.

Provision of benefits

- The provision of benefits, which is mostly done at the local level, is weakly managed. As well as overlap among ministries, local governments are heavily involved through their provision of most welfare benefits and social care. Most of the welfare benefits and social care are provided by the local authorities and financed by block grants to each municipality from the Ministry of Interior and the Ministry of Health. The block grants are earmarked, but there is no control at the central level to make sure that the money is spent according to the preconditions. An overlapping and complex network of offices and departments provide social services at the local level. The capacity and incentives for local governments, to provide benefits efficiently and effectively, needs to be addressed.

Recommendations

Some of the recommendations may require adaptation in order to fit the new system design, once this has been settled.

Institutional framework

- Streamline responsibilities for social welfare within the central administration. Extend the responsibilities of the Ministry of Labour, Social Security and Welfare (effectively changing it into a Ministry of Labour and Social Affairs) to the design and monitoring of all non-health social programmes, whether insurance- or assistance-based, including social services and benefits in-kind provided at local level.

- Focus the responsibilities of the Ministry of Health on healthcare services (hospital care, primary care and reimbursement of healthcare for insured people), and specifically on the rationalisation of the National Health System (NHS), the improvement of primary care and the convergence between the NHS and the EOPYY.
- Transfer, to the extent possible, the competencies of other ministries in the field of social protection to these two ministries.

NOTE: these recommendations are currently being implemented, suggesting political support for reform. For the success of these reforms, it will be key to ensure that administrative structures are appropriately adapted to the new responsibilities.

- Ensure that the Cabinet has adequate opportunity to discuss the social budget (which is included within the state budget) prior to debate on the state budget in Parliament.

Management of social insurance funds

- Define a plan and timetable to accelerate the rationalisation of the SSFs and the further consolidation of remaining funds.
  - Terminate all recreational activities funded through the OEE. Transfer the day-care services to local authorities.
  - Complete the phase out of the OEK programmes and transfer the OEK's assets to the IKA-ETAM. Eliminate the remaining payroll contribution to the OEK.
  - Define a timetable for the effective integration of information systems, management structures, and financial and accounting procedures of the funds merged by Laws 3371/2005, 3655/2008 and 3863/2010, under the authority of the Ministry of Labour, Social Security and Welfare. Multi-annual contracts between the ministry and the funds can be used to achieve this integration and rationalisation of management structures and information systems. Executives of the fund should be assessed on the effective completion of the realisation of objectives set up in those multi-annual contracts. The objective would be to improve internal management to enhance productivity and provide better services to recipients. Fiscal savings would be limited to reducing administrative costs. Credible sanctions should be defined for those funds that would not respect their engagements.
  - Further consolidate the remaining social insurance funds, in order to address the fragmentation of the social insurance system. Specifically, the ETAA and the ETAP-MME, including their assets, should be merged under the IKA-ETAM or the OAEE. In addition, health funds that remain independent should be merged under the EOPYY. To this end, determine what benefits are to be provided by the social insurance system and unify the design of benefits and contribution levels accordingly across the remaining funds. Prepare and follow a strict timetable for the unification of benefits and contributions, the preparation of information systems, and the effective merger of the management and administration of the funds.

- Set a plan and timetable for modernising the overall management of social security funds, including the universal use of the personal ID (AMKA), harmonisation of IT systems, simplification of legal and administrative frameworks, a common HR policy, training programmes. Pay special attention to the management of financial flows and transfers between the funds.
  - Base all information applications in the field of social protection on the AMKA personal identification number. Apply this rule as a matter of priority to applications and databases that use other means of identification, such as the Ministry of Health's registry of all beneficiaries of disability benefits, based on a new number relating to both the AMKA and the tax number.
  - Accelerate the ongoing projects on the harmonisation and integration of information systems across the SSFs. Simplify the legal and administrative frameworks.
  - Define a common human resources policy for all social security organisations. Facilitate mobility across funds and with the general government. Enhance training to help quickly manage new procedures and new IT systems.
  - Support and train the employees of the OAED in order to provide better services and counselling for unemployed people, and be able to enhance active labour market policies.
- Secure the effective supervision of the SSFs, including the mandatory publication of certified annual accounts, the setting of annual objectives and *ex post* evaluation of achievements. Pay particular attention to the government sector programmes.
  - Require SSFs, in particular the IKA-ETAM, to provide detailed information on contribution transfer arrears and to produce regular accounts on these financial flows.
- Consider the best approach to streamlining the collection of social contributions and related activities, taking account of best relevant international practice, the need to minimise bureaucracy, and the need to ensure that the entity responsible is motivated and equipped for the task. One option is to create a single agency for the main scheme (IKA-ETAM-OAED-EOPYY) with the sole purposes of collecting social contributions, redistributing those resources to the relevant social security funds, keeping a record of the contributions, controlling contribution payments with similar power to the tax revenue organisation and financially managing the contribution flows. Once it has received its resources from the agency, each SSF would remain responsible for managing them. While the SSFs would have an account for each individual affiliate, the agency would have accounts for contributing companies and professionals.
  - Collect information on, and define a clear policy for the supervision of, social insurance programmes.
  - Make the publication of certified annual accounts mandatory for all social security funds; in due course subject these accounts to *ex post* controls by the Court of Audit once the court has developed the capacity for such audits.

- Adopt annual objectives and a regular assessment of their achievement as the basis of relations between social security funds and their supervisory authority, i.e. the General Secretariat for Social Security of the Ministry of Labour, Social Security and Welfare. These objectives should concern both the internal management of SSFs and service delivery. In both areas, indicators should be developed and used to this effect. The Ministry of Labour, Social Security and Welfare should consider formalising its relations with the funds in multi-annual contracts.

Provision of benefits

- Define a plan and timetable for the more effective administration of social assistance benefits at local level. Consider how best to improve the current institutional structure, including the possible use of the KEPs' (citizen service and advice centres) one-stop shop network for information on social services and benefits, the possible establishment of an Office of Social Affairs in each municipality, and co-operation structures between the Ministry of Labour, Social Security and Welfare and the Ministry of Interior for oversight of local government activity in this area.
  - Streamline the networks for social benefit information and recipiency. Consider using the KEPs as one-stop shops for providing information on social services and benefits to individuals, in co-ordination with social benefit providers. Consider whether their responsibilities should extend over time to receiving and processing applications for social protection (except unemployment) and answering requests.
  - Support the OGA's capacity to test beneficiaries for means and income.
  - Establish co-operation structures between the Ministry of Labour, Social Security and Welfare and the Ministry of Interior for the supervision, monitoring and evaluation of the delivery of social services and benefits in-kind by local authorities.
  - Consider the creation of an Office of Social Affairs in each municipality, and use these offices as a single network to provide benefits in cash to the population, instead of the current duplication of structures in local government, tax offices and the OGA correspondents.
  - Include social workers and work specialists in the newly established Disability Certification Committee (KEPA), in order to support the consideration of work capacity as a basis for disability benefits. Evaluate the procedure of disability assessment once the current reorganisation is completed.
  - Monitor much more closely social programmes in the government sector. For the general payroll scheme, information about all social benefits, including income during sick leave and the number of beneficiaries should be collected by the General Accounting Office. For specific payroll schemes such as the armed forces and uniformed services, similar information on the variety of benefits should be provided by the relevant ministries to the General Accounting Office.

Notes

1. See OECD (2011).
2. In an OAED unemployment office visited during the OECD mission, for instance, part of the building had not been heated for several weeks, and the staff had to work in the cold in the middle of the winter.

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Annex A
Reader's guide

Structure

The report is made up of four chapters:

- Chapter 1: Economic, social and systemic context of social welfare reforms in Greece. The economic and social context in which reforms need to be taken forward. Systemic issues affecting social welfare policy and programmes.
- Chapter 2: Issues with the current Greek benefit system. Key issues related to benefits – unemployment benefits, family benefits, disability benefits and housing benefits, with trends in expenditure and recipiency levels based on administrative data collected by the OECD for this report.
- Chapter 3: Towards more effective system design in Greece. Key elements for redesigning the social welfare system to be more efficient and effective, including costed reform scenarios (Annex D sets out the detail of OECD's cost-benefit calculations).
- Chapter 4: Towards more effective system governance in Greece. Key issues for a more efficient and effective governance of the social welfare system.

Seven annexes complete the picture in more detail:

- Annex A: Reader's guide
- Annex B: Update of key recent developments in social welfare reforms
- Annex C: Overview of social welfare and related reforms in Greece in the last 20 years
- Annex D: Cost-benefit analysis of proposed reforms to the Greek social welfare system
- Annex E: Key features of the *OECD Database on Social Programmes* in Greece
- Annex F: Government expenditure in Greece in 2010
- Annex G: Design and implementation of means testing for social protection

A Glossary can be found at the end of the book.

The report uses the term social welfare programme to refer to any baseline state or national programme payment made to, or in respect of, any individual. Social welfare programmes aim at helping people meet basic needs. Social welfare generally encompasses a broad range of public policies and actions to alleviate poverty and distress. It does not distinguish between the instruments through which these policies and actions are carried out or whether they are financed through beneficiaries' contributions

(insurance benefits) or general taxation (assistance benefits). Nevertheless, EU-funded or part funded grant or incentive schemes are not included in the scope of this report.

Scope of the report and key definitions

The report focuses on social welfare programmes, which are defined here to include disability pensions and to exclude contributory old-age pensions and the provision of healthcare services (except where otherwise stated). It considers both social insurance programmes, which provide benefits to individuals on the basis of contributions paid, and social assistance programmes, which are not conditional on the payment of contributions. The social welfare programmes included in this report provide cash benefits only and cover approximately 22 % of Greece's working-age population (Table A.1).

Table A.1. **Recipiency rates for the social welfare programmes covered by this report**

Branch of social protection	Type of programme	% of the working-age population	Year
Incapacity	Disability-contributory	3.9%	2010
	Disability/non-contributory	2.5%	2010
	Sickness and work accident[1] (contributory)	2.8%	2010
Unemployment	Contributory	7.7%	2010
	Non-contributory	2.0%	2010
Family	Contributory	0.7%	2010
	Non-contributory	2.3%	2010
Other social assistance	Non-contributory	N/A	2010
Total main income replacement	Contributory	15.0%	2010
	Non-contributory	6.8%	2010
	All	21.8%	2010
Housing	Contributory	1.5%	2009
	Non-contributory	0.0%	2009

Notes: There may be some double counting when aggregating recipiency of income replacement benefits across the different schemes because the data used does not allow the elimination of double counting in a precise way. 1. Not including civil servants for which sick leave data is not available.

Source: Estimates based on data provided by the Greek authorities to the OECD, 2011-12 (administrative data).

A recurring theme of this report is the distinction between social insurance and social assistance (Box A.1).

Theisreport also refers to disability and incapacity benefits. Disability (or invalidity) benefits are paid to individuals who are limited in the kind or amount of activities that they can perform due to a long-term physical condition, mental condition or health problem. Incapacity benefits are paid to individuals who are disabled or sick. Aggregate spending on incapacity benefits thus includes both disability and sickness benefits.

The references to administrative data in the report (in the text or as sources to tables and figures) designate the data collected by the OECD from the administrative records of Greek authorities as part of the underlying analysis for the report.

A comprehensive list of key terms and definitions is presented in a Glossary at the end of this report.

Box A.1. **Social insurance and social assistance**

Social insurance

The general definition of social insurance is that it provides benefits to individuals on the basis of contributions, and is thus financed by these contributions. Social insurance in Greece is provided by a number of social security funds (SSFs). Contributors to these funds and their families are generally entitled to pensions (old-age, disability and survivor's) and healthcare. The funds also provide special allowances to the disabled as a complement to disability pensions. Depending on the specific SSF, benefits to compensate for sickness, accidents, funerals and maternity might also be granted. Some additional benefits (unemployment, housing and social activities) are available only to employees contributing to the largest SSF, the IKA-ETAM, which covers employees of the private sector (and, in the future, new employees of the public sector). In addition, separate schemes provide benefits for supplementary pensions. Overall, social insurance schemes cover about 80% of the population.

Social assistance

The general definition of social assistance is that it is not conditional on the payment of contributions and is financed through general government revenues. In Greece, social assistance (which is also known as social solidarity) is mainly offered through categorical benefits covering the elderly, families with multiple children and the disabled. For the elderly, non-contributory benefits are available to those older than age 65 who are not entitled to a social insurance pension (old-age pension for uninsured persons) and to those older than age 60 who receive low pensions from the social insurance system (EKAS). Social assistance allowances are also available to families with three or more children, to low-income families and to disabled individuals with specific health conditions.

Insurance and assistance differ also in the conditions that determine whether an individual or a household is eligible for benefits. Usually, among the OECD countries:

- Insurance benefits (also called contributory benefits) are conditional on a record of past contributions to an insurance scheme. They are financed primarily through contributions. Most often, usually no income threshold is considered for eligibility.
- Assistance benefits (also called means-tested benefits) are most often conditional on current income falling below a certain level (the "means test"). Also, no record of past contributions to an assistance scheme is requested for eligibility (except in rare cases). They are financed primarily through general taxation.

A few benefits are conditional both on past contributions and on a means test (e.g. an unemployment allowance paid only to unemployed people with no resources and having exhausted their rights to unemployment insurance). A few benefits can also be non-contributory and not means-tested ("universal" benefits paid under some circumstances, e.g. some child benefits).

Data sources and reliability

The figures, costing and scenarios set out in this report are based on a range of sources:

- Statistics on Income and Living Conditions (SILC);
- European version of SILC (EU-SILC) for overall disposable household income estimates;

- EUROMOD Country Report for Greece to cross-check assumptions and verify existing programme conditions;
- data collected directly by the OECD from the Greek authorities in 2011-12 (referred to as "administrative data").

All of these sources suffer from gaps or weaknesses, largely due to the underlying weakness of Greek data. Some data does not appear to exist (for example, data on sick leave and maternity leave benefit recipiency). As regards the costing and as explained in more detail in Annex D, as well as the underlying weakness of Greek data, there are intrinsic biases and other methodological issues to bear in mind. For example, under-reporting of benefit uptake is an expected feature of SILC which is based on surveys, meaning that social welfare spending is likely to be higher than recorded in this database. In addition, the SILC dataset over-samples some population groups, including civil servants and bank employees, and under-samples other groups, including the self-employed, farmers and pensioners. Accordingly, estimates of poverty rates may be lower than they would be with a more balanced sample.

The report also relies on OECD interactive tools such as the Tax Benefit Calculator, Family Support Calculator and Pension Calculator. These tools simulate household net income in and out of work situations taking into account the rules and regulations of the legislated systems in different countries. The calculators include cash benefits (and exclude in-kind benefits). They also cover unemployment insurance, unemployment assistance, social assistance, family benefits and lone-parent benefits, housing benefits, child-raising allowance paid to parents assuming childcare responsibilities for their own children and employment-conditional (or "in-work") benefits.

Methodology for the report

The report was developed through several phases in the period March 2011-May 2012. It was drafted by the OECD Secretariat and was the subject of comments and contributions from the members of the review team with input from peer reviewers, as well as from a range of other OECD colleagues. It was fact-checked by Greece. The report is based on analysis and data collected up until the end of April 2012. Developments since then may be referenced but have not been evaluated by the OECD.

During the first phase of the review, the OECD Secretariat developed a methodology for data collection, and prepared and circulated a questionnaire to the Greek authorities in order to collect information on social programmes. A number of missions to Greece were organised, in order to advise the Greek authorities on data issues and to collect data for the development of the administrative database (see previous section). In a second phase, the report was drafted using this information.

Review team

The review was conducted by a team consisting of members of the OECD Secretariat:

- Caroline Varley, Head of Programme, Public Governance Reviews, Public Governance and Territorial Development Directorate;
- Reza Lahidji, Project Lead, Greece: Reform of Social Welfare Programmes Review, Public Governance Reviews, Public Governance and Territorial Development Directorate;

- Filippo Cavassini, Analyst, Public Governance Reviews, Public Governance and Territorial Development Directorate;
- Sophia Katsira, Research Assistant, Public Governance Reviews, Public Governance and Territorial Development Directorate;
- Stéphane Carcillo, Senior Analyst, Employment, Labour and Social Affairs Directorate;
- Rodrigo Fernandez, Analyst, Employment, Labour and Social Affairs Directorate.

Missions

Discussions were held with a wide range of Greek stakeholders at the political and administrative levels in the central administration, as well as with external stakeholders, including civil society and academics.

Of special note was a mission that took place from 23 January to 3 February 2012 under the leadership of Reza Lahidji. Data were collected directly from the Greek authorities, in order to complete the administrative database. Interviews were also held with a range of stakeholders regarding the institutional and governance arrangements for social protection in Greece. The review team for this mission conducted over 40 interviews with government officials, social insurance funds managers, trade union representatives, industry federations, non-government and civil society organisations, as well as academics. The team also visited a local office of the Greek unemployment agency (OAED). The mission agenda and interviews were organised with the significant help of the General Secretariat of Social Security (Ministry of Labour, Social Security and Welfare), with which the team interacted closely during the mission.

Two peer reviewers from other OECD countries joined the team for the data collection mission:

- Eric Aubry (Conseiller d'Etat, Conseil d'État, France);
- Odd Helge Askevold (Deputy Director General, Ministry of Labour, Norway).

Mauricio Soto and Katja Funke of the International Monetary Fund also participated in this mission.

Greek academics offered their advice on this mission and for the completion of the report:

- Panos Tsakloglou, Professor, Department of International and European Economics, Athens University of Economics and Business;
- Manos Matsaganis, Assistant Professor of Employment and Social Policy, Athens University of Economics and Business, Department of International and European Economic Studies;
- Maria Petmesidou, Professor of Social Policy, Democritus University of Thrace.

The team interviewed representatives of the organisations presented below:

Ministries

- Ministry of Labour, Social Security and Welfare/General Secretariat for Social Security;

- Ministry of Shipping/Seamen House;
- Ministry of Environment, General Secretariat for Energy;
- Ministry of Citizen Protection;
- Ministry of National Defence;
- Ministry of Culture;
- Ministry of Finance;
- Ministry of Interior;
- Ministry of Health.

Social security funds

- **OAED** (Manpower Employment Organisation, Οργανισμός Απασχόλησης Εργατικού Δυναμικού);
- **OEK** (Workers Housing Organisation, *Οργανισμός Εργατικής Κατοικίας*);
- **OEE** (Workers Fund Organisation, *Οργανισμός Εργατικής Εστίας*);
- **IKA-ETAM** (Social Insurance Institute, *Ίδρυμα Κοινωνικών Ασφαλίσεων*);
- **IKA-ETAM** (merged funds);
- **OGA** (Agricultural Insurance Organisation, *Οργανισμός Γεωργικών Ασφαλίσεων*);
- **OAEE** (Social Security Organisation for the Self-employed, *Οργανισμος Ασφάλισης Ελευθέρων Επαγγελματιών*).

Bank of Greece

- **TAYTEKO** (Fund for Bank and Utility Company Employees, Ταμείο Ασφάλισης Υπαλλήλων Τραπεζών & Επιχειρήσεων Κοινής Ωφέλειας);
- **ETAA** (Fund for a selected group of professionals including doctors, engineers and lawyers, *Ενιαιο Ταμειο Ανεξαρτητα Απασχολουμενων*);
- **EOPYY/OPAD** (National Health Services Organisation, *Εθνικός Οργανισμός Παροχής Υπηρεσιών Υγείας*);
- **ETAP-MME** (Fund for journalists and other media workers, *Ενιαίο Ταμείο Ασφάλισης Προσωπικού Μέσων Μαζικής Ενημέρωσης*).

Social partners

- **SEV** (Hellenic Federation of Enterpises, *Συνδεσμος Επιχειρησεων και Βιομηχανιων*);
- **INE-GSEE** (Labour Institute of the General Confederation of Greek Workers, *Ινστιτούτο Εργασίας-Γενική Συνομοσπονδία Εργατών Ελλάδας*);
- **ESEE** (National Confederation of Hellenic Commerce, *Εθνική Συνομοσπονδία Ελληνικού Εμπορίου*);

- **KEPE** (Centre of Planning and Economic Research, *Κέντρο Προγραμματισμού και Οικονομικών Ερευνών*);
- **GSEVEE** (Hellenic Confederation of Professionals, Craftsmen and Merchants, *Γενική Συνομοσπονδία Επαγγελματιών Βιοτεχνών Εμπόρων Ελλάδας*).

NGOs

- Red Cross;
- SOS Children's Villages Greece;
- Klimaka.

Academics

- Panos Tsakloglou, Athens University of Economics and Business;
- Manos Matsaganis, Athens University of Economics and Business;
- Maria Petmesidou, Democritus University of Thrace;
- ELSTAT (Hellenic Statistical Authority).

Annex B
Update of key recent developments in social welfare reforms in Greece

This annex sets out key legal and other initiatives in Greek social welfare reform as set out to the OECD by the Greek authorities and in the relevant enacted laws, including initiatives since the completion of the OECD analysis and data gathering. The main report evaluates reform issues up until the end of April 2012, and does not evaluate these more recent developments. They are, however, proof of a clear determination on the part of the lead ministry, the Ministry of Labour, Social Security and Welfare, to move forward speedily with reforms. The reforms are to achieve savings and raise efficiency, as well as to secure a framework that enables more effective monitoring of benefits.

Headline strategic reforms

Three strategic anchors to support reform have already been put into place:

- The Ministry of Labour, Social Security and Welfare has been given the overall leadership of social assistance and social insurance (as recommended by the OECD), which includes the transfer of social welfare responsibilities from the Ministry of Health. The Ministry of Labour, Social Security and Welfare is now vested with the strategic responsibility required to take forward reforms in this critical sector.
- Strategic design decisions have been taken in the direction of means testing as the basis for social welfare programmes. For example, means testing has been introduced for family benefits.
- Key practical implementation anchors are being put in place. In order to facilitate the setup of a common database, and to eliminate double counting, the creation of a National Register of Beneficiaries of social welfare benefits has been established. The next step is expected to be a single source of payments for both social insurance and welfare benefits. The AMKA personal identity number has also been adopted.

Reforms to the social solidarity allowance for pensioners, 2011 and 2012

Aimed at combating poverty and ensuring a sufficient income for the elderly and low income pensioners, in particular, as regards the statutory financial support programmes for such population groups, the Greek social security system since 1996 provides for the Pensioners' Social Solidarity Allowance (EKAS). Adjustments in 2011 and 2012 tighten up the criteria for eligibility.

Box B.1. **Pensioners' Social Solidarity Allowance/Benefit (EKAS)**

Background

This allowance, first established by Law 2434/1996 "Policy Measures for Employment and Vocational Education and Training and Other Provisions" (paragraph 3, Article 20), aims at financially supporting low-income pensioners and constitutes a non-contributory monthly benefit for elderly people and survivor pensioners who have reached the age of 60, except for the children who receive a pension due to the death of their parent, for which no age limit is required, as well as for the disability pensioners of all insurance bodies of main insurance (except for the Agricultural Insurance Organisation), regardless of the age limit. This allowance/benefit is wholly financed by the state budget.

2011 reform

As amended with clause 34 of Law 3996/2011 (Part B, Chapter A: Protection of Vulnerable Group), a new set of eligibility criteria was introduced. The new amendments are described as follows:

1. As of 1 January 2011, the Social Solidarity Allowance/Benefit will be paid to beneficiaries under the condition that they meet the following criteria:
   - All old-age and survivor's pensioners must have reached the age of 60 by January 2011. For all disability pensioners and beneficiaries of survivor's pension due to death of parents, no age limit is required.
   - The total net annual income from pensions (main pensions, supplementary pensions and benefits), salaries, wages and other allowance granted to the salaried person, as declared in the income tax return must not exceed the amount of EUR 8 472.09. Any amount granted to disability pensions and war victims, lifelong pension to mothers of large families and all welfare assistance granted by the Ministry of Health are not taken into account in this amount.
   - The total individual taxable annual income may not exceed EUR 9 884.11.
   - The total annual family taxable income may not exceed EUR 15 380.90.
   - The total gross amount of both main and supplementary pensions should not exceed the monthly amount of EUR 850.
   - Must be permanent residents in the Greek territory.
2. The EKAS is also granted to pensioners of main funds as of January 2011, as long as they meet the main eligibility criteria.
3. The payable amount of EKAS in these cases is as follows:

Amount of EKAS (on a monthly basis)	Amount of income
EUR 230	Up to EUR 7 715.65
EUR 172.50	From EUR 7 715.66 to EUR 8 018.26
EUR 115	From EUR 8 018.27 to EUR 8 219.93
EUR 57.50	From EUR 8 219.94 to EUR 8 472.09
EUR 30	From EUR 8 472.10 to 9 200 EUR (and total annual family taxable income does not exceed EUR 13 500)

Box B.1. **Pensioners' Social Solidarity Allowance/Benefit (EKAS)** (*cont.*)

The same amounts are paid to disability pensioners who receive full coverage. For all beneficiaries receiving reduced pension, these beneficiaries receive two-thirds of the amounts above.

2012 reform

Since January 2012, the amounts paid out may be re-evaluated and re-adjusted according to the annual income received the previous year and the Consumer Price Index. Starting in January 2014, the EKAS allowance will be granted from the age of 65. For invalidity pensioners as well as for the children who receive a survivor's pension, there is no age limit (Article 1, paragraph IA4, subparagraph 6 of Law 4093/2012 of 12 November 2012 and Article 10, paragraph 3 of Legislative Act of 19 November 2012).

Overall, Law 4093/2012 and the Legislative Act of 19 November 2012 have introduced the following reforms:

- the age limits for all social security funds have been increased by two years;
- pensions and lump-sum allowances have been reduced;
- the ceiling of insurable wage has changed;
- a unified system of control and payment of pensions has been established.

Creation of the National Register of Beneficiaries of social and welfare benefits, 2011

A National Register of Beneficiaries of social and welfare benefits has been established (Law 4025/2.11.2011), which will facilitate the establishment of a database. Its establishment has led to the creation of a systematic monitoring system of the implementation of the financial aid assistance programmes implemented by the municipality agencies. A further development of the National Register can provide for a wide range of auditing and rationalisation processes, such as the performance of electronic cross-checks with several agencies' archives/data, thus forming a crucial tool for policy making and timely improvement measures.

Minimum wage and reforms of unemployment benefits, 2012

By virtue of Law 4046/2012 voted on 12 February 2012, by the Greek Parliament, regarding the approval of the new Loan Agreement with IMF and the respective memorandum, the minimum basic salary provided by the currently applicable National General Collective Employment Agreement (NGCBA) has been reduced by 22% for employees over the age of 25, and by 32% for employees under the age of 25.

In this respect, for employees over 25, unmarried and without any prior service and/or skills, the minimum base monthly and daily salaries are now EUR 586.08 and EUR 26.18 respectively, and those for employees under 25, unmarried and without any prior service and/or skills, are now EUR 510.95 and EUR 22.83 respectively.

These reductions refer only to employees that are paid under the NGCBA and apply to both existing and newly hired employees. Furthermore, this reduction applies as of 14 February 2012, is not mandatory, and for existing employees paid under NGCBA it

may be imposed unilaterally by the employer without the prior consent of the employee being necessary.

Box B.2. **National Register of Beneficiaries of social and welfare benefits**

In order to facilitate the establishment of a common database, the creation of a National Register of Beneficiaries of social and welfare benefits was established through Law 4025/2.11.2011, Chapter C, clause 18.

Its establishment has led to the creation of a systematic monitoring system of the implementation of the financial aid assistance programmes implemented by the municipality agencies.

This registry includes all beneficiaries of the social solidarity benefit (EKAS), the total invalidity benefit, the uninsured old-age pensioners, the welfare pension, unemployment benefit, benefit for support of special categories of unemployed, the OAED family and maternity benefits, family benefits to large families and families with three children and lump sums, the lifelong large family pension, sickness benefits, benefits for disabled people, rent benefits, family benefits given for the public sector and family benefits of pensioners of funds.

This initiative began in February 2011, when all people receiving disability pensions and benefits in Greece were asked to report their benefits to their designated local one-stop shops (KEP). The data were to then be centralised to the Ministry of Health. Following this exercise, a number of beneficiaries were not eligible for these benefits for various reasons. All organisations with local governments and all other competent authorities are obliged to provide the data on their beneficiaries electronically.

A further development of the National Register can provide for a wide range of auditing and rationalisation means, such as the performance of electronic cross-checks with several agencies' archives/data and thus forming a crucial tool in policy making and timely improvement measures.

Following the reduction of the minimum wage, in March 2012 the monthly unemployment benefit was reduced from EUR 470 to EUR 360. In addition, since January 2013, the daily unemployment payments for the unemployed who have applied for the regular unemployment benefit within the past 4 years should not exceed a total of 450 days. If within the past 4 years, a beneficiary has been paid for less than 450 days, he/she will be entitled to be paid the remaining days until the 450 days are reached. Starting in January 2014, the ceiling will be reduced to 400 days.

A new unemployment assistance benefit has been created (page 5 603-5 604 IA.1 Unemployment Agency Regulations, Section III: Social Policy Measure for Long-term Unemployed). Those unemployed for more than 12 months with a family income of less than EUR 10 000 per year (plus EUR 586 per child) have the right to an unemployment assistance benefit of EUR 200 per month for 12 months maximum.

Law 4093 of 12 December 2012 has also reduced special and seasonal unemployment benefits for certain professions and geographic areas.

Family benefit reforms, 2011 and 2012

Five family benefits have been abolished. The "lump-sum allowance for the third child" (*Εφάπαξ παροχή*), the third child benefit (*Επίδομα τρίτου παιδίου*), the large family allowance (*Επίδομα σε πολύτεκνους*), the third family benefit (*Επίδομα τρίτου παιδιού*), as

well as life-long pension to mothers with more than three children (*Ισόβια σύνταξη στην πολύτεκνη μητέρα*) have been abolished (see Section IA2, paragraphs 12, 13 and 14 of Law 4093/12.11.12).

A means-tested family benefit has been created and will be provided according the family income which is calculated by the means of an income equivalent scale. This family benefit is EUR 40 per month for one child, EUR 80 per month for two children, EUR 130 per month for three children, EUR 180 per month for four children. Sixty euros will be allowed for each additional child. The entire amount or part of this family benefit will be provided according the income brackets below.

Table B.1. **Means-tested family benefit**

	EUR
Full family benefit	0-6 000
Two-thirds of the family benefit	6 001-12 000
One-third of the family benefit	12 001-18 000
0 of the family benefit	18 000+

Note: page 5 604, Paragraph 2 of Section IA of the new Law 4093.

A number of laws were enacted on family benefits in 2011-12, progressively introducing means testing for large family benefits. The two most important are:

- Law 4025/2.11.2011 (Clause 21, paragraph 3): through this new reform, income criteria have been set for benefits for large families and families with three children. As of 1 November 2011, these benefits will be paid to families whose total annual family earnings do not exceed EUR 55 000. The amount of EUR 5 000 has been added to this threshold for every additional child beyond the fourth.
- Law 4052/01.03.2012 (Clause 27, paragraph 22): a further reform was approved for all family benefits (large families and those with three children) as of 1 January 2012. A new threshold of EUR 45 000 was set for the payment of this benefit.

Guaranteed Minimum Income, 2012

In 2014, the government is expected to run a pilot guaranteed minimum income, as provided in Law 4093/2012, approved at the end of 2012. The scheme will be targeted to the population living under the poverty threshold.

Box B.3. **Guaranteed Minimum Income pilot scheme**

Guaranteed minimum income schemes are means-tested, non-contributory and universal programmes designed to serve as the ultimate safety net in order to prevent individuals or households from falling into severe poverty.

The programme will be piloted in two geographical areas with different socio-economic profiles, with an expenditure cap of EUR 20 million. It will target the population living in extreme poverty by providing income assistance combined with other initiatives in place against social exclusion.

The Ministry of Finance and the Ministry of Labour, Social Security and Welfare will be responsible for the design of the programme. The two ministries will agree on the criteria requirements and conditions regarding:

- beneficiaries;
- benefit amount;
- procedures for the provision of the benefit;
- pilot areas;
- implementing authority.

Flagship social welfare reform legislation

Law 4025/2.11.2011

Law 4024/2011

Law 4052/1.3.2012

Law 4075/2012

Law 4093/2012

Legislative Act 19 November 2012

Annex C
Overview of social welfare and related reforms in Greece in the last 20 years

This annex provides some background on social welfare reforms from the early 1990s to reforms introduced in 2011 and 2012. Recent changes suggest a promising acceleration in the reform process.

General organisation

Architecture

As most social protection systems in continental Europe, the Greek system was originally based on corporate mutual insurance schemes which have been gradually harmonised, extended and complemented by the state. The stepwise approach that has been followed in the construction of the social protection system has led to a complex architecture of benefits and contributions, which several waves of reform have tried to simplify and rationalise in the past 20 years.

It is usual to separate the Greek social protection system into three components:

- Social security, which can also be called social insurance, consists of contributory schemes, i.e. schemes under which the right to receive a benefit is conditional on a specific contingency and on the payment of contributions; in addition, the overall amount and duration of the benefits is often positively related to the amount of contributions which have been paid by the person prior to the contingency.
- Social solidarity, which can also be called social assistance, covers benefits which are not related to the occurrence of a particular event, but rather orientated towards needy persons; therefore, the benefits are usually means-tested, i.e. eligibility is conditional on a maximum level of resources (income, wealth).
- The national health system, finally, is meant to provide affordable health services to all citizens without any sort of restrictions.

While these general principles are simple and straightforward, in practice it can be difficult to delineate the three components, since elements of insurance, assistance and/or universal access can often coexist in the same social scheme. In particular, many social security funds deliver both contributory and non-contributory benefits, and one of the key objectives of recent reforms has been to better separate these elements.

Social security

Social security operates through schemes covering various categories of the working population. It is often presented as the sum of three pillars: *i)* the compulsory main and supplementary (or auxiliary) insurance, based on the pay-as-you-go system and operated through public institutions; *ii)* the occupational schemes which are optional and can

provide a complement to the public insurance and; *iii)* private insurance policies which are optional and individual.

The first pillar schemes are administered by legal bodies of public law called insurance funds, most of which are placed under the supervision of the Ministry of Labour, Social Security and Welfare. The number of such funds was brought down from 130 to 13 in 2008, as part of an effort from the legislator to rationalise the organisation of social security. Each fund manages pension, survivor's, invalidity and sickness insurance schemes for the benefit of a particular socio-professional group. The 13 funds together cover the vast majority of the population. The Manpower Employment Organisation (OAED), a separate entity which is also placed under the Ministry of Labour, Social Security and Welfare, manages an unemployment insurance scheme and provides family benefits to private sector employees.

The state also contributes to the financing of the social insurance schemes by means of periodical (mostly annual) subsidies to the social insurance institutions. Thus, the shortages of the funds are annually made up out of general taxation. The government finances most of the expenditure of the social insurance schemes for civil servants and farmers.

Social solidarity

The social assistance system forms the final safety net for persons with inadequate means. It is based on minimum income schemes for specific welfare target groups, such as the elderly, handicapped persons, single parent families and children in need. These schemes were mostly introduced in the 1960s and developed in the following decades.

The current system provides cash benefits, benefits in-kind and personal social services through decentralised legal bodies supervised by the Ministry of Health. In addition, it gives access to limited tax credits and a favourable tax treatment.

Under the National Social Care Scheme established in 1998, social care services are provided by local public institutions and accredited voluntary or non-for-profit associations, under the supervision of the Ministry of Health. Since the introduction of the so-called "prefectural self-government" in 1993, regional public law bodies became responsible for certain activities in the social welfare area. In each prefecture there is a social welfare department, which bears responsibility for the implementation of welfare programmes in the region; this department administers cash benefits financed by the Ministry of Health and promotes personal social services financed both by the ministry and the prefecture concerned.

The National Health System

The National Health System (ESY) was established in 1983 with the aim to guarantee free healthcare for the population. The ESY covers all residents of Greece, without any special entitlement condition, regardless of professional category or region. Within ESY, primary healthcare services are provided through rural health centres and provincial surgeries in rural areas, the outpatient departments of regional and district hospitals, the polyclinics of the social insurance institutions and specialists in urban areas. Secondary care is provided by public and private hospitals, as well as clinics or hospitals owned by social insurance funds.

The ESY operates in parallel to the healthcare branches of the various social insurance funds, and the conditions of this coexistence have never been sufficiently clarified, despite several attempts from the government. The possibility of integrating all

healthcare insurances schemes into the general framework of the National Health System has been considered – and abandoned – several times since 1996, until it was eventually decided as part of the 2010 reform of social security (see below).

Legal framework

The Constitution

The general principles governing social protection are provided by the Greek Constitution of 1975, last amended in 2001. In particular, the Constitution establishes an obligation for the state to provide social security for workers, defines universal healthcare and welfare rights, and places social protection rights under the principle of a "Social State of Law" (Box C.1).

Box C.1. Constitutional principles

Although the Constitution itself does not mention concepts such as social protection and social security, three of its provisions guarantee a set of fundamental rights in this regard: Section 21 defines healthcare and welfare rights; Section 22 (5) establishes social insurance rights for all workers and employees in Greece; finally, Section 25 (1), which was introduced during the Constitutional revision of 2001, places these rights under the larger principle of a "Social State of Law". The relevant articles are provided hereafter.

Section 21

1. "The family, as the basis for the preservation and progress of the nation, as well as marriage, mother and childhood are under the protection of the state.
2. Large families, war invalids and invalids of peacetime, victims of war, war widows and orphans, as well as the incurable physically and mentally sick, are entitled to special state care.
3. The state will care for the health of citizens and will adopt special measures for the protection of young people, the elderly, invalids, as well as for assistance to the needy.
4. For those without any or with insufficient accommodation, housing is subject to special state care.
5. The design and the implementation of demographic policies fall among the responsibilities of the state.
6. Persons with special needs are entitled to take advantage of measures, which guarantee their personal autonomy, employment inclusion and participation in the social, economical and political framework of the country".

Section 22

1. "Employment is a right and is placed under the protection of the state which watches over the creation of conditions for full-time employment for all citizens, as well as over the moral and material progress of the active, agricultural and urban population.

   All people in employment are entitled to equal remuneration for equivalent work, without distinction on grounds of sex or any other grounds."

5. "The state will care for the social insurance of the working people, as specified by law".

Section 25

1. "Human rights of individuals and members of the societal context as well as the principle of the 'Social State of Law' are guaranteed by the state. All public institutions are obliged to guarantee their effective implementation".

Laws and government regulations

At lower levels, the legislative framework of social protection conforms to Greece's highly legalistic approach to public governance issues. All social schemes need to have a formal legal basis defining their status, aim, governance structures, mode of operation, financing and resources. Government decisions also have to be enacted by the law or by lower level regulations for which the executive has received delegated powers from the legislative: presidential decrees, ministerial decisions and decisions of the social security administration. In the case of the latter, decisions are generally submitted for the prior approval of the supervisory ministry or body.

The most important legal references are the acts that regulate main and supplementary schemes as well as the laws adopted over the years to modernise the system, in particular Laws 3029/2002, 3655/2008, 3863/2010 and 3865/2010. Because of the large number of first-tier social insurance schemes, supplementary funds and mutual aid societies, social security law has been laid down in hundreds of legislative texts. A degree of harmonisation is urgently required and indeed efforts to this effect have been undertaken, most notably in 1992, 1999, 2002, 2008 and 2010 (see below). There is no codification of the existing legal texts.

Although the Ministry of Labour, Social Security and Welfare annually transmits a Social Budget to the President of the Parliament, the legislature does not have an effective role in supervising and controlling social expenditure which falls outside of the central government budget. In contrast with other European countries with similar social structures, the aggregate budget of social insurance funds is not presented to the Parliament for approval. The Social Budget includes only planned expenditure levels, for both the year under review and previous years, and does not provide any information regarding realised expenditure.

Appeal procedures

Social security disputes have to be addressed through administrative and, if necessary, judicial appeal procedures.

As part of their internal regulations, social insurance institutions have to offer individuals the possibility to ask for a reconsideration of their case. Administrative appeal mostly deals with an investigation into the facts upon which the decision was based, but sometimes also points of law are considered. It is possible that opportunity arguments are also dealt with. The administrative body in charge of such reconsideration can be the institution itself, a dedicated entity within its remit or a supervisory body.[1]

Internal remedies can also be assessed by the services of the Greek Ombudsman, introduced in 1996. According to the internal organisation of this institution, disputes between the administration and the citizens in cases relating to social insurance, welfare and healthcare issues are examined by the social administration department.

If the insured person still has objections against any administrative decision, he may appeal to the administrative courts. The judgment of the administrative court is final, leaving only the possibility of cassation by the Council of State; the Council of State only decides on points of law and is exclusively concerned with the legality of the decision.

Recent reforms of social protection

The governance of social protection has followed the same general trend as other areas of public governance in Greece in the past 20 years. Repeated attempts have been made to modernise the country's policies and governance structures, in particular during the process of accession to the Economic and Monetary Union (EMU). These efforts have, in some cases, led to substantial improvements. At the same time, however, there has been a degree of complacency for the country's persistent weaknesses in various areas of public governance, helped by the financial advantages brought about by EMU participation – until the 2009 financial collapse.

The social protection reforms of the past two decades have aimed at four distinct – often competing and sometimes conflicting – objectives:

- to adapt the pension systems to unfavourable demographic trends, a challenge shared by most OECD countries;
- to improve the social safety net in some particular respects;
- to address structural funding issues of social security; and
- to simplify and rationalise the system of main and supplementary insurance schemes. Five important episodes are briefly reviewed here.

The 1992 measures

In the early 1990s, the government introduced measures to improve the structural financial situation of the social security system, by both increasing social security contributions and curbing expenditure. In particular, eligibility and benefit conditions were hardened for all first-pillar pension schemes. Since the changes could not be applied retroactively to constituted pension rights, Law 2084/1992 introduced a difference of treatment between persons affiliated before 31 December 1992, who continued to benefit from the previous conditions, and persons affiliated from 1 January 1993 onwards, to whom the new framework applied, harmonising pension conditions for newly insured persons (after 1993).

The 1996-99 measures

In the second half of the 1990s, the government adopted a series of incremental reforms to reduce the number of social security funds, modernise and harmonise their governance, and improve minimum pensions.

In 1996, it created a new means-tested allowance for low-income pensioners called the Social Solidarity Benefit for Pensioners (EKAS).

In 1998, the government introduced for the first time a contributory pension for farmers, complemented with an "old-age pension for uninsured agricultural workers and farmers", in replacement of the farmers' basic pension, then a flat-rate payment which was not conditional on resource conditions and represented the country's largest non-contributory pension scheme. In return, the government committed state participation in the funding of the new scheme.

It is also in 1998 that the Labour Inspectorate was established, in particular in order to improve the control of social contribution payments and the fight against contribution evasion.

In 1999, the government decided to merge three first-tier insurance funds for categories of self-employed persons (the TAE, the Storekeepers' Insurance Fund; the TEBE, the Fund for Craftsmen and Small Entrepreneurs; and the TSA, the Fund for Motorists) into the OAEE. The merger was accompanied by an alignment of the TSA pensions, which were particularly low, on the TEBE's minimum pension level, as well as political assurances that the TAE pensions, which were higher on average, would not be reduced or frozen in the following years.

The implementation of Law 2676/99 reveals some of the structural weaknesses of the governance of social security. The government had initially planned that the transfer of the TAE, TEBE and TSA pensioners to the new fund would take place over four years – a fairly long transition period given the size of the funds. But it took the merger eight years to become effective, as the TAE, TEBE and TSA were eventually abolished and the OAEE instituted as a public law entity on 1 January 2007 (by Presidential Decree 154/06). The replacement rates continue to widely differ for the three categories of pensioners (Petmesidou, 2011, and it remains to be seen to what extent the administration of the three funds has actually been unified.

In addition, the government decided to merge 12 funds providing supplementary insurance to civil servants, thereby creating the TEADY.

The government also attempted to strengthen the principle of consultation with trade unions, industry organisations and experts in the management of social security. On the basis of the recommendations of an Advisory Tri-partite Committee, it created a number of new institutions in charge of harmonising the management practices of social security funds. A monitoring committee was established within the National Bank of Greece to control the management of the funds' financial assets, provide guidance on proper investment strategies and possibly impose financial sanctions on non-compliant funds. An agency was also created within the Ministry of Labour's General Secretariat of Social Security in order to monitor the disbursements of the sickness branches of main and supplementary schemes supervised by the ministry. Finally, a new insurance fund entitled "Organisation for the Healthcare of Civil Servants" was created under the supervision of the Ministry of Health with the aim of controlling the organisation, quality and funding of healthcare services.

The 2002 measures

In 2002, the government adopted a more accommodative strategy with the passing of Law 3029/2002 "Reform of the Social Insurance System". The law's provisions centred on changing the wage reference period used in pension calculation, increasing the minimum pension for post-1993 labour market entrants and reducing the minimum pension for older workers. These changes mainly benefited post-1993 first-time workers and were applied to the IKA-ETAM-ETAM and a number of other social insurance funds.

The institutional reform package involved the incorporation of all primary pension funds for private sector employees into the IKA-ETAM-ETAM by January 2008; the amalgamation of all auxiliary funds for private sector employees into a new fund (ETEAM), initially on a voluntary basis only; the functional and organisational separation of primary and auxiliary funds; and the creation of a National Actuarial Authority (EAA) to regulate pension funds. The 2002 legislation also permitted the establishment of voluntary fully-funded pension schemes managed solely by the social partners but these are few.

Alongside the 2002 legislation, the government forgave the IKA-ETAM debt to the state, agreed to settle the IKA-ETAM's debt to other social security institutions, agreed to provide the IKA-ETAM with guaranteed annual funding equivalent to 1% of GDP for 30 years and agreed to compensate the IKA-ETAM for losses arising from integration of smaller funds.

The 2005-08 measures

In 2005, the government published the *Greek National Strategy Report on Pensions*, which set out the rationale, framework and objectives for a new round of pension reforms. In the following years, it introduced a series of measures to improve the financial situation of social security and undertook a deeper modernisation and rationalisation of the system.

The same year, a number of banking sector funds were merged with the IKA-ETAM.

In 2007, the government replaced the public institution for social security information systems KHYKY by a new organisation named IDIKA (Law 3607/2007). The IDIKA was established as an affiliate of the General Secretariat for Social Security, which has to approve its business plans and budget. The IDIKA's board of directors is appointed by the Minister for Employment and Social Protection. The IDIKA was given the responsibility of issuing social security numbers (known as AMKA numbers) for insured persons and maintaining the central AMKA database. The IDIKA also provides some bureau services for the IKA-ETAM, the OGA and other social insurance institutions.

In 2008, the government passed Law 3655/2008 which consolidated 130 funds supervised by the General Secretariat for Social Security into 13 funds: 5 primary funds, 6 auxiliary funds and 2 welfare funds. The law also stipulated that the mergers should be completed by 1 October 2008.

In addition, the law included important policy measures, including the gradual increase of the minimum pension age to 60 for those who have worked for 35 years under the IKA-ETAM, an increase in the minimum number of insurance days per year required for health and other benefits, a reduction of auxiliary pensions to 20% of pensionable salary and the introduction of incentives to stay longer in active employment.

The law also established the Social Security Fund (SSF) with the mission to provide financial support to the social insurance system after 2019, and the promise to allocate the fund's annual resources equivalent to 4% of VAT revenue, 10% of privatisation revenue and 10% of social contributions.

The law finally prescribed that an AMKA number be assigned to every insured person and remain with them throughout their life irrespective of the fund(s) to which they are affiliated.

The deadline for the implementation of the law's measures was set at 2013.

The 2010 measures

Social security Laws 3863/2010 and 3865/2010 streamlined and consolidated social security institutions and processes. Key changes include:

- a unified institution to manage the reserve funds of the social security institutions;
- a unified mechanism to control the payment of social security contributions;

- a unified system to manage resources of the health branch of the social security organisations;
- the establishment of Service Centres for the Insured Persons (KEA);
- a unified pension system with common terms and conditions;
- a unified system for pensioners who undertake a job after their retirement;
- a unified institution for the determination of incapacity and a unified regulation determining the rates of incapacity;
- a unified and permanent list of heavy and unhealthy professions;
- new processes of insurance for workers who are occupied at home and are paid per hour or per day;
- incentives for employees to extend their working life and disincentives to retire early;
- a unified method via the banking system for all transactions in the field of labour relations;
- a unified centre of control and payment of pensions;
- a unified system to regulate debts to the institutions of social security;
- a better regulation of the system of successive insurance;
- separation of the health branch and services from the pension system;
- the age of retirement is associated with the increase of life expectancy.

In order to ensure the future (from 2019 onwards) financing of the pension branches of the social security bodies and in the context of inter-generational solidarity, the Generational Solidarity Insurance Fund (AKAGE) was established, with resources paid into it since 1 January 2009.

The 2011-12 measures: Healthcare, pensions and the labour market

NOTE: Information supplied by the Greek Ministry of Labour, Social Security and Welfare

Healthcare

A significant effort to reform the health sector is currently underway in order to enhance its efficiency and achieve substantial cost savings. The first step already undertaken in this direction includes measures to enhance the monitoring mechanism of health expenses, while the bulk of institutional reforms being through Law 3918/2011 regarding the overhaul of the healthcare sector.

Healthcare reform is a crucial component of Greece's fiscal consolidation efforts, given the high share of public expenditure that is spent on healthcare.

Greece continues to implement the comprehensive reform of the healthcare system started in 2010 with the objective of keeping public health expenditure at or below 6% of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include the integration of primary healthcare, strengthening central procurement and e-health capacity. More specifically:

- Procurement for pharmaceuticals will henceforth be planned at a regional level via the development of regional programmes for goods and services. These programmes have to be adopted by the Co-ordination Committee for Procurement (CCP), which is responsible for assigning a contracting authority and the tender mechanism for each type of procurement. A significant novelty is the possibility of CCP to select as contracting authority a company or a private agency, achieving economies of scale and overall efficiency.
- A new system for the management and pricing of pharmaceuticals has been established. This system favours higher use of generic medicines and includes an integrated system of electronic monitoring of doctors' prescriptions (e-prescription). A negative list of drugs has already been publicised while the positive list of drugs is already finalised by the National Drug Organisation (EOF) and it is already in operational mode.
- The single Fund for the Provision of Social Insurance and Healthcare (EOPYY) has been established and is currently under operation. It will act as a unique buyer of medicines and healthcare services for all those insured, thus acquiring higher bargaining power against suppliers and hence achieving significant savings. The new fund will lead to a substantial reduction of administrative staff of at least 50% and of contracted doctors of at least 25% compared to the four originating funds combined. The aim is to achieve a ratio of patients per doctor in line with the European average.
- The pricing of medicines and all aspects of drug policy have been transferred to the Ministry of Health and the EOF. Moreover, the profit margin of pharmacies on retail prices and that of wholesale companies distributing pharmaceuticals are expected to drop sharply. The complete price list for the medicines in the market is published using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis.
- The programme of hospital computerisation is progressing and hospitals are upgrading their budgeting systems with the introduction of the double-entry accrual accounting. The country's largest hospitals and most of the medium-sized ones are already fully computerised. Concerning audited accounts, it is worth noting that 100 out of 130 hospitals already publish audited accounts, while internal controllers will have been assigned to all major hospitals.
- Specific actions related to the rationalisation of wages and human resource management in the healthcare sector have been pursued along the way, following a first draft report presenting the structure (age, specialty, grade, regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds.
- Finally, an independent task force composed of leading healthcare experts that was formed under the auspices of the Minister of Health, has produced a detailed blueprint report on the medium-term prospects and challenges of the Greek healthcare sector.

Flagship legislation on healthcare reform

Law 3863/2010

Law 3918/2011

Law 4025/2011

Law 4052/2012

Pensions

Greece faces the challenge of ensuring the long-term sustainability of its pension system in the wake of an ageing population and a public debt crisis. Pension expenditure over the long-term is projected to increase by 12.4%, a rate dramatically higher than the projected EU average (2.5%).

To address this challenge, the Greek government initiated a pension reform which resulted in the adoption by Parliament of two amended bills (on public and private sector arrangements) in July 2010. The reform has introduced a new, transparent system to strengthen the link between contributions and benefits and aims at reducing the projected increase in pension expenditure over the next 50 years to below 2.5% of GDP.

The pension system is being further rationalised by better consolidating the 13 social insurance funds that emerged out of the 2008 legislation (Law 3655/2008). Significant changes in pensionable income and replacement rates were introduced; retirement age and length of service increased so as to be equalised across the working population. The minimum contribution period to receive a full pension will gradually increase from 37 (or 35) years to 40 years by 2015, with retirement age set at 65 years for the entire working population. Pension benefits will be reduced by 6% each year for individuals who retire between the ages of 60 and 65 with less than 40 contribution years. Provision is also made for revising pensionable age from 2021 onwards (and every three years) in respect to longevity.

Private sector

The main elements of the private sector pension reform (Law 3863/2010) are presented below:

- Uniformity rules will apply for all insured persons and pensioners, ending the fragmented current system. The pension reform aims at reducing the projected increase in public spending on pensions over the period 2010-2060 to 2.5% of GDP.
- Pensionable earnings are from now on calculated on a lifetime basis.
- The new system considerably strengthens the link between contributions and benefits and consists of a contributory pension on top of a non-contributory pension.
- The existing pension funds are merged into three funds leading to considerable savings.
- As of 1 January 2011 new employees in the public sector will be integrated in the private employees pension fund (IKA-ETAM).

- The years of work that are required for a full pension have increased to 40. A statutory retirement age at 65 years of age indexed to changes in life expectancy (effective 1 January 2021), will be established for both men and women.
- A means-tested pension is included for all citizens older than the normal retirement age so that an important safety net is provided consistent with fiscal sustainability.
- Penalties for early retirement are increased in magnitude and scope.
- There is an average reduction of pension outlays weighing predominantly on the 25-35 age bracket.
- The list of hazardous occupations is currently being updated and streamlined.
- Retirement age limit differentials between men and women retirees are abolished.
- As of 1 January 2011 the retirement age limit increase will also be applied to women employees working in the private sector.
- Social security benefits will be indexed on a yearly review basis to the percentage change of the Consumer Price Index and the GDP.
- From 1 October 2010 a measure is applied imposing an *ad hoc* contribution on pensions exceeding the amount of EUR 1 400.
- As of the effective date of the new law any voluntary exit plans will be abolished.
- The healthcare sectors of all major social insurance funds (IKA-ETAM, OGA, OAEE, public sector) will be separated from their pension counterparts and form a single healthcare insurance fund which will henceforth act as a unique buyer of medicines and healthcare services for all those insured, thus acquiring higher bargaining power against suppliers..
- Assistance benefits are separated from insurance benefits, aimed at improved transparency in the finances of the benefits in question.
- Important administrative measures to fight contributions evasion are put into place, such as the development of control systems combating social insurance contribution evasion, the implementation of a single control system of pension payment and the implementation of a monitoring system for forced collection of social contributions.

Public sector

In addition, the public sector pension reform (Law 3865/2010):

- Brings the pension system of civil servants into line with that of the private sector pension system.
- Ensures a more just and equal treatment of all public sector employees.
- Introduces a unified statutory retirement age of 65 for both male and female public sector employees by December 2013, bringing Greece into line with the binding decision of the European Union Court of Justice and raising considerably the effective retirement age in the public sector.

- Creates a sustainable public sector pension system – which currently makes up more than 10% of budget expenditures.

Measures planned to complete the pension reform

An in-depth revision of the functioning of secondary/supplementary public pension funds is in progress. The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision should achieve:

- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

If the projections by the National Actuarial Authority show that the projected increase in public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-2060, the government will also revise the main parameters of the pension system provided by Law 3863/2010. The revision is designed in close consultation with the European Commission, the International Monetary Fund and the European Central Bank staff.

In addition, the government is currently substantially revising the list of heavy and arduous professions, and reduces its coverage to no more than 10% of the labour force. The new list of heavy and arduous professions shall apply with effect from 1 July 2011 to all current and future workers.

Flagship legislation on pension reform

Law 3863/2010

Law 3986/2011

Law 3996/2011

Law 4024/2011

Law 4051/2012

Law 4052/2012

Labour market

Since 2011, a series of labour market reforms have been put into effect by means of law, aiming at increasing the competitiveness of the economy and boosting growth prospects through the acceleration of structural reforms in the labour market. More specifically:

- Labour cost reduction and facilitation of access to employment: according to the provisions of Law 4046/2012 (in force from March 2010), a series of working allowances and benefits are repealed and the minimum wage level in the private sector is reduced by 22% for workers above 25 years old. In order to tackle the severe problem of youth unemployment, the minimum wage level in the age cohort up to 25 years old is reduced by 32%. Staff regulations in the private or public sector which provide for work permanence are abrogated and any kind of wage increase imposed by law, collective agreements or arbitration decisions is

being frozen until unemployment falls below the threshold of 10% (at 20.7%, Q4, 2011).

- Flexible forms of employment: the maximum duration of successive fixed-term employment contracts is extended from two to three years and the period during which the renewals can take place before the contract is automatically transformed into a permanent contract, is extended as well (Law 3986/2011). Furthermore, more flexible conditions for the regulation of working time in private undertakings are put in place and agreements on working time flexibility are facilitated.
- Collective bargaining is becoming more flexible: the so-called "principle of favourability" in collective bargaining is waived and firm-level agreements take precedence over any other more favourable collective (sectoral or professional) agreement, as long as the firm-level agreement is at least as favourable to the employee as the national collective agreement. At the same time, workers associations (at least three-fifths of the company staff) are given the right to conclude with their employers firm-level agreements, whereas the procedure to set up a union is greatly accelerated in order to facilitate the whole process. (Law 4024/2011). Collective agreements can last for a maximum duration of three years and thereafter their terms can remain valid (after effect) only for a period up to three months (compared to six months before) and only for those terms which concern wage issues (Law 4046/2012). Changes in the arbitration system are also introduced, as employees can resolve to it, only after common agreement with the employers and only concerning wage issues (Law 4046/2012).

Flagship legislation on labour market reform

Law 4019/ 2011

Law 3996/2011

Law 3986/2011

Law 4024/2011

Law 4046/2012

Law 4052/2012

Notes

1. In most cases, appeals are examined by the fund's management board. However, the two largest funds (the IKA and the OGA) have special internal entities in charge of litigious decisions.

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Annex D
Cost-benefit analysis of proposed reforms to the Greek social welfare system

Approach and main results

Scope

This annex presents an evaluation of the costs and savings of five possible reforms suggested in the report, namely:

- Improved targeting of the existing social protection system: we simulate the saving from restricting access to benefits to the poorest households (except for old-age and survivor's pensions), excluding or not disability pensions as well as temporary income-replacement benefits (unemployment, maternity and sickness benefits).
- Extending the duration of unemployment benefits: we simulate the cost of replacing the existing unemployment assistance programme with an extension of the unemployment insurance (UI) benefits by an additional 12 months (EUR 460 per month) to the long-term unemployed who exhausted their initial UI rights (requiring either 12 months, or alternatively 6 months of initial UI rights), or with no initial UI entitlements, and whose household income is below a given threshold.
- Replacing existing housing programmes with a new targeted housing programme: we simulate the net savings from replacing the existing programme (currently only for households contributing to the social fund) by a flat-rate benefit (EUR 100) or increasing with the size of the family (from EUR 50 to EUR 150), for all households whose income is below a given threshold, or only for households with at least one child whose income is below the same threshold.
- Replacing existing family programmes with a new targeted family programme: we simulate the net savings from replacing the many existing programmes by a single child benefit (EUR 50 per child) for households whose income is below a given threshold.
- Replacing existing disability programmes with a new single targeted disability programme: we simulate the net savings from replacing the many existing disability programmes by a single disability benefit (EUR 500 per month) for disabled people whose household income is below a given threshold.

We exclude from this simulation exercise old-age and survivor's benefits, consistent with the main scope of this report, but we do not exclude seniors per se from our simulations (older people can receive many types of benefits). The level of benefits for new programmes was chosen as an example, but is broadly in line with the level of

support provided by existing programmes. For the record, the minimum wage in Greece before the recent reform was about EUR 740 per month, equivalent to 49% of the median wage.

In addition to estimates of costs and savings, this annex provides background information on the main characteristics of social programme beneficiaries (income, size, number of children) before and after the simulated reforms.

Method and limitations

Our figures are rough estimates of savings and costs stemming from each of the simulated reforms, before any adjustment of household/individual behaviours, based on the number of new eligible families or individuals, as identified in the 2010 Greek Statistics on Income and Living Conditions (SILC) survey, which refers to incomes for the year 2009, and according to the new policy parameters. They aim at providing rough orders of magnitude based on simple scenarios. More precisely, our calculations are based on the following assumptions:

- All costs and savings are estimated *ex ante*, since we do not have any available information to infer how households would adjust their behaviours on the labour market to the new programme eligibility conditions.
- Savings estimates from phasing out old programmes are based on the level of expenditure from administrative records in 2009;[1] the SILC tends to underestimate the level of benefit recipiency and spending for various programmes; but actual savings might still be higher than those estimated on the basis of 2009 data because social spending probably increased further in 2010 and 2011 due to the economic situation.
- Cost estimates of new programmes are based on the eligible population as identified on the basis of characteristics of the population in the SILC in 2009; the SILC provides reliable information on household and individual characteristics, such as income level, health and employment status, size and composition of households, living conditions; but the economic situation of many households has probably deteriorated further since 2009, which might lead to higher costs of new programmes than estimated.
- For the purpose of targeting, income is measured at the household level and is equivalised to take account of family size: it corresponds to the (net) disposable income, including old-age and survivor's pensions, but excluding other social transfers (we aim at targeting families that would be among the poorest before transfers); this income is "equivalised" i.e. adjusted to account for the size of family,[2] and then compared with the overall income distribution to measure eligibility under a given threshold condition (e.g. to belong to the 20% of poorest households); income tends to be slightly higher in household surveys as compared to tax records (indicating some tax evasion),[3] which could lead to an overestimation of savings and underestimation of costs if tax declarations were used to implement targeting.
- We did not measure the impact of introducing "differential" rates for benefits, which would decrease the level of benefits as disposable income gets closer to the eligibility threshold. In practice, this feature would probably help avoid work disincentives and other threshold effects; it could have an impact on the effect of reforms on poverty (avoiding a slight rise in poverty) if the threshold is close to

the poverty line, but the fiscal consequences are likely to be of second order compared with our simulations (increase in benefits or decreases for some households compared with our baseline simulations).

- We assume some non take-up when simulating the impact of new benefits (details are provided in the sections below). In OECD countries, take-up is usually about 40-80% for social assistance and housing benefits and between 60% and 80% for unemployment benefits.[4] In Greece, however, take-up can be low for social assistance benefits.[5] We chose a take-up of 60% for all new targeted benefits, except for unemployment (70%). Adjusting take-up upward or downward would merely change estimates of fiscal impact in the same proportions.
- Interactions between reforms and the tax system are not considered, even though savings from reforms are also likely to generate some losses in tax revenue for benefits which are currently taxed;[6] with the sole exception of the first reform (general targeting, where net savings could be reduced), these interactions are probably of second order, because income is not taxed below about EUR 12 000, and some benefits (unemployment, disability allowances and some family benefits) are not taxed if income is below EUR 30 000.
- Interactions between the proposed reforms are not analysed: savings stemming from a combination of several of these reforms cannot be simply estimated by adding up savings from each separate reform. For instance, targeting all existing categorical benefits (reform 1 in the above list) would exclude from programmes many recipients; this would certainly interact with extending unemployment benefits to people with no previous UI entitlements (one of the options of reform 2) leading to higher caseloads than those estimated.
- Estimates are for a full year, assuming complete implementation of new policies, and complete phasing-out of old programmes when applicable.

Data

Our main source of information is the SILC for the years 2008, 2009 and 2010 (latest available). These waves provide information on 2007, 2008 and 2009 incomes and benefits, respectively. We only show results based on information for 2009 in this annex, but we also performed the calculations for the two other years (available on request).

The SILC consists of a sample of about 14 000 people and notably contains detailed information on income, health, work and family status for individuals, as well as income, composition and general living conditions for households in Greece. Income data include detailed information about social transfers at the programme level: amount received and average number of months of receipt.[7] Not all programmes are listed in the SILC questionnaires but the main ones are included, providing useful information on the characteristics of beneficiaries. However, the SILC information typically yields lower spending than recorded in administrative databases for a given year for most branches of social protection. But this bias does not *a priori* alter the **relative** simulated savings (expressed as a percentage of decrease in spending) stemming from targeting the existing programmes. When the reform implies to phase out existing programmes, we calculated savings directly from administrative records which are the best available source. When the reform implies to create new programmes, we relied on SILC for the identification of eligible households/individuals because this survey provides the best possible source of information on their demographic and economic characteristics.

In addition to the SILC, some complementary sources of information were used:

- the European version of the SILC (EU-SILC) for the overall disposable household income estimates;
- the EUROMOD Country Report for Greece to cross-check assumptions and verify existing programme conditions;
- administrative data on the numbers of recipients and expenditures as collected during the mission.

Figure D.1 shows the different income thresholds used in our simulations (as well as the corresponding average income). They correspond to the income level below which households belong to the 20% (decile 2), 30% (decile 3) and 40% (decile 4) of poorest households (based on equivalised income or not) and as estimated from the EU-SILC for 2007, 2008 and 2009. The poverty rate is 20.5% for 2009, based on all disposable income (equivalised); without social transfers (but including old-age and survivor's pensions), it would be about 25% keeping the poverty threshold unchanged (i.e. 60% of the median disposable income).

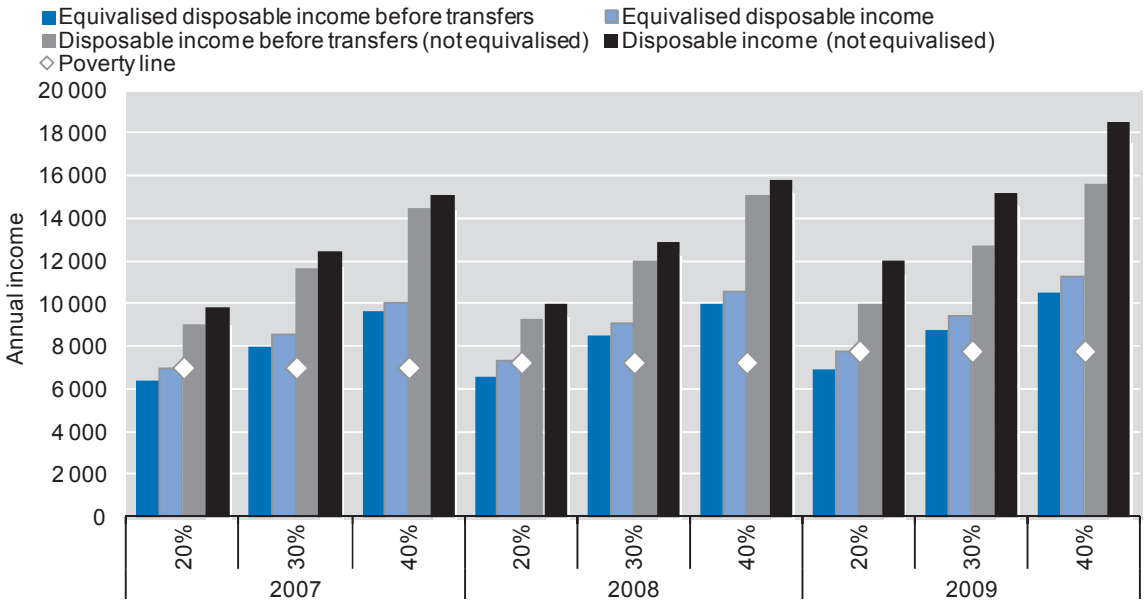
Main results

Estimates for each reform are presented separately in the following sections. Table D.1 summarises our results for the various scenarios based on equivalised income and an income threshold for targeting the 20%, 30% or 40% of the poorest. Each reform was analysed independently and, again, costs and savings estimated for each reform here cannot be simply summed up, even though in principle these reforms could be combined.

- The most important savings would stem from targeting all social programmes at the 20% of poorest before transfers, generating as much as 1.5% of GDP in savings based on 2009 figures. However, this targeting would increase the poverty rate in our simulation because we did not introduce differential rates, as mentioned above. A targeting threshold somewhere between 20% and 30%, say at 25% (not shown here) would generate about 1.3% of GDP of savings and would not increase the poverty rate. This broad reform would imply targeting disability pensions as well as temporary income-replacement programmes such as maternity, sickness or unemployment (i.e. to not pay these benefits to those living in households with sufficient income); excluding these programmes from the reform would still save 0.5% of GDP at the 20% threshold. The estimates assume that targeting could be implemented with a high degree of precision, and that it would not be easy for households to adjust their income declaration downward in order to become eligible. This might be an issue especially for farmers and independent workers.[8]
- Creating an unemployment assistance programme requiring previous exhaustion of UI rights would not be costly but would not alleviate poverty either because most long-term unemployed did not have any previous UI rights. Extending the duration of UI benefits with no condition on previous UI eligibility would significantly reduce poverty (by 1.3 points), at a cost of 0.2% of GDP at the 20% of poorest threshold.
- Creating a new housing programme at a flat rate of EUR 100 per month could reduce poverty if targeted at the 20% or 30% threshold, at a cost of 0.1% of GDP. Targeting on families with children would halve the cost, but also limit the impact on poverty.

Figure D.1. **Annual income thresholds used for targeting and average incomes**

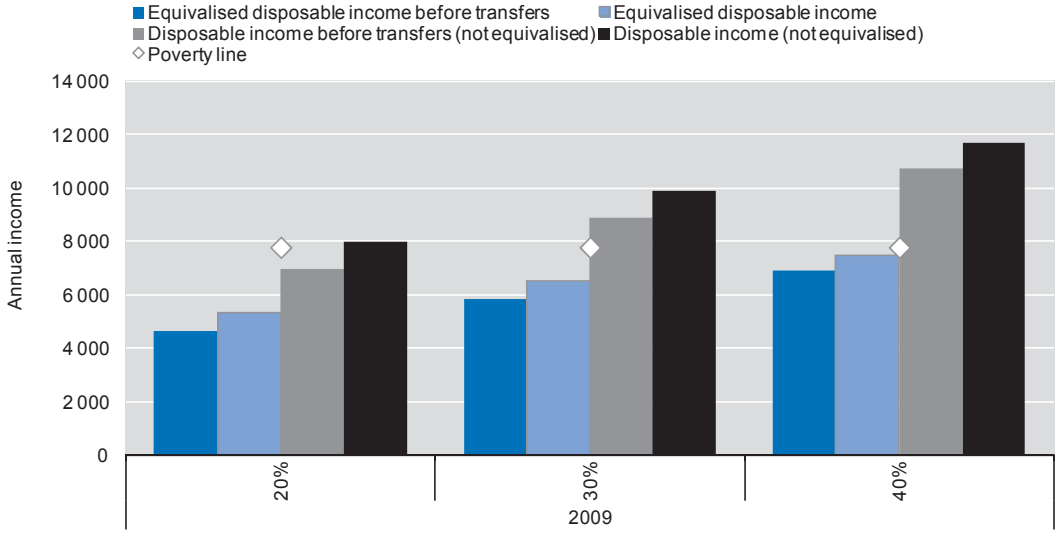
A. Income thresholds, in EUR



Note: In 2007, 20% of households had an equivalised disposable income before transfers (but including old-age and survivor's pensions) at, or lower than, EUR 6 351 (this equivalised income before transfers is the basis used in our simulations for targeting benefits); 20% of households had an equivalised disposable income below EUR 7 000, etc.; the poverty line is comparable to the equivalised disposable income (including all transfers), since it corresponds by definition to 60% of the median equivalised disposable income; the disposable income before transfers (again including old-age and survivor's pensions) is a measure of effective average household income at each threshold.

B. Average income

By decile, in current EUR for 2009



Note: In 2009, the 20% of poorest households based on equivalised disposable income before transfers (those having an income below EUR 6 351) had an average equivalised disposable income before transfers of EUR 4 682 (this includes old-age and survivor's pensions), an average equivalised disposable income (including all transfers) of EUR 5 791, an average (non-equivalised) disposable income before transfers of EUR 6 917, and an average (non-equivalised) disposable income of EUR 8 640.

Source: OECD estimates from SILC.

Table D.1 **Net saving from various reform scenarios of social programmes for the year 2009**

Reform	Cost of related existing programmes, based on 2009 spending from administrative records (% of GDP)	Estimated net savings (-)/cost (+) after reform Based on 2009 spending/income (% GDP)			Estimated change in poverty rate Based on 2009 poverty (20.5%) (percentage point)		
		Targeting the 20% of poorest	Targeting the 30% of poorest	Targeting the 40% of poorest	Targeting the 20% of poorest	Targeting the 30% of poorest	Targeting the 40% of poorest
Targeting the existing social programmes for incapacity, unemployment, family programmes – excluding all old-age pensions and survivor's + housing	3.1	-1.5	-1.1	-0.9	1.6	0.0	0.0
– excluding all old-age and survivor's + disability pensions and housing	1.7	-1.2	-0.9	-0.7	0.0	0.0	0.0
– excluding all old-age and survivor's + disability pensions, housing, unemployment, maternity and sickness	0.8	-0.5	-0.4	-0.3	0.0	0.0	0.0
Extending the duration of UI benefits by 12 months[1] – requiring 12 months of previous UI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– requiring a min of 6 months of previous UI	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
– no requirement of previous UI	0.0	0.2	0.3	0.3	-1.3	-1.4	-1.4
Replacing existing housing programmes with a new single targeted housing programme[2]							
– flat rate	–	0.1	0.1	0.1	-0.1	-0.5	-0.5
– flat rate, at least one child	–	0.0	0.0	0.0	0.0	-0.3	-0.3
– family-size related rate	–	0.1	0.1	0.1	0.2	0.0	0.0
– family-size related rate, at least one child	–	0.0	0.0	0.1	0.2	0.0	0.0
Replacing existing family programmes with a new single targeted family programme [3]	0.5	-0.4	-0.4	-0.4	0.4	-0.1	-0.1
– excluding life-long pension for mothers having more than three children	0.4	-0.3	-0.3	-0.2			
Replacing existing disability programmes with a new single targeted disability programme[1]	1.0	-0.6	-0.4	-0.4	0.2	-0.2	-0.2

Notes: All figures based on equivalised incomes for targeting purpose: *i)* 2009 estimates; sometimes include 2010 administrative figures when data are missing for 2009; *ii)* analyses are done independently, no cross-effect of an eventual simultaneous application of all reforms was done; therefore, estimated savings and costs of the reforms cannot be summed up without further analysis; *iii)* we assume no change in the contributions to social funds even though contribution-based benefits will be replaced by new targeted ones.

1. Average of low and high estimates when available. 2. We assume no savings from phasing out the OEK, the housing fund, since the corresponding social contributions will disappear as well. 3. We assume no change in the contributions to social funds even though contribution-based benefits will be replaced by new targeted ones.

Source: OECD estimates from SILC (2010 questionnaire, incomes of 2009) and administrative records.

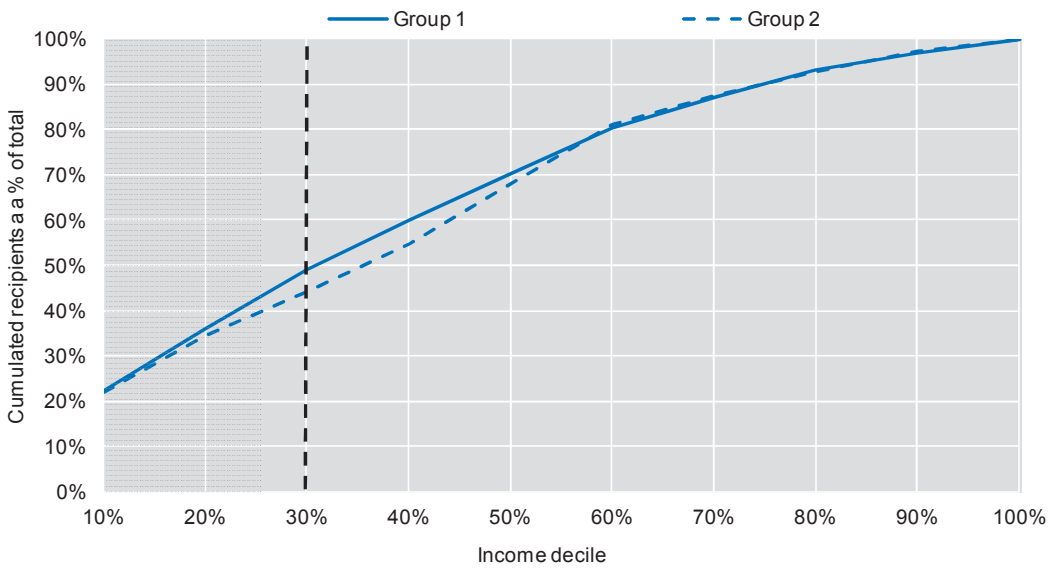
- Replacing all existing family programmes by a flat-rate child benefit could reduce poverty if targeted at the 30% of poorest households (but not at the 20%) and would still allow saving 0.4% of GDP because existing programmes are widespread and poorly targeted.
- Replacing all existing disability programmes by a single benefit could also reduce poverty if targeted at the 30% of poorest household (but not at the 20%) and would still allow saving 0.4% of GDP at this threshold.

1. Targeting existing social programmes

Current situation and proposed reform

The Greek social protection system includes a very large number of benefits, poorly targeted in general. An overall picture is presented in Figure D.2: it shows the cumulative distribution of the beneficiaries of the main social programmes identified in the SILC according to their total disposable income before transfers (but including old-age pensions). As an example, the threshold of 30% is shown on these figures, which corresponds to a threshold slightly higher than the poverty zone (shown in a grey area).[9] The savings from targeting beneficiaries whose household income is below this level appear to be large for all categories of benefits, notably family and disability benefits.

Figure D.2. **Cumulated distribution of beneficiaries along the household income distribution in 2009**



Note: The grey area corresponds to beneficiaries living in households below the poverty threshold. In 2009, 49% of beneficiaries of the Group 1 programmes belonged to the 30% of poorest households in the country, based on household income before social transfers (but including old-age and survivor's pensions).

Source: SILC (2009), *http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc*.

The proposed reform aims at improving the targeting of the benefits included in the SILC questionnaire (excluding old-age pensions and survivor's pensions) by adding to the existing eligibility conditions a maximum (equivalised) income threshold for households to which claimants belong. Neither elimination of existing programmes nor

creation of new ones is considered here. This exercise merely aims at downsizing programmes while maintaining protection for the poorest. For the purpose of our calculations, we distinguish two broad types of benefits:

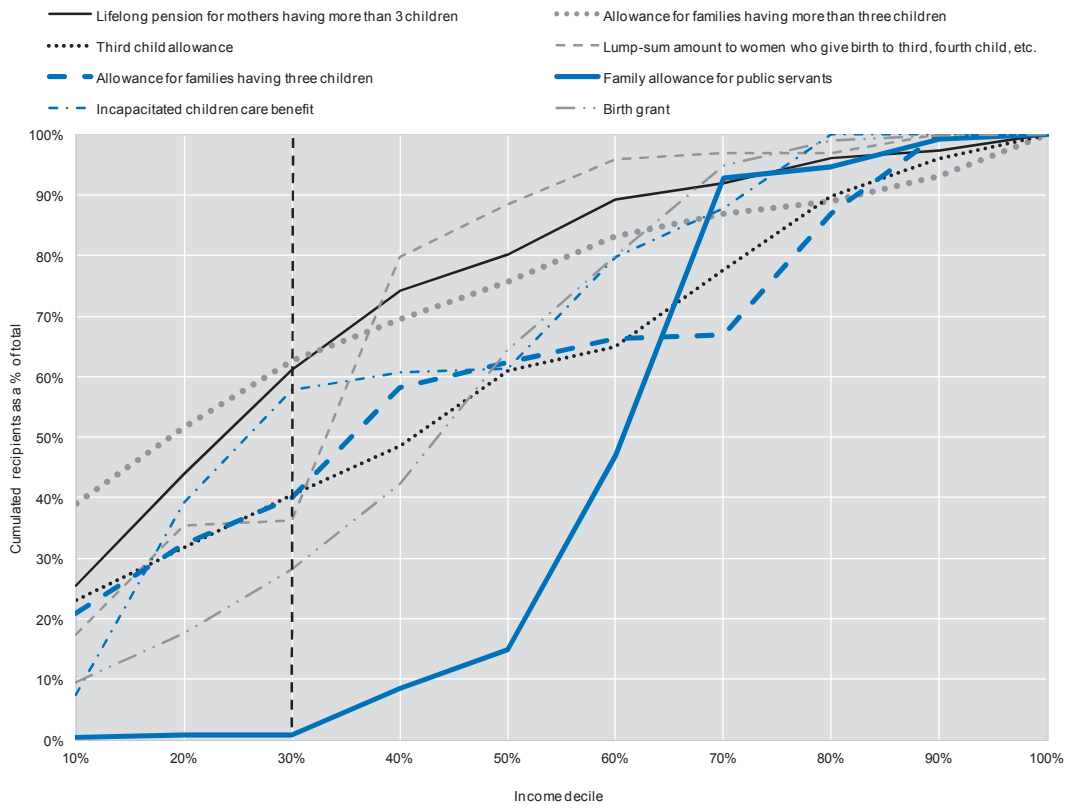
- Group 1 includes benefits mainly targeted at inactive people, i.e. people not normally working nor looking for a job, plus supplements.[10] For those benefits, usually received all year long, the income test can rely on the past annual household income. Indeed, inactive people are not supposed to work on a regular basis; if they do so, they are not supposed to be eligible to benefits under our targeting rule. It includes the EKAS but excludes the minimum pension for old age. Similarly, supplements can be cumulated with some earned income but should not be received above a certain level of income whatever its origin.
- Group 2 includes benefits mainly targeted at active people,[11] normally working but temporarily deprived of work, like unemployment insurance/assistance, sick leave or maternity leave. It excludes the unemployment assistance for older workers (subject to a recommendation for extension). For those income-replacement benefits, by nature temporary, imposing an income test is not standard, and in any case such a test should be based ideally on the household income level at the time of the claim, not on the previous year's income declaration. Estimating the number of eligible people based on the previous year's total household income could lead to wrongfully excluding potential claimants who had some earned income but are now without work. Unfortunately, we cannot observe in the SILC the distribution of earned income over the year. We try to circumvent this problem and approach this rule by excluding from the observed past household income any income earned directly by the claimant.

Housing benefits are not considered in this simulation since, at the time of the simulation, the phasing out of the OEK was already being considered. According to the SILC, in 2009, the aggregate spending on the considered benefits in both groups was about EUR 3 400 million (EUR 2 450 million for Group 1 benefits and EUR 950 million for the Group 2 benefits), that is about 1.5% of GDP. This amount is largely underestimated for almost all programmes: according to administrative data (stemming from the Greek administration and the *SOCX database*), expenditure associated with these programmes was about EUR 5 200 million (EUR 3 900 million[12] for Group 1 benefits and EUR 3 300 miilion for Group 2 benefits), which is about 3.1% of GDP. This should not bias *a priori* the estimated decrease in spending stemming from targeting.

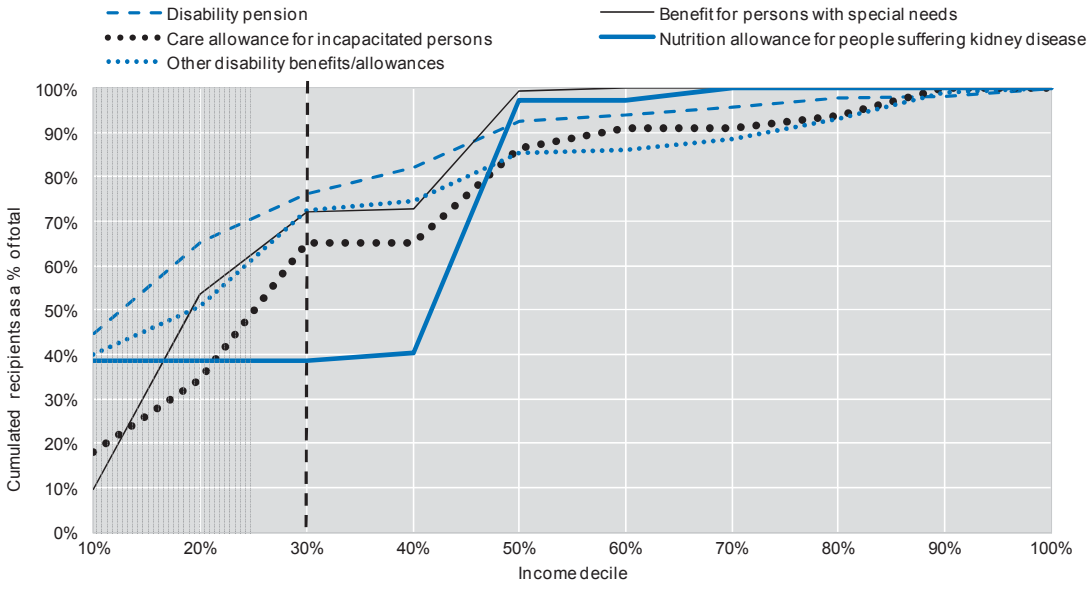
These benefits are currently badly targeted at poor households. On average, about 50% of the programmes' beneficiaries in Group 1 belonged to the 30% of poorest households in the country, based on household income before social transfers, and this ratio is about 45% for programmes in Group 2 (see Figure D.2, and more details in Figure D.3). Of course, this reform assumes that targeting could be implemented with a high degree of precision. This is not impossible since some programmes are already targeted in Greece, such as housing programmes for insured households (very recently), unemployment assistance of old-age workers, or several family benefits (such as the large family allowance, the third child allowance or the financial assistance to low-income families provided by the Ministry of Finance). But carried out on a large scale, it would become crucial to base targeting on reliable information on income. Notably, it should not be easy for households to adjust their income declaration downward in order to become eligible for the benefits. This might be an issue, especially for farmers and independent workers.

Figure D.3. **Cumulated distribution of beneficiaries along the income distribution in 2009**

A. Family benefits



B. Disability benefits

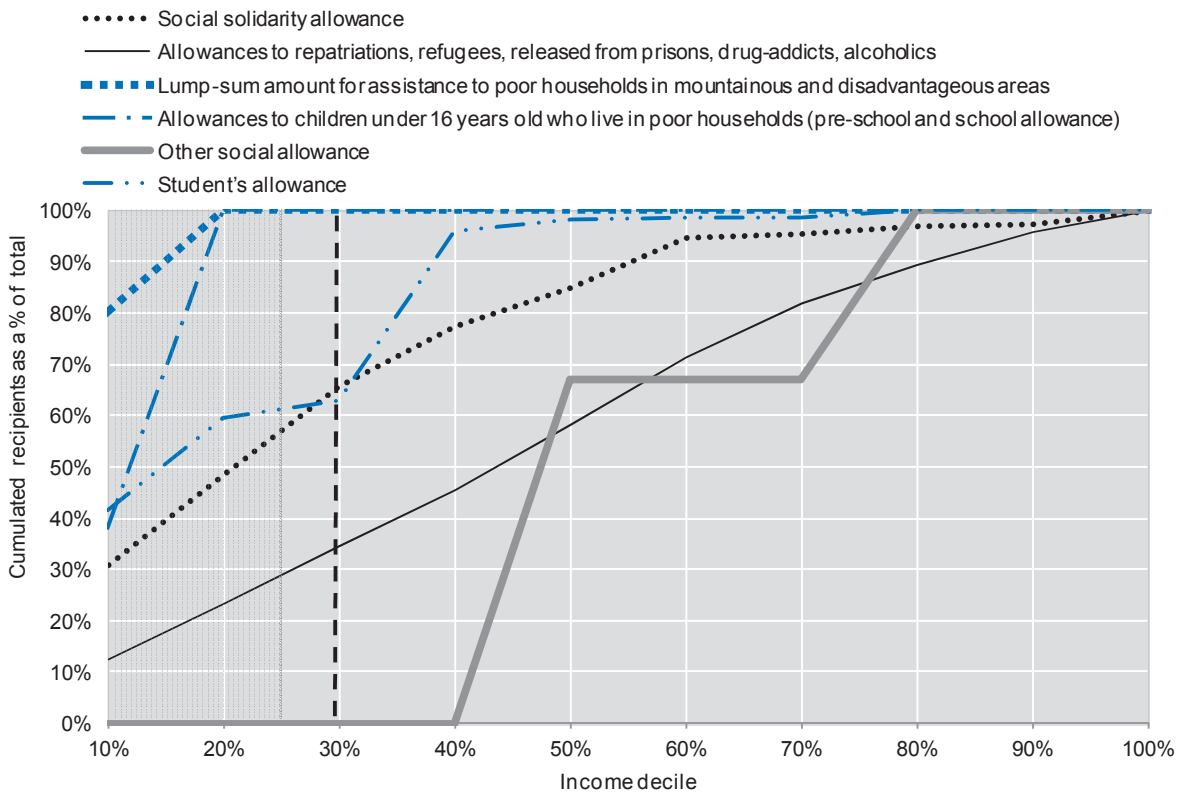


Note: The grey area corresponds to beneficiaries living in households below the poverty threshold (25% before transfers, about 20% after transfers). In 2009, 63% of beneficiaries of the "Allowance for families having more than 3 children" (Panel A) belonged to the 30% of poorest households in the country, based on household income before social transfers (but including old-age and survivor's pensions).

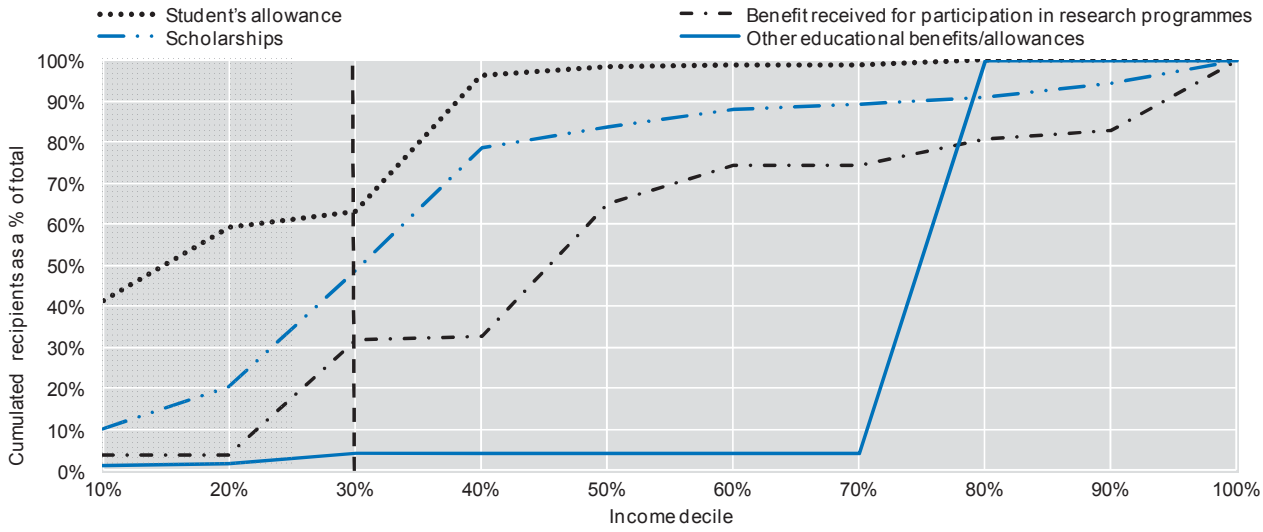
Source: SILC (2009), *http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc*.

Figure D.3. **Cumulated distribution of beneficiaries along the income distribution in 2009** (*cont.*)

C. Other social benefits



D. Educational benefits

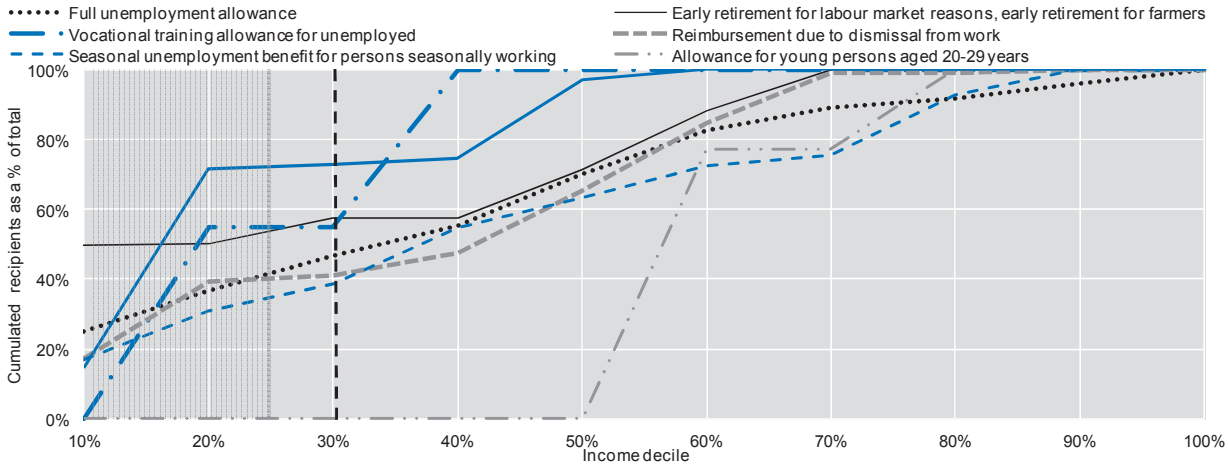


Note: The grey area corresponds to beneficiaries living in households below the poverty threshold (25% before transfers, about 20% after transfers). In 2009, 66% of beneficiaries of the "Social solidarity allowance" (EKAS, Panel C) belonged to the 30% of poorest households in the country, based on household income before social transfers (but including old-age and survivor's pensions).

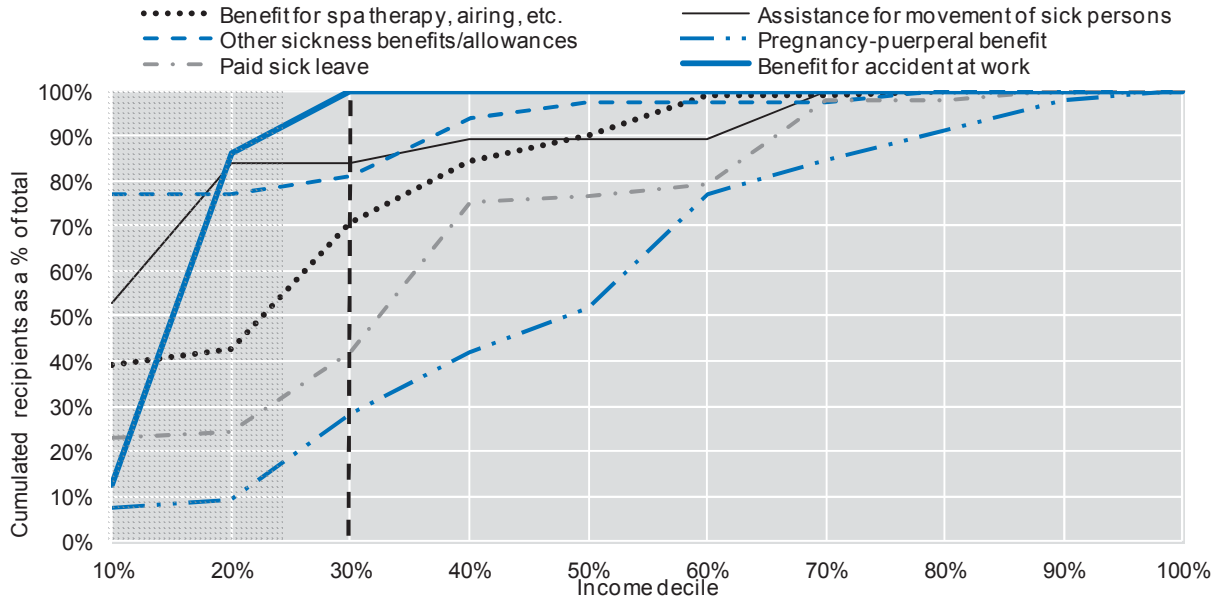
Source: SILC (2009), *http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc*.

Figure D.3. **Cumulated distribution of beneficiaries along the income distribution in 2009** (*cont.*)

E. Unemployment benefits



F. Sickness and maternity benefits



Note: The grey area corresponds to beneficiaries living in households below the poverty threshold (25% before transfers, about 20% after transfers). In 2009, 47% of beneficiaries of the "Full unemployment benefit" (Panel E) belonged to the 30% of poorest households in the country, based on household income before social transfers (but including old-age and survivor's pensions).

Source: SILC (2009), *http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc*.

The new eligibility rules tested do not include a multiple recipiency test. But avoiding multiple recipiency of income-replacement benefits would be another strategy of rationalisation. Multiple recipiency estimates based on the SILC show this issue mainly concerns old-age pensioners. But since old-age pensions are not included in this simulation, the effect of excluding multiple recipiency among the programmes we consider would be very small.

Methodology

The variables used to estimate actual costs of programmes and potential savings from targeting are, for each programme and for each individual:

- The number of months during which the individual declared receiving the benefit and the average monthly amount received (net, in EUR). These variables allow us to estimate the total number of recipients and the total annual spending.
- The total disposable income of each household and household size. These variables allow us to estimate of equivalised household incomes and income deciles.
- The annual individual earned income. This variable allows the estimate of equivalised household incomes without the contribution of personal work income of each household member who is in work for Group 2 programmes.
- The number of children (under 18) per household, the number of disabled and cumulated number of worked months per household to reveal the main characteristics of beneficiaries.

The new eligibility rule is applied independently for each benefit. For Group 1 benefits, all recipients belonging to a household whose income is below a given threshold are eligible after the reform. For Group 2 benefits, all those recipients whose income, excluding any earned income by the claimant, is below a given threshold are eligible after the reform. Three scenarios were tested: targeting to the 20% of poorest households, 30% of poorest households and 40% of poorest households.

Identification of possible sources of bias

As already mentioned, surveys underestimate both the numbers of recipients of social benefits and the amounts received.[13] As far as the new eligibility rule maintains a fraction of current recipients eligible, it is likely that the gross savings from targeting will be underestimated. Since spending from administrative records is available for many programmes, this ratio is applied to administrative figures to estimate the subsequent decrease in spending.[14] Savings based on the volumes observed in administrative records are twice as much as those that would stem from exclusively using the SILC figures.

For benefits in Group 2, the methodology used could be less reliable. Using SILC, it is impossible to determine precisely the timing of earned income and the time at which people claimed benefits.

Main results

Tables D.2 and D.3 present the fiscal and social impact of targeting benefits. By definition, the proposed reform does not induce extra cost.[15] Savings directly depend on the threshold levels. Hence, according to the SILC, in 2009, if social benefits had been targeted at the 30% of poorest households, expenditure would have been lower by 36%; i.e. savings of 1.1% of GDP would have been made. Alternatively, targeting benefits at the 20% of poorest households, spending would have been lowered by 50% and savings would have represented about 1.5% of the GDP. The reform has an impact on poverty only at the 20% threshold which is very close to the poverty line.[16]

Table D.2. **Fiscal impact of targeting social programmes based on the SILC and administrative records (based on 2009)**

	Before targeting		After targeting					
	Spending level based on administrative records (millions EUR)	Spending level based on administrative records (% of GDP)	Spending cut based on the SILC (%) from targeting at			Spending cut (% of GDP) from targeting at		
			20%	30%	40%	20%	30%	40%
(i) Group 1 (social assistance, family, disability, other)	3 978	1.7%	-51%	-37%	-28%	-0.8%	-0.6%	-0.5%
– excluding disability pensions	1 949	0.8%	-59%	-44%	-34%	-0.5%	-0.4%	-0.3%
(ii) Group 2 (unemployment, maternity, sickness)	3 300	1.4%	-47%	-36%	-26%	-0.7%	-0.5%	-0.4%
Total (i)+(ii)	7 277	3.1%	-50%	-36%	-27%	-1.5%	-1.1%	-0.9%
– excluding disability pensions	5 249	2.3%	-55%	-42%	-32%	-1.2%	-0.9%	-0.7%

Source: SILC (2010) and *OECD Administrative Database*.

Table D.3. **Social impact of targeting social programmes based on the SILC and administrative records (based on 2009)**

	Before targeting			After targeting								
	Number of beneficiaries[1] (thousands)	Poverty rate	Cumulated months in work among households with recipients	Number of beneficiaries[1] (thousands)			Poverty rate after targeting			Cumulated months in work among households with recipients		
				20%	30%	40%	20%	30%	40%	20%	30%	40%
(i) Group 1 (social assistance, family, disability, other)	3 596	20.5	10.7	1 148	1 532	1 934	21.9	20.5	20.5	4.7	4.6	5.7
– excluding disability pensions	3 261	20.5	10.8	933	1 285	1 666	21.4	20.5	20.5	4.2	4.1	5.3
(ii) Group 2 (unemployment, maternity, sickness)	1 265	20.5	16.3	649	775	912	20.5	20.5	20.5	12.6	13.0	14.3
Total (i)+(ii)	4 861	20.5	11.9	1 798	2 307	2 846	22.0	20.5	20.5	6.9	6.8	7.8
– excluding disability pensions	4 526	20.5	12.1	1 582	2 060	2 578	21.5	20.5	20.5	6.8	6.7	7.8

1. All income-replacement and supplements cumulated, including double-counting.

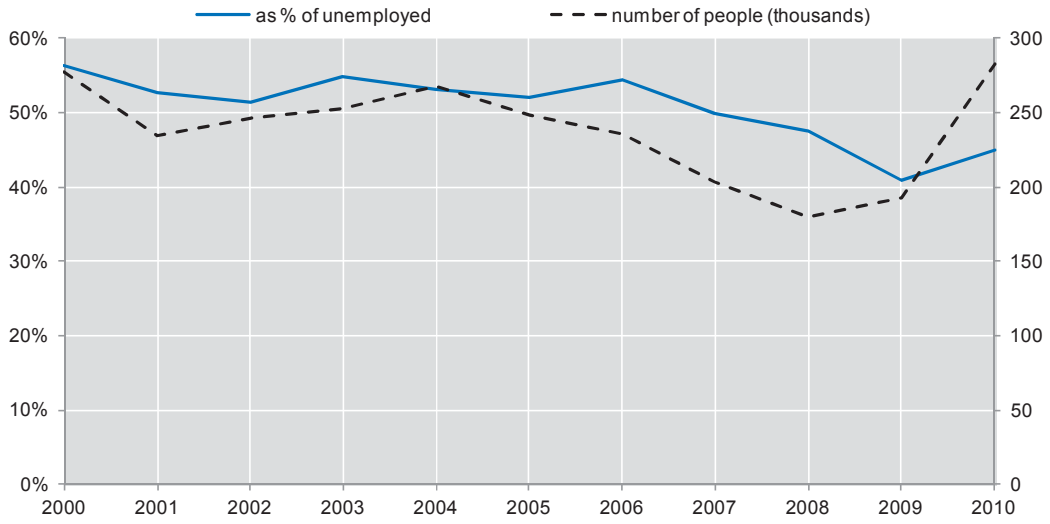
Source: SILC (2010).

2. Enhancing long-term unemployment benefits

Current situation and proposed reform

In Greece, long-term unemployment (i.e. a duration of at least 12 months) accounted for 50% of total unemployment in 2011 according to the Labour Force Survey (Figure D.4).

Figure D.4. **Long-term unemployed in Greece**



Source: OECD Labour Force Survey.

In 2009, according to the ILO definition, the average number of long-term unemployed reported by the LFS was about 190 000 persons (right axis of Figure D.4) and the share of long-term unemployed in total unemployment was 41%. This ratio is comparable with estimates from the SILC, which indicate a total of 376 000 people who declared themselves as long-term unemployed (different from the ILO measure, see below). This represents about 55% of the people who declared themselves unemployed as of December 2009. The level of unemployment in the SILC is twice that accounted in the LFS, because LFS figures are based on the ILO definition of unemployment which requires people not only to be without work, but also to be available for work and looking for work at the time of the interview. These requirements might not be verified easily by the public employment administration, especially in the current context. This is why we consider both sources to estimate the cost of the measure: the long-term unemployment numbers taken from the SILC represent a maximum, while the level of long-term unemployed as measured in the LFS represents a minimum.

According to the SILC, in 2009 less than 15% of the long-term unemployed received some kind of income-replacement benefit related to unemployment, notably thanks to an exceptional benefit that seems to have been paid only once that year. If we only focus on the specific benefit for long-term unemployed existing in Greece, called "unemployment assistance for older workers" (*επίδομα μακροχρονίως ανέργων*), the coverage rates are even lower (less than 1%), for a cost of about EUR 3.3 million in 2010.

This benefit is paid to workers aged 45-65 only who have been unemployed for more than 12 months and have already exhausted the right to unemployment-insurance benefit, if their annual family income is below EUR 5 000. The income threshold is increased by EUR 587 for each dependent child. In 2008, the benefit was EUR 200 per month (unchanged since 2003), payable for a period of 12 months. According to Greek authorities,[17] the number of beneficiaries varies between 3 000 and 5 000 people. Between 2007 and 2009, the administrative records report less than 1 000 recipients and less than 2 000 in 2010. Estimates based on the SILC are not statistically reliable due to

the small size of the target population; however, they are broadly consistent with the orders of magnitude for 2007 and 2008 from administrative records.

Many unemployed receive no unemployment-insurance benefit, as shown in Table D.4. Approximately 20% of those having been unemployed from 9 to 12 months over the year received some benefit (most often unemployment insurance). This means that requiring to have exhausted insurance rights in order to be eligible to receive unemployment assistance will greatly reduce the number of eligible people.

Table D.4. **Unemployment and unemployment benefit recipiency duration in 2009**

	Months with any unemployment benefit				
Months unemployed	0	1-4	5-8	9-12	Total
0	94.4%	5.3%	0.1%	0.1%	100.0%
1-4	56.8%	36.3%	5.8%	1.2%	100.0%
5-8	49.9%	7.5%	38.7%	3.9%	100.0%
9-12	80.9%	6.2%	3.9%	9.1%	100.0%

Source: SILC (2010).

The proposed reform aims to enhance protection for the long-term unemployed by phasing-out the unemployment assistance benefit for older workers and replacing it by a new programme, which we identify for simplicity as the LTUA (long-term unemployment assistance), means-tested but without any condition on the age of claimants, with an income ceiling higher than the current one.

More precisely, the LTUA would be paid to workers who have been unemployed for more than 12 months if their annual household equivalised income is below a given threshold. In our simulations, the level of the benefit was set at EUR 460 per month, i.e. the same level as the basic UI benefit, payable for a maximum of 12 months. Three scenarios are simulated: in Scenario 1 beneficiaries must have exhausted their UI benefit rights and received at least this UI benefit for 12 months (the maximum duration). Scenario 2 lowers this condition to six months. Scenario 3 removes this condition: any long-term unemployed having exhausted their UI benefit rights whatever their length, or long-term unemployed who never had such rights, would be eligible (if their household income is below the threshold, see Table D.5).

Table D.5. **Three scenarios for the new housing benefit**

	Unemployment duration	Previous UI benefit duration
Scenario 1	>= 12 months	12 months
Scenario 2		between 6 and 12 months
Scenario 3		any duration or no previous UI rights

Methodology

The variables used to estimate current costs and potential savings are, for each benefit and for each person:

- The activity status during the last 12 months, which is used to identify the long-term unemployed.

- The number of months for which the individual received unemployment insurance. This variable allows us to identify people who have exhausted their rights to unemployment insurance (see below).
- The total disposable income of each household and household size. These variables allow the estimate of equivalised household incomes and income deciles.

From the SILC, it is quite straightforward to identify the long-term unemployed (people who declare themselves as unemployed during the whole year at the time of the interview)[18] and households whose equivalised income is lower than a threshold. This is the basis for the "high" estimate of the cost. Even though we could estimate some kind of ILO unemployment based on the SILC (about 540 000 in 2010), we cannot estimate the number of long-term ILO unemployed who have received UI benefits for several reasons. We adjusted the volumes of long-term unemployment calculated from the SILC to be consistent with the volumes observed in the labour force surveys. This is the basis for the "low" estimate of the cost.

We consider a take-up of 70% as an example (take-up of unemployment benefits is usually between 60% and 80%, see the discussion above). We assume all beneficiaries will exhaust their 12-month rights (an assumption which maximises the cost of this measure).

Identification of possible sources of bias

Potential beneficiaries of the LTUA are probably overestimated using the SILC only, for two reasons:

- The conditions of eligibility we simulated are less restrictive than the actual condition proposed in the reform (having exhausted all UI rights). Indeed, we do not know with certainty if UI rights were actually exhausted or not: we only know the duration of receipt, not its timing. However, we only consider people declaring themselves unemployed for (at least) 12 months.
- Some people who were in work (often short temporary or partial work episodes) declare themselves as unemployed during the whole year. *Stricto sensu*, these persons are not eligible for the LTUA.
- Obviously, with the steep rise in unemployment observed in recent years, long-term unemployment will rise further. The share of long-term unemployment in total unemployment could reach or exceed 60%. In that case, the proposed reform could be more costly than the simulations shown here.

Main results

Simulations are run for 2009. Savings and cost of the reform are calculated assuming that unemployment allowance for older workers is phased-out and the LTUA is in place. Tables D.6 and D.7 present the main results of simulations run for different scenarios (previous UI rights and household income).

Setting eligibility conditions as follows: a minimum of six months of previous UI and income (equivalised) target on 30% of the poorest households: the LTUA has an annual cost of between EUR 40 million and EUR 80 million, the coverage rate of long-term unemployed increases from 0.3% with the previous benefit to about between 2% and 4%. In Scenario 3 (no requirement of previous UI rights), the cost would increase dramatically

because so many long-term unemployed never received UI benefits. At the 30% threshold, the cost would be ten times higher (reaching 0.2-0.4% of GDP), as well as the coverage rate (25-50% of the self-declared unemployed).

Table D.6. **Impact of the long-term unemployment benefit reform (based on 2009): High estimate**

Condition on previous UI eligibility	Household income below	Number of eligible unemployed	Coverage of self-declared long-term unemployed	Winners (full take up)	Poverty rate (before reform=20.5%)	Annual cost (EUR millions)	Net cost after creation of new programme (EUR millions)	Net cost after creation of new programme (% of GDP)
Scenario 1 minimum of 12 months of unemployment insurance	20%	5 403	1%	4 464	20.5%	21	18	0.01%
	30%	9 396	2%	8 457	20.5%	36	33	0.01%
	40%	10 644	2%	9 705	20.5%	41	38	0.02%
Scenario 2 minimum of 6 months of unemployment insurance	20%	9 479	2%	8 540	20.4%	37	33	0.01%
	30%	19 600	4%	18 661	20.3%	76	72	0.03%
	40%	23 745	4%	22 806	20.3%	92	88	0.04%
Scenario 3 no minimum previous unemployment insurance	20%	141 417	26%	140 478	18.8%	546	543	0.23%
	30%	222 316	41%	221 377	18.6%	859	856	0.37%
	40%	262 711	49%	261 772	18.6%	1 015	1 012	0.44%

Note: Long-term unemployment based on self-declarations of unemployment. "Winners" are new beneficiaries (individuals) after the reform who were not beneficiaries before the reform.

Source: SILC (2010).

Table D.7. **Impact of the long-term unemployment benefit reform (based on 2009): Low estimate**

Condition on previous UI eligibility	Household income below	Number of eligible unemployed	Coverage of self-declared long-term unemployed	Winners (full take up)	Poverty rate (before reform=20.5%)	Annual cost (EUR millions)	Net cost after creation of new programme (MEUR millions	Net cost after creation of new programme (% of GDP)
Scenario 1 minimum of 12 months of unemployment insurance	20%	2 758	1%	1 819	20.5%	11	7	0.00%
	30%	4 797	1%	3 858	20.5%	19	15	0.01%
	40%	5 434	1%	4 495	20.5%	21	18	0.01%
Scenario 2 minimum of 6 months of unemployment insurance	20%	4 839	1%	3 900	20.5%	19	15	0.01%
	30%	10 006	2%	9 067	20.4%	39	35	0.02%
	40%	12 121	2%	11 182	20.4%	47	44	0.02%
Scenario 3 no minimum previous unemployment insurance	20%	72 191	13%	71 252	19.7%	279	276	0.12%
	30%	113 489	21%	112 550	19.6%	439	435	0.19%
	40%	134 110	25%	133 171	19.6%	518	515	0.22%

Note: Long-term unemployment based on self-declarations of unemployment adjusted by the volume of long-term unemployment measured in the Labour Force Survey (ILO definition). "Winners" are new beneficiaries (individuals) after the reform who were not beneficiaries before the reform.

Source: SILC (2010) and LFS (2009).

3. Housing benefits

Current situation and proposed reform

Administrative expenditure records show that housing benefits[19] represented, in 2009, about EUR 255 million, i.e. 0.11% of GDP. About 66% (EUR 167 million) of this expenditure corresponds to the main housing benefit, called "rent subsidy" (*επιδότηση ενοικίου*) and supplied by the housing fund "OEK". This benefit goes to 105 200 families, covering 4-5% of children. The rest of the benefit-related expenditure corresponds to the aggregation of other benefits like the OEK interest rate subsidy programme and the "housing benefit for non-insured elderly".[20] The total cost of the OEK is about EUR 600 million (0.25% of GDP), which also includes other types of transfers and subsidies, as well as a construction programme.

The current rent subsidy is conditional on the contributory record. Single applicants need to have at least ten years of contributions (Leventi et al., 2010). Lower eligibility criteria apply to various other categories of claimants, such as large families, single mothers, the disabled, young couples, temporary workers, etc. The subsidy is not taxed. It is open to workers whose annual net family income did not exceed EUR 11 000 in 2005-06, EUR 11 500 in 2007 and EUR 12 000 in 2008. The income threshold is increased by EUR 2 000 for each dependent child. Above the threshold, the benefit is subject to a 100% implicit tax rate (i.e. it is reduced EUR 1 per EUR 1), until it falls to one-third of its original value, at which point it is fully withdrawn. An asset test also applies. The benefit rates are progressive according to the number of children living in the family: in 2008, married or unmarried claimants with no children received EUR 115 per month, married with one child received EUR 140 per month, married with 2 children received EUR 165 per month, and so on (the benefit is increased by EUR 25 for each supplementary child). The size of the benefit has been subject to a freeze since 2011.

The proposed reform consists in phasing out all existing rent allowances and replacing them by a single means-tested benefit, not dependent on past contribution records. Under the new rule, eligible families cannot own their dwelling or receive any income from rents from other properties, and must have a household income (equivalised) below a given threshold. The main scenario includes a benefit of EUR 100 per month to eligible families. Scenario 2 adds a condition on the presence of children: at least one child must be living in the household. Scenario 3 is similar to the first one but makes the level of the benefit vary according to the size of the family. Scenario 4 is like Scenario 3 but adds a condition on the presence of children in the family. All scenarios are presented in Table D.8.

Methodology

The cost of the new programme is based on simulations of different eligibility conditions done using the household section of the SILC and the EU-SILC. The variables used are, for each household:

- The total disposable income of each household and household size. These variables allow the estimate of equivalised household incomes and income deciles.
- Ownership of a dwelling (primary or not) and average amount of rent paid are used to determine if a family is allowed to claim the new benefit.

- The number of children (under 18) per household is used to simulate progressive benefit rates.
- Recipiency of current household benefits is used to identify winners and losers from of the reform.

We assume a take-up rate of 60% among eligible families. Duration of recipiency is supposed to be 12 months (close to what it is on average currently).

Table D.8. **Four scenarios for the new housing benefit**

	Benefit level	Child condition
Scenario 1	Flat benefit for all eligible households: EUR 100/month	No
Scenario 2		Yes
Scenario 3	Size-dependent benefit for eligible households : – single no child: EUR 50/month – single 1 child: EUR 75/month – single 2 children: EUR 100/month – single 3 children +: EUR 125/month – couple no child: EUR 75/month – couple 1 child: EUR 100/month – couple 2 children: EUR 125/month – couple 3 children + :EUR 150/month	No
Scenario 4		Yes

Identification of possible sources of bias

Household size and composition and total household disposable income[21] taken from the SILC data are quite reliable. Households' declared incomes in the SILC could be slightly higher than in tax records, as already mentioned, meaning that the number of potentially eligible families, and thus the global cost of the new benefit, can be underestimated slightly.

Main results

Based on 2009 data, a scenario with a progressive benefit rate, targeted at families with children (Scenario 4) belonging to the 30% of poorest households, leads to an annual cost of EUR 76 million (about 0.03% of GDP) and with a take-up of 60%, it would benefit 50 000 children (a child coverage rate of about 4%). Assuming a flat rate of EUR 100/month for the 30% of poorest households (Scenario 1), the cost would decrease to EUR 217 million, the number of the children covered would remain the same, but the number of households would be multiplied by four (many singles and couples with no dependent children would then become eligible). Tables D.9 and D.10 summarise the main results of the simulations.

Table D.9. **Fiscal impact of the housing benefits reform (based on 2009)**

	Household income below:	Annual cost (EUR millions)	Cost of new programme (% of GDP)
Scenario 1: flat rate, no child condition	20%	136	0.06%
	30%	217	0.09%
	40%	289	0.12%
Scenario 2: flat rate, at least one child	20%	26	0.01%
	30%	41	0.02%
	40%	64	0.03%
Scenario 3: family-related rate, no child condition	20%	146	0.06%
	30%	236	0.10%
	40%	327	0.14%
Scenario 4: family-related rate, at least one child	20%	47	0.02%
	30%	76	0.03%
	40%	117	0.05%

Source: SILC (2010).

Table D.10. **Social and fiscal impact of the housing benefits reform (based on 2009)**

	Household income below	Number of eligible families	Number of eligible children	Coverage of children	Losers (full take up)	Winners (full take up)	Household size (before reform=2.71%)	Household income (before reform =11 590)	Poverty rate (before reform =20.5%)
Scenario 1 flat rate, no child condition	20%	188 769	52 478	2%	42 071	179 221	2.30	5271	20.4%
	30%	300 829	84 232	3%	36 158	285 368	2.30	6 222	19.9%
	40%	400 918	129 897	4%	27 337	376 636	2.23	7 201	20.0%
Scenario 2 flat rate, at least one child	20%	35 619	52 478	2%	51 231	35 996	3.73	5 006	20.5%
	30%	57 614	84 232	3%	51 172	57 495	3.72	6 059	20.2%
	40%	88 934	129 897	4%	46 704	83 749	3.70	6 856	20.2%
Scenario 3 family-related rate, no child condition	20%	188 769	52 478	2%	42 071	179 221	2.30	5 271	20.7%
	30%	300 829	84 232	3%	36 158	285 368	2.30	6 222	20.5%
	40%	400 918	129 897	4%	27 337	376 636	2.23	7 201	20.6%
Scenario 4 family-related rate, at least one child	20%	35 619	52 478	2%	51 231	35 996	3.73	5 006	20.6%
	30%	57 614	84 232	3%	51 172	57 495	3.72	6 059	20.5%
	40%	88 934	129 897	4%	46 704	83 749	3.70	6 856	20.5%

Note: "Winners" are new beneficiaries (families) after the reform who were not beneficiaries before the reform. "Losers" are non-beneficiaries after the reform who were beneficiaries before the reform. The number of children is the same across scenarios, since Scenarios 1 and 3 only add families without children to Scenarios 2 and 4. The number of families is the same between Scenarios 1 and 3 since the two scenarios only differ in the benefit rate, which alters the impact on the poverty rate. The same holds for Scenarios 2 and 4.

Source: SILC (2010).

4. Family benefits

Current situation and proposed reform

Many family benefits currently exist in Greece. They represented a total of EUR 1.2 billion of annual spending in 2009 as recorded in our administrative database, i.e. 0.5% of GDP. According to the SILC, the number of beneficiaries was about 300 000 families in 2009, with an average annual disposable income before social transfers of EUR 10 000, covering approximately 230 000 children, which is 11% of the population under 18. Administrative figures suggest that the actual number of covered households and children is probably higher[22] (probably three times as much, excluding civil servants for which our records are still incomplete), because several benefits are under-declared (see Table D.11).

Table D.11. **Beneficiaries and spending of family benefits in 2009-10**

	Spending (EUR millions)		Beneficiaries (thousands)	
	SILC	Administrative	SILC	Administrative
Lifelong pension for mothers having more than three children	208	217	173 305	174 372
Allowance for families having more than three children	92	144	42 189	81 481
Third child allowance	78	133	40 504	58 787
Lump-sum amount to women who give birth to third, fourth child, etc.	16	37	7 777	18 443
Allowance for families having three children	34	256	21 657	177 647
Family allowance for public servants	16	312	20 870	
Other	0	102	0	357 334
Total	443	1 201	306 302	
Total adjusted for double counting			295 362	

Note: The category "other" covers family benefits for insured salaried workers in the private sector recorded in the administrative records.

Source: SILC and *OECD Administrative database*.

In general, these benefits are poorly targeted with respect to household income. Greece is not the only country in this situation: universality of family benefits is frequent (notably in Austria, France and Germany). However, this is not necessarily a desirable feature, notably during a period of fiscal adjustment. The main types of current benefits in 2008 (Leventi et al., 2010) were:

- Family allowance for civil servants. Contributory family allowances are automatically added to civil servants' (and some other groups') pay and are taxed. Lower allowances are paid by the OAE to private sector employees irrespective of social insurance affiliation.
- Allowance for families having more than three children (*πολυτεκνικό επίδομα*). It is paid monthly to mothers with four or more children (of any age and irrespective of whether they live together with their parents or not). Since 2006, it is also paid to lone parents with three children, disabled parents (with over 67% disability) with three children and children orphaned from both parents if there are two or more siblings. At least one of the children must be: *i)* unmarried and aged less than 23 years old; or *ii)* disabled over 67%. Since 2008, a large-family benefit is

also provided to mothers of three children. The benefit rate was EUR 42.71/month in 2008.

- Allowance for families having 3 children (*επίδομα τρίτου παιδιού*). It is paid to families with three (or more) children until the third child reaches the age of six. The benefit is claimed by the mother, unless she is dead or has left the household, in which case it paid to the father. The benefit rate in 2008 was EUR 170/month.
- Lifetime pension for mothers having more than 3 children (*ισόβια σύνταξη πολύτεκνης μητέρας*). It is paid to mothers with four or more children (of any age and irrespective of whether they live together with their parents or not) who are no longer eligible for the "many children benefit". The benefit rate in 2008 was EUR 98.27/month.
- Birth grants (third child and over). The benefit, introduced on 1 January 2006 is paid as a lump sum to mothers giving birth to a third child and to each child after the third. It is not taxed. In 2008, the lump sum was EUR 2 000 per child.

Other benefits to help unprotected children living in poor families and lone parents also exist.

The proposed reform aims at phasing out these benefits and replacing them by a **single benefit** of EUR 50 per child and per month targeted at children living in families with household income below a given threshold.

Methodology

The SILC is used to identify children eligible for the new benefit: those under 18 years old and living in a household whose income belongs to the 20%/30%/40% poorest.

The variables used to simulate different scenarios are, for each household:

- the disposable income before social transfers and after pensions, and the household size, in order to test income conditions;
- the number of children (under 18), to determine the amount of the allocation awarded to each eligible family.

To characterise recipients of the old system, we use, for each one of the benefits to phase out, and for each individual:

- number of months in recipiency and average monthly amount of the benefit;
- individual household characteristics such as household size, number of children, etc.

Once the eligible children are identified, the cost of the benefit is estimated by simply multiplying the benefit rate (which is flat) by the number of eligible children and by 12 months (duration close to current levels). We assume a take-up rate of 60% among the eligible families.

Identification of possible sources of bias

Estimates of family sizes and number of children per family taken from the SILC seem reliable. The figures obtained from the SILC are fully consistent with demographic data: there are approximately 2 million children in the census data and in the SILC.

No information about the age of children under 16 is available in the survey. This prevents us from simulating alternative scenarios where the benefit rate would depend on the age of the child.

Main results

Based on 2009 data, a scenario with a benefit rate of EUR 50 per child and per month, targeted at families with children belonging to the 30% of poorest households and a take-up rate of 60%, leads to an annual cost of EUR 271 million and net savings of EUR 930 million (about 0.4% of GDP). It would benefit 475 000 families and about 752 000 children (covering about one-third of the under-18 population). These volumes are higher than for simulations of the housing benefit reform, because here we do not exclude households owning their homes that are receiving rents from the eligible population. Winners are more numerous than losers when targeting the 30% or 40% poorest households, because at these thresholds a lot of families become eligible.[23] Tables D.12 and D.13 show the simulated fiscal and social impact of the reform simulations.

Table D.12. **Fiscal impact of the family benefits reform (based on 2009)**

Household income below	Annual cost (EUR millions)	Net savings after creation of new programme (EUR millions – % of GDP)	
20%	189	1 011	0.44%
30%	271	930	0.40%
40%	352	849	0.37%

Note: 210 000 children before reform live in beneficiary families, which is equivalent to 350 000 eligible children assuming a take-up of 60%.

Source: SILC and *Administrative database*.

Table D.13. **Social impact of the family benefits reform (based on 2009)**

Household income below	Number of eligible families	Number of eligible children	Average household income (before reform =10 057)	Coverage of children after take-up (before reform =11%)	Losers (full take up)	Winners (full take up)	Poverty rate (before reform =20.5%)
20%	325 884	526 317	4 379	16%	263 743	242 313	20.9%
30%	475 224	752 645	5 450	23%	250 855	362 425	20.4%
40%	611 475	977 920	6 362	30%	240 160	486 780	20.4%

Note: 210 000 children before the reform live in beneficiary families, which is equivalent to 350 000 eligible children assuming a take-up of 60%. "Winners" are new beneficiaries (families) after the reform who were not beneficiaries before the reform. "Losers" are non-beneficiaries after the reform who were beneficiaries before the reform.

Source: SILC and *Administrative database*.

5. Disability benefits

Current situation and proposed reform

There are a large number of cash benefits for the disabled in Greece. Most social insurance funds provide both contributory disability allowances and disability pensions. Depending on the insurance fund, the eligibility conditions and rates of different benefits, and even the benefits themselves, can vary a lot. Following the SILC's methodology, these benefits are grouped in three broad families of benefits: disability pensions, benefit for persons with special needs and other benefits/allowances. Disability pensions are on average EUR 570 per month, while the benefit for persons with special needs is EUR 420 per month, and both were on average paid during 12 months over 2009. Disability benefits cost 1% of GDP every year, and cover 500 000 beneficiaries (main income-replacement only) according to administrative data. Based on surveys, only half of beneficiaries are self-declared disabled and average household income is EUR 7 300 in 2009.

Non-contributory disability benefits are also numerous and heterogeneous. In many cases, the target of the benefit is a specific disease or condition. These benefits are grouped according to the SILC questionnaire in three entries: care allowance for incapacitated persons, nutrition allowance for people suffering kidney disease and other benefits/allowances. Care allowance for "incapacitated" persons is on average EUR 390 per month, nutrition allowance for people suffering kidney disease was on average EUR 229 per month, and were also paid during 12 months over 2009.

Due to the complexity of the system, programmes recorded in the SILC and administrative records could be matched only partially. At the aggregate level, outcomes from the survey underestimate figures stemming from the administrative records, as for other types of benefits. And, still, several benefits (supplements) are missing from administrative data. Table D.14 shows the estimated number of beneficiaries and expenditure calculated from the SILC and administrative sources for 2009. The SILC only identifies half of spending recorded in the administrative database (1.1 billion out of 2.3 billion), and about a third of recipients. The disabled in the SILC represent about 1.5% of the population, half of them receiving a benefit. But half of benefit recipients do not consider themselves as disabled, but can be "retired" or inactive (Table D.15).

Table D.14. **Recipients and spending of disability benefits in 2009-10**

	Spending (EUR millions)		Beneficiaries (thousands)		Disabled (thousands)
	SILC	Administrative	SILC	Administrative	SILC
Disability pension	854	2 029	115	266	59
Benefit for persons with special needs	32	0	7	0	4
Care allowance for incapacitated persons	19	198	4	22	2
Nutrition allowance for people suffering kidney disease	7	0	3	0	0
Other disability benefits/allowances	166	95	42	211	18
Total	1 078	2 322	170	499	82
Total adjusted for double counting			161		

Source: SILC and *Administrative database.*

This reform aims to rationalise the patchwork of disability benefits (including disability pensions) by phasing out the existing benefits and replacing them by a single benefit of EUR 500 per month submitted to both ability-to-work and income conditions. Inability to work would be based on adequate health tests.

Methodology

As calculations based on the SILC clearly underestimate the total expenditure, administrative data was used to estimate the savings from phasing out the existing benefits.

The SILC and EU-SILC surveys are used to estimate the potential cost of the new programme. The eligibility conditions are based on two different tests:

1. Incapacity to work. Some current beneficiaries of disability benefits declare themselves as disabled and do not work at all. Others declare themselves as disabled and work (at least they declare job earnings). Finally, some of them do not declare themselves as disabled but receive some benefits related to disability. The most frequent example is recipients of a disability pension who declare themselves retired instead of disabled (Table D.15). This situation is actually compatible with the eligibility rules and conditions of some disability programmes, but raises difficulties to identify eligible people based on incapacity to work. Hence, in our simulations, we consider as **potentially eligible** all individuals who declare themselves either disabled **or** receive a disability benefit:
   - either based on the actual number of beneficiaries as in administrative records (corresponding to our "high estimate"); this assumes that all current beneficiaries with income below the given threshold would claim the new benefit; or
   - based on the number of self-declared beneficiaries in the survey (corresponding to our "low estimate"); this assumes that only the current beneficiaries who declare they are receiving a disability benefit during the interview and with income below the given threshold would claim the new benefit.
2. Income. The new benefit is targeted at people living in households whose disposable (equivalised) income is below a given threshold to prevent it being claimed by beneficiaries who would be able to do some work on a regular basis. We are not able to test work capacity but we can identify earned income from potential claimants. So, we added a test on personal earned income of EUR 300 per month (only for current recipients of disability benefits).

The variables used to simulate different scenarios are, for each individual:

- the current status (working, retired, disabled, unemployed, etc.): used to identify disabled people;
- disposable income before social transfers and after pensions, household size: used to test household income condition;
- personal job income: used to test extra condition on ability to work.

Table D.15. **Disability benefit recipients and self-declared disabled in 2009**

	Disabled[1]	Disabled not working[2]	Receives benefits and self-declared disabled[1]	Receives benefits but not self-declared disabled[1]	Receives benefits and self-declared retired[3]
2009	151 000	146 000	82 000	84 000	50 000
2008	169 000	166 000	82 000	96 000	57 000
2007	138 000	135 000	75 000	89 000	58 000

Notes: 1. Permanently disabled and/or unfit to work. 2. No earned income the previous year. 3. In retirement or in early retirement or has given up business.

Source: SILC.

To characterise recipients in the old system, we use, for each of the existing benefits to be phased out, and for each individual:

- the number of months in recipiency and average monthly amount of the benefit;
- some individual and household characteristics, e.g. household size, number of children, etc.

We assume a take-up rate of 60% among the disabled not currently receiving a benefit and of 100% among current beneficiaries who would claim the new benefit (for those satisfying the income condition). Duration of recipiency is supposed to be 12 months (close to what it is on average currently).

Once the eligible people are identified, the cost of the benefit is estimated by simply multiplying the monthly benefit rate (which is flat) by the number of eligible people, times 12.

Identification of possible sources of bias

The identification of potential beneficiaries of the new disability benefit is based on the self-declared status of interviewed people. As shown in Table D.15, some people are reticent to declare themselves as "disabled" in a survey interview, but the same people do declare themselves as "unable to work" when claiming a disability benefit. Then, the number of potential claimants could be underestimated in our "low" estimate.

Total expenditure is estimated using the available administrative data. These records are partially incomplete: namely, expenditure and caseloads for several disability pensions provided by social insurance funds are still missing. Hence, both savings and costs of the new benefit could be underestimated. This bias is compensated by the fact that both self-declared disabled and actual recipients of disability benefits are considered as potentially eligible in our scenario. Hence, potential savings have been adjusted to take into account the under-declared population (in the SILC) of people actually receiving disability benefits and considered as potentially eligible for the new benefit in our scenarios.[24]

Main results

Targeting the new programme to disabled people belonging to the 30% of poorest households (equivalised income), and whose personal earned income is lower than EUR 3 600 per year, the new programme would benefit about 150 000 individuals, covering about 100% of the self-declared disabled.[25] The benefit would cost between EUR 1 billion and EUR 1.8 billion, depending on the number of beneficiaries claiming

the new benefit, while the net savings after phasing out old programmes are estimated to range from 0.3-0.6% of GDP. The overall poverty rate would decrease from 20.5% to 20.3% following this reform. The simulations of the fiscal and social impacts are showed in Tables D.16 to D.18.

Table D.16. **Fiscal impact of the disability benefits reform (based on 2009): Low-cost estimate**

Household income below (% of income distribution before benefits)	Annual cost (EUR millions)	Net savings after creation of new programme (EUR millions)	Net savings after creation of new programme (% of GDP)
20%	657	1 666	0.7%
30%	872	1 451	0.6%
40%	958	1 364	0.6%

Source: SILC and *Administrative database*.

Table D.17. **Fiscal impact of the disability benefits reform (based on 2009): High-cost estimate**

Household income below (% of income distribution before benefits)	Annual cost (EUR millions)	Adjusted[1] net savings after creation of new programme (EUR millions)	Adjusted[1] net savings after creation of new programme (% of GDP)
20%	1 374	948	0.4%
30%	1 722	601	0.3%
40%	1 830	492	0.2%

Notes: 1. Adjusted to take into account actual recipients who do not declare themselves as in the survey.

Source: SILC and *Administrative database*.

Table D.18. **Social impact of the disability benefits reform (based on 2009): Low-cost estimate**

Household income below (% of income distribution before benefits)	Number of eligible individuals	Winners (full take up)	Losers (full take up)	Coverage of disabled after take up)	Household size (before reform =2.89)	Household income (before reform =7 257)	Individual earnings (before reform =481)	Poverty rate (before reform =20.5%)
20%	121 643	26 173	65 904	81%	2.88	3 699	17	20.7%
30%	161 420	41 785	41 740	107%	2.79	4 721	12.8	20.3%
40%	177 424	50 234	34 184	117%	2.8	5 158	13.4	20.3%

Note: "Winners" are new beneficiaries (families) after the reform who were not beneficiaries before the reform. "Losers" are non-beneficiaries after the reform who were beneficiaries before the reform.

Source: SILC.

Notes

1. Here, and throughout this document, "administrative records" refers to the database built by the OECD Secretariat.

2. The equivalence scale used is the so-called "square root scale", which divides the household's income by the square root of household size, as used in recent OECD publications. It means that a family of two needs 1.4 times as much as one composed of a single person, and that a family of four needs twice as much as a single person. This scale provides results close to the "OECD-modified equivalence scale" used notably by Eurostat, which assigns a value of 1 to the household head, 0.5 to each additional adult member and 0.3 to each child. See *www.oecd.org/eco/growth/OECD-Note-EquivalenceScales.pdf* for more details.

3. Declared income is about 10% higher in the Household Budget Survey compared with income declared in the tax records, especially at low- and high-income levels; see Matsaganis and Flevotomou (2010). It is probably also true for the SILC, even though we have no precise study based on this survey.

4. See Hernanz et al. (2004).

5. Unemployment assistance take-up appears to be very low under current eligibility conditions (see Matsaganis and Leventi, 2011); non take-up can also be significant for social pensions (between 30% and 40%) and supplements (the EKAS, between 60% and 70%), see Matsaganis et al. (2010).

6. We lack updated information on benefit taxation. Most benefits were not taxed in the recent past, except for old-age and disability pensions as well as maternity benefits. However, since 1 January 2010, unemployment, disability allowances and some family benefits are taxed but only for families with incomes above EUR 30 000. More precisely, in Euromod and for 2006-09, it appears that social contributions were levied on pensions at a flat rate of 4% of pension income and pensions (old-age and disability) which were also taxed (except social pensions); non-contributory disability benefits were not taxable; unemployment benefits, social assistance benefits and some family benefits provided by local government were not taxed; rent subsidies were not taxed either; contributory and non-contributory family allowances were taxed; birth grants were not taxed; sickness benefits were taxed but not maternity benefits. See *www.iser.essex.ac.uk/files/euromod/country-reports/CR_EL2006-09_final_7-6-11.pdf* for more details.

7. Household disposable incomes calculated from the SILC have been adjusted to be consistent with the disposable income distribution calculated by Eurostat as in the EU-SILC.

8. See Matsaganis and Flevotomou (2010).

9. Defined as 60% of the median equivalised disposable income.

10. The list of Group 1 benefits considered for the computation is: social solidarity allowance; allowances to repatriations, refugees, released from prisons, drug addicts, alcoholics; amount for assistance to poor households in mountainous and disadvantageous areas; allowances to children under 16 years old who live in poor households (pre-school and school allowance); benefits to households that faced an earthquake, flood, etc.; other social allowances; lifelong pension for mothers having more than 3 children; allowance for families having more than 3 children; third child

allowance; lump-sum amount to women who give birth to third, fourth child, etc.; allowance for families having 3 children; family allowance for public servants; incapacitated child care benefit; parental leave allowance (not for maternity reason); birth grant; student's allowance; other family allowances; disability pension; benefit for persons with special needs; care allowance for incapacitated persons; nutrition allowance for people suffering kidney disease; other disability benefits/allowances; benefit for spa therapy, airing, etc.; assistance for movement of sick persons; other sickness benefits/allowances; benefit received for participation in research programmes; scholarships; other educational benefits/allowances.

11. The list of Group 2 benefits considered for the computation is: full unemployment allowance; exceptional financial allowance due to dishonest dismissal; early retirement for labour market reasons, early retirement for farmers; vocational training allowance for unemployed; reimbursement due to dismissal from work; seasonal unemployment benefit for seasonal workers (e.g. actresses, musicians, building workers, hotel staff, etc.); allowance for young persons aged 20-29 years; allowance for joining the army; placement, resettlement or rehabilitation benefit; other unemployment allowances; pregnancy-puerperal benefit; paid sick leave; benefit for accident at work.

12. And these figures still underestimate the actual cost since most in-kind benefits (like spa therapy, for example) are currently missing from the data gathered from administrative records.

13. Inversely, in the SILC 2010, i.e. related to 2009 income data, a lump-sum of EUR 500 was declared by several thousands of people under the item "allowances to repatriations, refugees, released from prisons, drug addicts, alcoholics". The total expenditure, for this benefit only, is about EUR 230 million; much higher than in preceeding years and much higher than administrative records for the same period (EUR 0.8 million). It is probable that this exceptional expenditure has been reported under a different item in administrative records, but we do not have further information on this.

14. This total is still underestimated because several in-kind benefits are missing from administrative records.

15. We are not considering potential administrative cost/savings.

16. Due to the fact that we did not simulate differential rates for benefits after targeting, if we set a threshold close to the poverty line, some individuals close to but above this line before the reform would lose benefits after the reform and then could fall below the poverty line. This would increase slightly the poverty rate. This is the result we get with a threshold set at 20% of the poorest households.

17. Reported in Leventi et al. (2010).

18. Based on the cross-section data from the SILC, it is impossible to estimate the average number of long-term unemployed over the year. The SILC indicates the main status of persons for each month of the year and the status at the moment of the interview. Our estimate is the number of people declaring at the time of the interview that they have been unemployed for at least 12 months over the year of reference.

19. Tax cuts that could fall into the housing function are not considered in this evaluation.

20. EUROMOD also includes the student allowance as a household benefit. The SILC considers this benefit as an educational allowance. We do not consider it in the calculations and we do not propose to phase it out.

21. Estimates and adjustments done by EUROSTAT from the SILC information and contextual information (GDP, household expenditure, etc.).

22. The SILC figures are underestimated, in particular, the allowance for families having more than 3 children and the allowance for families having 3 children are largely underestimated if compared with administrative sources.

23. Of course, these losers/winners figures must be compared to the number of beneficiaries measured from the SILC before the reform. There might be more losers after the reform in absolute terms if benefits are under-declared in the SILC compared to administrative records, as in the case of family benefits.

24. In this case, the best way to estimate eligible people for the new benefit would have been to consider, as potentially eligible, all those who, in administrative records, appear as beneficiaries of a disability benefit, then apply the income tests to them. This approach is unrealistic because administrative records report only caseloads with some double counting and, in the best case, age and gender of recipients, but not income.

25. SILC. See the table included in the Methodology section.

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Annex E
Key features of the *OECD Database on Social Programmes* in Greece

The *Database on Social Programmes* was developed by the OECD to provide more complete and accurate data on a set of social programmes, listed below. It includes information on:

- expenditures;
- number of beneficiaries;
- eligibility conditions and management responsibilities.

The database complements and enriches the SILC database in that it relies on administrative records held by the Greek authorities that are better suited than survey-based databases to determine the level of recipiency. As such, it provides a strong basis for analysing alternative policy options as well as costs and benefits of priority reforms.

The database focuses on disability, unemployment and family benefits, as well as some social programmes like housing and rent subsidies. It only takes into consideration cash benefits as agreed with the Greek authorities. Data were collected by an OECD team in close co-operation with the Greek Ministry of Labour, Social Security and Welfare between May 2011 and March 2012. Data on expenditures, beneficiaries, eligibility and management responsibilities reflect, to the extent possible, the most recent information and is updated for certain programmes up to 2011.

The database is unique in that it brings together for the first time administrative records data on selected social programmes collected from individual ministries and agencies responsible for delivering the benefits. The novelty of this data collection for Greece and weak data management across the ministries and agencies concerned, documented in the main report, posed important challenges, and posed limits on what could be collected. It will be important to build on this experience, in order to improve data availability in Greece. In particular, the Ministry of Labour, Social Security and Welfare might want to take into consideration three key issues as it carries over the work.

Stock *vs.* flow of beneficiaries

In any given year, for most social programmes, there will be inflows and outflows of beneficiaries. This process of getting in and out of welfare will be especially important for certain programmes that are particularly sensitive to the economic situation, like unemployment benefits. To determine the level of recipiency, it is important to obtain the end-of-year count of beneficiaries and not a sum of the inflows. The OECD team realised that this was not the case for the data provided by the Greek authorities on unemployment benefits. Based on OECD estimates, the stock of beneficiaries usually represents about

one-third of the flow. In the database, the data on beneficiaries provided by the Greek authorities have been multiplied by 0.35 to obtain the stock of beneficiaries.

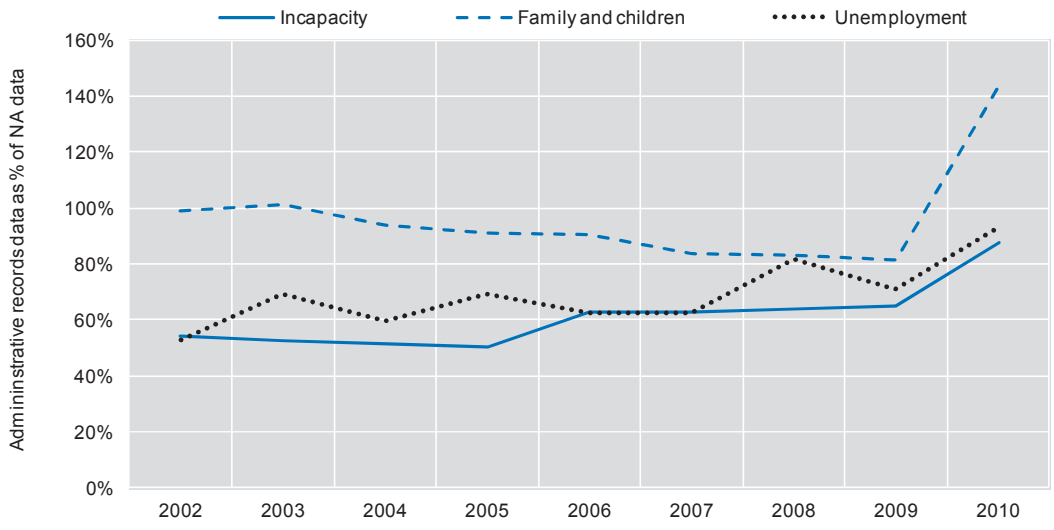
Missing data and interpolations/extrapolations

For some years, data were not provided by the Greek authorities. To conduct a meaningful analysis, some missing data have been interpolated within some years or extrapolated for some outer years. In the future, it will be important to minimise to the extent possible these data gaps.

Cash and in-kind benefits

The database includes data on cash benefits only, as agreed with the Greek authorities. The Greek authorities might want to consider broadening the database to include in-kind benefits. In that case, the same attention should be paid to the issue of beneficiaries and missing data. The decision to broaden the database would need to balance the benefits of undertaking the data collection against the cost, and the relative value of the exercise. A rough comparison of the expenditure data included in the database with the expenditure data recorded in the national accounts, which include both in-kind and cash benefits, suggest that in-kind benefits might not be very large in Greece. For example, the database accounts for more than 80% of the expenditures recorded in the national accounts for 2010 (Figure E.1).

Figure E.1. **Administrative records and national accounts data**



Source: Eurostat, General government expenditure by function (COFOG) and administrative records collected by the OECD.

Table E.1. **Social programmes included in the database**

Function	Programme name (English/Greek)
Incapacity – Disability Benefit	Invalidity pension due to illness *Συνταξη Αναπηριας Απο Κοινη Νοσο*
	Invalidity pension due to work accident *Συνταξη Αναπηριας Απο Εργατικο Ατυχημα – Κοινο Ατυχημα*
	Total invalidity pension
	Benefit for long-term illness *Επίδομα Ασθενειας*
	Invalidity pension due to blindness *Προσαυξηση Στο Ποσο Της Συνταξης Γηρατος Λογω Τυφλοτητας*
	Supplementary invalidity pension due to total incapacity *Προσαυξηση Στο Ποσο Της Συνταξης Λογω Απολυτης Αναπηριας Στους Δικαιουχους Βασικης Συνταξης*
	Extra-institutional handicap benefit *Εξωιδυματικο Επιδομα*
	Supplementary invalidity pension to pensioners due to full incapacity *Προσαυξηση Στο Ποσο Της Συνταξης Λογω Απολυτης Αναπηριας Μονο Στους Συνταξιουχους Κυριας Συνταξης Αναπηριας*
	No age limit for parents with handicapped children or spouses *Συνταξη Γηρατος Χωρις Οριο Ηλικιας*
	Benefit for non-residential care
	Various disability benefits for people affected by: full incapacity, high-degree mental incapacity, full paralysis, thalassemia, AIDS patients, hearing impairment, blindness, Cerebral Palsy, Hansen's disease
	Financial assistance for people having received transplants (kidneys, heart, etc.) for better food quality *διατροφικό επίδομα στους νεφροπαθεις καθώς και στους μεταμοσχευμενους*
Incapacity – Paid Sick Leave	Benefit of illness and working accident *Επίδομα ασθένειας και εργατικού ατυχήματος*
	Sick leave allowance for actively working seamen *Επίδομα ασθένειας*
Unemployment	Unemployment benefit *Επίδομα Ανεργίας*
	Special unemployment benefits *Ειδικές επιδοτήσεις*
	Long-term unemployed *Μακροχρόνια άνεργοι*
	Emergency financial assistance *Εκτακτες Οικονομικες Ενισχυσεις*
	Special assistance after end of unemployment rights *Ειδικο Βοηθημα Μετα Τη Ληξη Τησ Επιδοτησης Λογω Ανεργιας*
	Special assistance after a three-month period of unemployment *Ειδικο Βοηθημα Μετα Την Τριμηνη Παραμονη Στα Μητρωα Ανεργων*
	Special financial assistance for released prisoners *Ειδικο Βοηθημα Σε Οσους Εξετισαν Ποινη Στερητικη Της Ελευθεριας*
	Conscription allowance *Εφεδρικό Επίδομα (στρ/σης)*
	Financial assistance for political refugees *Οικονομικη Ενισχυση Πολιτικων Προσφυγων*
	Young professional *Νεοειρχόμενοι*
	Administrative leave allowance *Επιδομα Διαθεσιμοτητας*
	Benefit for insolvency *Προστασια Των Δικαιωματων Των Εργαζομενων Σε Περιπτωση Αφερεγγυοτητας Του Εργοδοτη*
	Special seasonal benefits due to work instability *Ειδικο Εποχιακο Βοηθημα*
	Special allowance for elderly unemployed/unemployed attending vocational training programmes

Table E.1. **Social programmes included in the database** (*cont.*)

Function	Programme name (English/Greek)
Unemployment	Allowance for new scientists
	Special seasonal benefits for the elderly
	Returning expats *Παλλινοστούντες*
	Special benefit for children over 16 years old who leave special centres *Ειδικο βοήθημα για παιδιά άνω των 16 ετών που αφήνουν τα ειδικά κέντρα*
	Allowance for repatriates
	Unemployment benefit *Επίδομα Ανεργίας*
	Financial aid for some categories of unemployed seamen during the holiday seasons *Οικονομική Ενίσχυση σε ορισμένες Κατηγορίες Ανέργων Ναυτικών λόγω εορτών Πάσχα – Χριστουγέννων (Φορέας: Ο.Ν.)*
Family – Family Allowances	Family allowance to employees *Οικογενειακο Επιδομα (ΟΑΕΔ)*
	Family allowance for public sector employees including civil servants *Οικογενειακο Επιδομα*
	Large family allowance *πολυτεκνικο επιδομα*
	Third child allowance *επιδομα τριτου τεκνου*
	Lump sums for families (for third child and above) *επιδομα τριτεκνων οικογενειων*
	Family burden allowance
	Seamen family allowances
Family – Maternity and Childbirth	Benefit of childbirth *Επίδομα μαιευτικής περίθαλψης*
	Benefit of maternity *Επιδόματα μητρότητας (επίδομα κυοφορίας/λοχείας)*
	Benefit of childbirth
	Benefit of childbirth *Επίδομα μαιευτικής περίθαλψης*
	Benefit of maternity *Επιδόματα μητρότητας (επίδομα κυοφορίας/λοχείας)*
	Benefit of childbirth *Επίδομα μαιευτικής περίθαλψης*
	Benefit of childbirth *Επίδομα μαιευτικής περίθαλψης*
	Benefit of maternity and childbirth
	Maternity allowance for seamen
	Seamen childbirth allowance
	Supplementary maternity provisions and special maternity benefit
	Benefit of maternity and childbirth for public sector employees including civil servants
Family – Other	Financial assistance to low-income families in isolated areas
	Financial assistance for minor unprotected children
	Financial assistance to low-income families with minor children
	Allowance for emergency financial support to financially disadvantaged
	Tax credit refund programme for families permanently residing in mountainous and disadvantaged areas
	Tax credit refund programme for families with children in compulsory education
	Allowance for emergency financial support to homeless by local authorities
	Allowance for emergency financial support to poor by local authorities
	Allowance for children of single-parent families
	Multiple of children allowance for orphans
	Allowance for surrogate families (four benefits)
	Allowance for uninsured mothers
	Lifelong pension for mothers with four or more children

Table E.1. **Social programmes included in the database** (*cont.*)

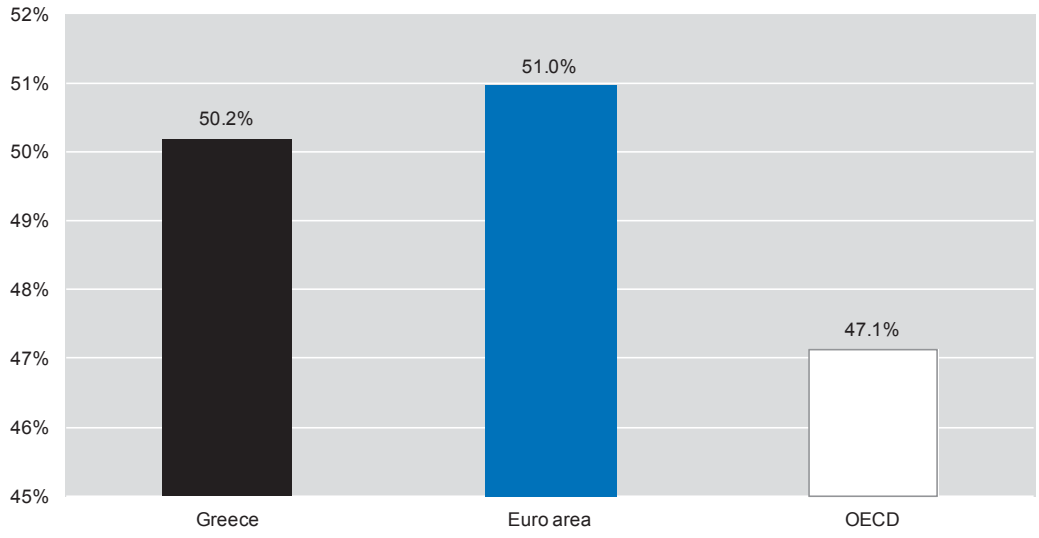
Function	Programme name (English/Greek)
Other social policy	Poverty *Εφάπαξ οικονομική ενίσχυση ατόμων που βρίσκονται σε κατάσταση ένδειας*
	Natural disasters: Floods *Φυσικες Καταστροφες:Πλημμυρα*
	Natural disasters: Fires *Φυσικες Καταστροφες:Πυρκαγια*
	Natural disasters: Hurricanes *Φυσικες Καταστροφες:Ανεμοστροβιλος*
	Natural disasters: Snowstorms *Φυσικες Καταστροφες:Χιονοπτωση*
	Natural disasters: Landslides *Φυσικες Καταστροφες:Κατολισθηση*
	Natural disasters: Earthquakes *Φυσικες Καταστροφες:Σεισμος*
	Allowance for housing support to uninsured elderly
	Rent subsidy
	Interest subsidy (for up to nine years) – no new benefits granted since 2010 but old contracts still running
	Construction and selling of houses – highly subsidised, rationing via “lottery”
	Social tourism
	Excursion programmes
	Book purchase coupons
	Entertainment coupons
	Daycare stations
	Centre for working youth (abolished)
	Centres for children with disabilities (abolished)

Annex F
Government expenditure in Greece in 2010*

Overall picture

Greece's public expenditures relative to GDP are broadly in line with the average for the euro area. In 2010, Greece spent approximately half of its GDP to finance general government expenditures, less than a percentage point below the euro area average (Figure F.1). Preliminary data for 2011 suggest that recent cuts in primary expenditures have been offset by an increase in spending to finance the government debt and have not significantly affected the share of GDP that finances general government expenditures.

Figure F.1. **Total government expenditures as a share of GDP (2010)**



Note: The OECD average does not include Australia, Chile and New Zealand for which data are not available for 2010.

Source: *OECD National Accounts Database* (2012), doi: *10.1787/na-data-en*.

* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Government expenditure by function

Box F.1. **The Classification of the Functions of Government (COFOG)**

The Classification of the Functions of Government (COFOG) groups government expenditure under ten classifications used in national accounts, seen as broad government objectives (see Table D.1 for a complete list of the sub-groups for each function):

- general public services;
- defence;
- public order and safety;
- economic affairs;
- environmental protection;
- housing and community affairs;
- health;
- recreation, culture and religion;
- education;
- social protection (which includes both cash and in-kind benefits)

Government expenditure by function as a share of GDP

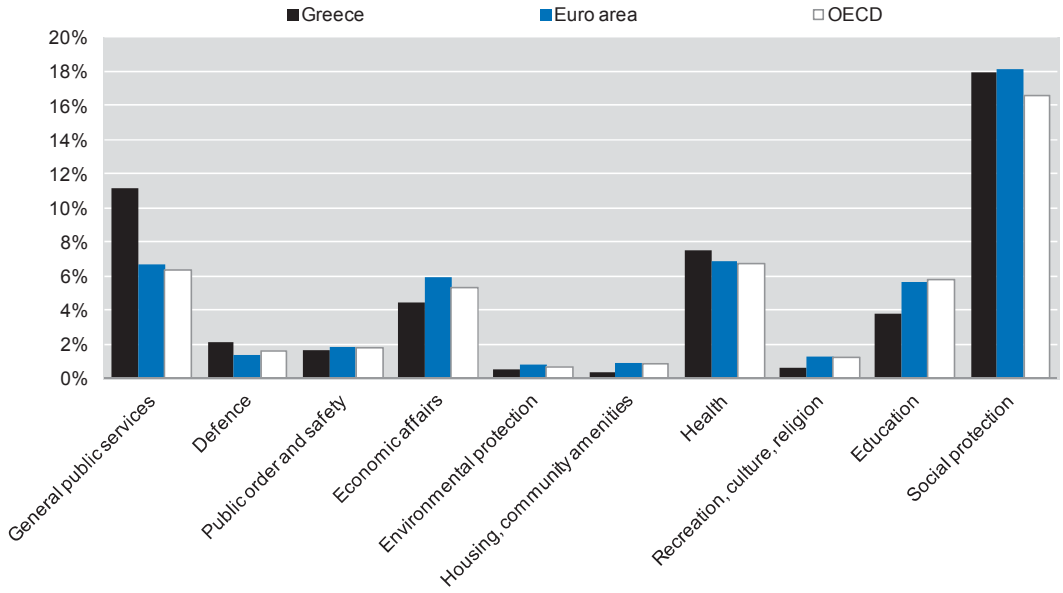
In 2010, Greece's spending on most COFOG functions was below or approximately in line with the average for the euro area (Figure F.2). The largest below-average spending was in education, where Greece spent approximately 3.8% of GDP, approximately 2 percentage points below the averages for the euro area and the OECD (5.7% of GDP and 5.8% of GDP, respectively).

General public services, defence and health were the only functions where Greece's spending was above the averages for the euro area and the OECD. Difference with the euro area and OECD averages ranged from more than 4 percentage points for expenditures on general public services to almost 1 percentage point for expenditures on defence to approximately half a percentage point for expenditures on health.

It should be noted that average spending on COFOG functions at the euro area level is a methodological tool to measure the extent to which Greece public expenditures balance out. The comparison with the euro area simply makes the Greek choices clear. It suggests that if Greece wants or needs to rebalance its government expenditures, it might need to make cuts in those sectors that are significantly above the euro area average.

Figure F.2. **Structure of general government expenditures by function as a share of GDP (2010)**

% of GDP



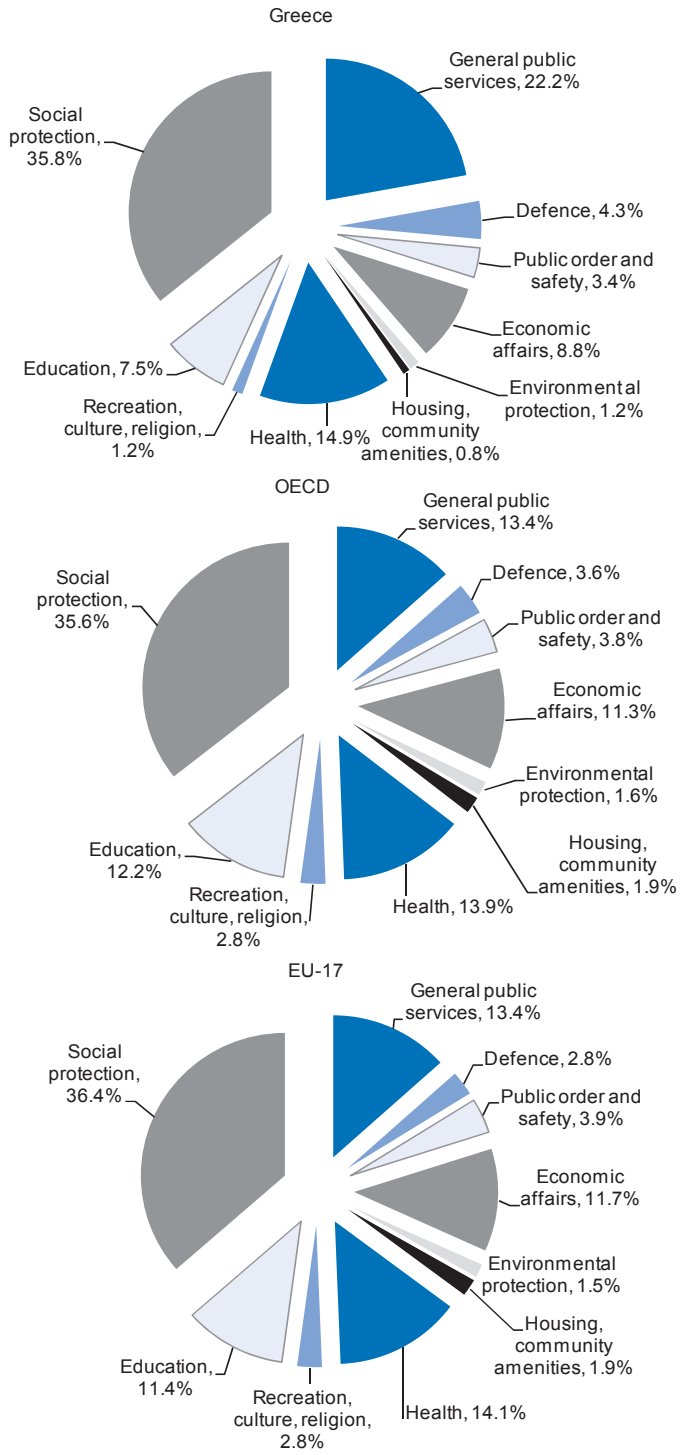
Note: General public services include executive and legislative organs, financial and fiscal affairs, external affairs, foreign economic aid, general services, basic research, R&D general public services, public debt transactions (including interest payments), transfers of a general character between different levels of government. Economic affairs include general economic, commercial and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, manufacturing and construction, transport and communication. Social protection includes expenditures on services and transfers to individual persons and households as well as services provided on a collective basis; services include sickness and disability, old-age, survivor's, family and children, unemployment, housing, social exclusion. See Table F.1 for a complete list of the sub-groups for each function.

Source: *OECD National Accounts Database* (2012), doi: *10.1787/na-data-en*.

Government expenditure by function as a proportion of total government expenditure

In 2010, the largest items of Greek government expenditures were social protection, general public services, health, and education, as in the euro area and the OECD (Figure F.3). Compared to the euro area and the OECD, however, the Greek government spent less (as share of total general government expenditures) on all functions with the exception of general public services, defence and health. Differences with the euro area and OECD averages were more significant for expenditures on general public services (approximately 9 percentage points above the euro area and OECD averages) than for expenditures on defence and health (between 0.7 and 1.5 percentage points).

Figure F.3. **Structure of general government expenditures by function as share of total (2010)**



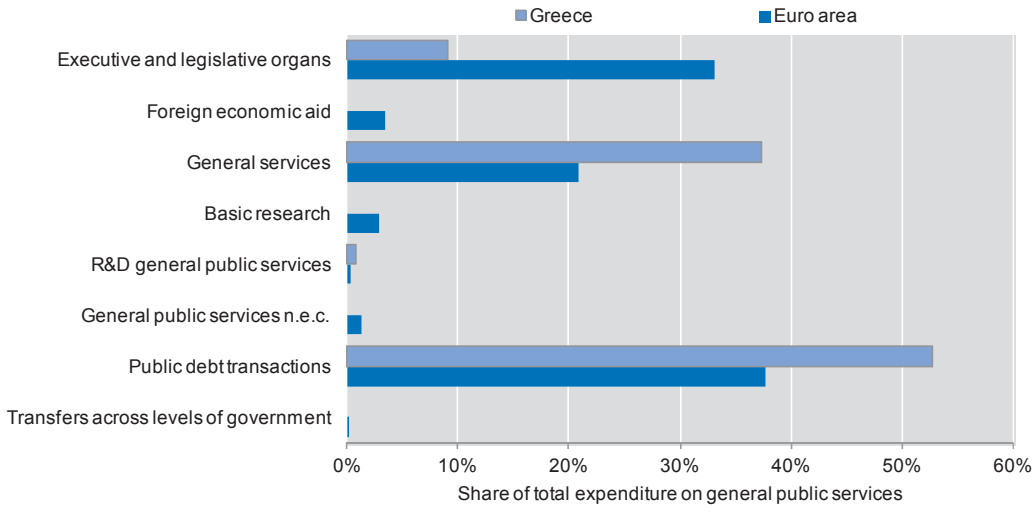
Note: See below for an explanatory note on the COFOG functions. Social protection includes sickness and disability; old-age; survivor's; family and children; unemployment; housing; social exclusion n.e.c.; R&D social protection; social protection n.e.c. It therefore includes pensions and covers both cash and in-kind benefits. n.e.c.: not elsewhere classified.

Source: *OECD National Accounts Database* (2012), doi: *10.1787/na-data-en*; OECD (2011), *Government at a Glance 2011*, OECD Publishing, doi: *10.1787/gov_glance-2011-en.*

Government expenditure on the function of general public services

Greece spends about 11% of GDP and 22% of total general government expenditures on functions classified in the general public services category. This is the COFOG function for which the difference with the euro area is the largest. Figure F.4 provides a further breakdown of spending within this category. In 2010, public debt transactions and general services were the two items which absorbed the largest share of expenditures on general public services, significantly above the average for the euro area. The Greek government spent 5.8% of GDP on public debt transactions and 4.1% of GDP on general services.

Figure F.4. **Expenditures on general public services by sub-group as a share of total (2010)**



Note: The euro area average does not include Belgium, France and the Slovak Republic for which data on general public services sub-groups are not available. n.e.c.= not elsewhere classified.

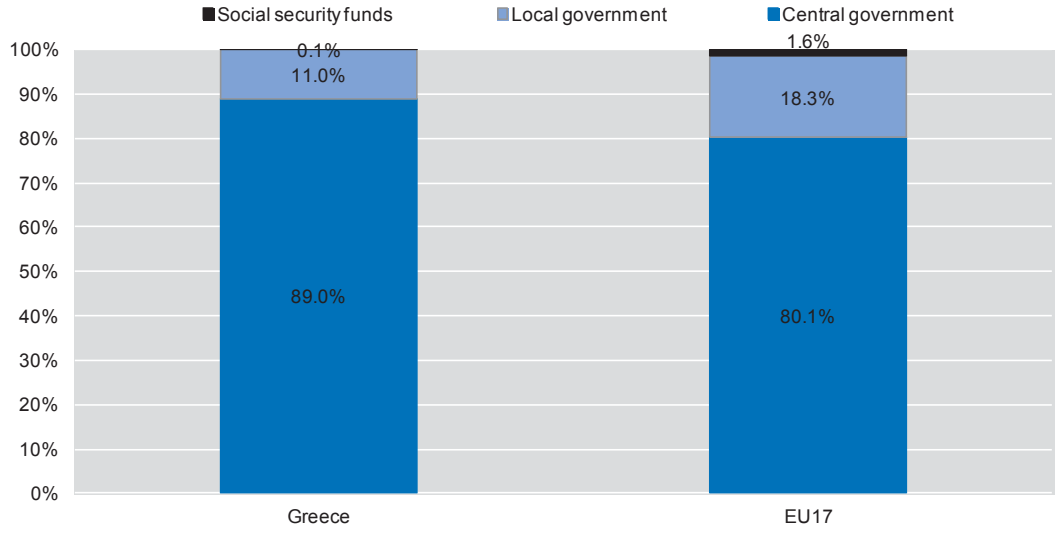
Source: Eurostat general government expenditure by function (COFOG) [gov_a_exp] (2012).

Central government is responsible for the largest share of expenditures on general public services. Figure F.5 shows the breakdown of expenditures on general public services across levels of government. In 2010, spending by central government accounted for 89% of total expenditures on general public services, approximately 9 percentage points above the euro area's average (80.1% of expenditure on general public services).

Government expenditure on the function of social protection

On the basis of data provided by the Greek authorities between 2011 and 2012, the OECD estimates that spending on social insurance and assistance programmes, including health, accounts for 24% of GDP (Table 1.1), 1.5 percentage points below the sum of social protection (18% of GDP) and health spending (7.5% of GDP) recorded in the *OECD National Accounts Database* for 2010. The COFOG classification includes both cash and in-kind benefits (Table F.3), which might help explain the small discrepancy with the figures presented in this Review, which covers only cash benefits.

Figure F.5. **Expenditures on general public services across levels of government as share of total (2010)**



Source: Eurostat general government expenditure by function (COFOG) [gov_a_exp] (2012).

Government expenditure by economic category

Box F.2. **The European System of Accounts (ESA95)**

In the framework of the European System of Accounts (ESA95), public expenditures are classified by economic category, showing the government's operating costs, transfer payments and capital investment for each COFOG function and for total general government expenditure. The ESA95 categories are:

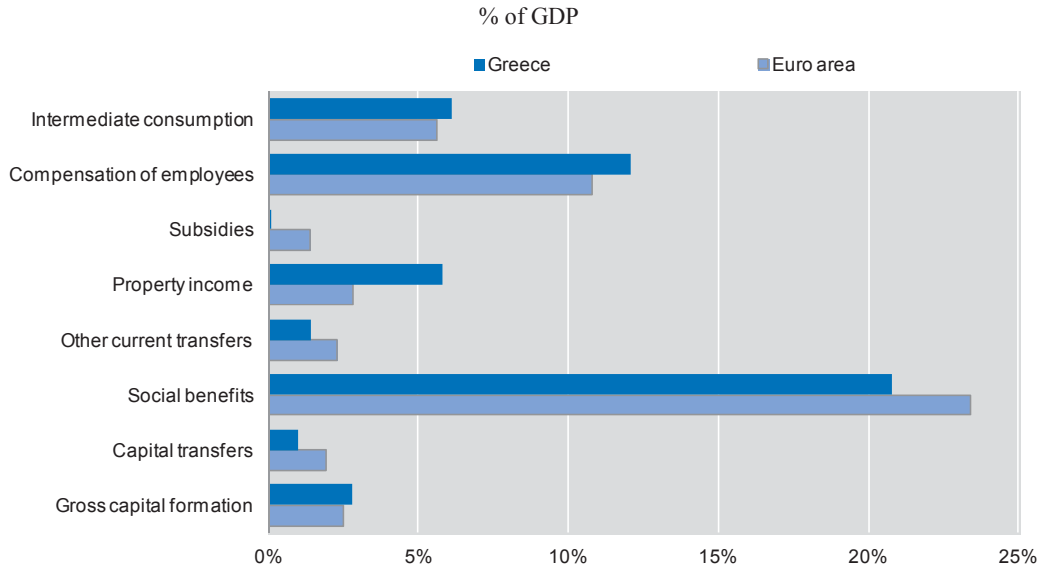
- intermediate consumption;
- compensation of employees (payable);
- subsidies (payable);
- property income (paid);
- other current transfers (payable);
- social benefits other than social transfers in-kind, payable and social transfers in-kind related to expenditure on products supplied to households via market producers;
- capital transfers (payable);
- gross capital formation.

Government expenditure by economic category as a share of GDP

Figure F.6 presents an overview of total general government expenditures by economic category for Greece in 2010 compared to the average for the euro area. In 2010, Greece spent 20.8% of GDP on social benefits, 2.6 percentage points below the average for the euro area (23.4% of GDP) and 0.8 below the average for the EU (21.6% of GDP).[1]

Greece's public expenditures on property income and compensation of employees were significantly above the euro area average. The high interest rates at which the Greek government borrows could explain the relatively high level of expenditures on property income (3 percentage points above the euro area average), which includes government expenditures for renting property or borrowing to pay for properties.

Figure F.6. **Structure of general government expenditures by economic category (2010)**

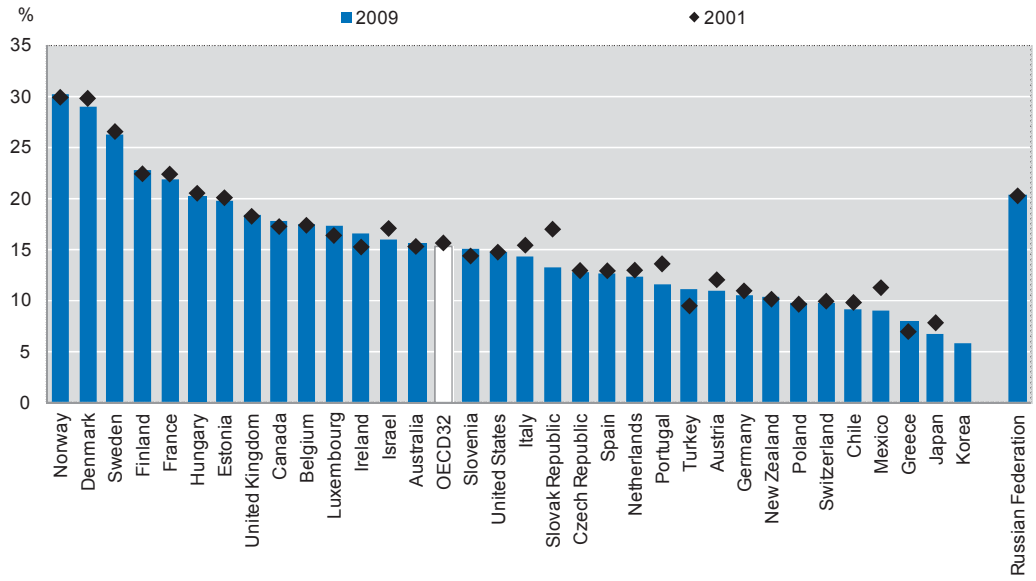


Source: Eurostat general government expenditure by function (COFOG) [gov_a_exp] (2012).

Above-average spending on compensation for employees (1 percentage point) might indicate either a larger public employment sector or more generous compensation for employees. Understanding which of these two factors drives expenditures on employees' compensation above the euro average is difficult. Data on public employment in Greece is subject to significant uncertainty, in part because of the coexistence of a variety of legal statuses and contractual forms and overall gaps in Greek statistics. According to the *ILO Labour Statistics* and the *OECD Labour Force Statistics*, Greece has a relatively low level of employment in the general government. In 2009, at approximately 8% of the labour force (i.e. employed and unemployed), general government employment was low in comparison to the large majority of OECD countries (Figure F.7). However, alternative sources point to a different situation. Data on government employment for 2009 provided by the Greek authorities to the OECD indicate that civil servants account for 17% of total employment (i.e. employed only), higher than a number of euro area countries and 2 percentage points above the OECD average (Figure F.8).[2] These data would thus suggest that above-average expenditures on employees' compensation might be driven by a larger than average government workforce.

International comparisons on public sector salaries are particularly difficult, and no evidence can be provided on the level of government employees' compensation relative to other euro area countries. However, the salary level of public employees might have also contributed to increasing expenditures on compensation. Civil servants' wages rose sharply in Greece between 2000 and 2009, during a period of significant deterioration of public finances.

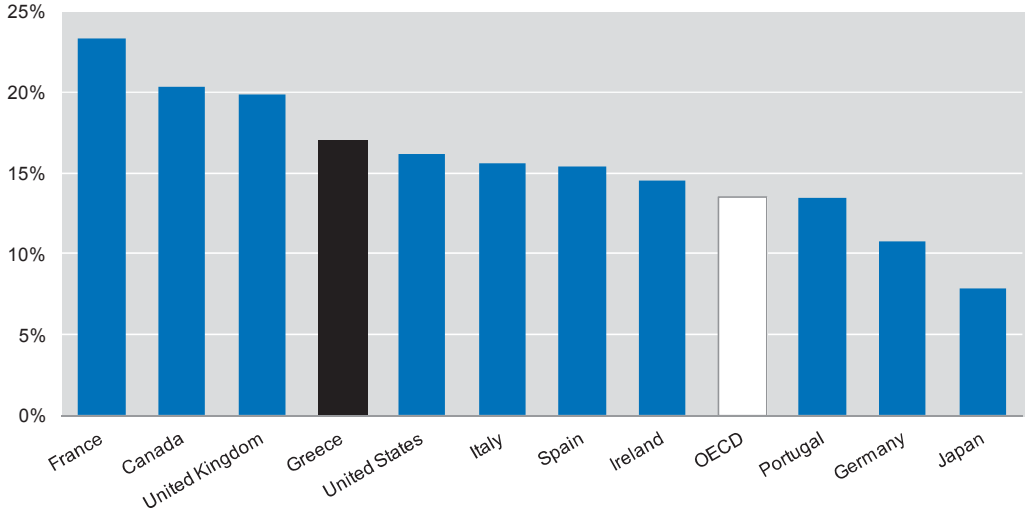
Figure F.7. **Employment in general government as share of labour force (2001 and 2009)**



Note: Chile, Czech Republic, Greece, Korea, Portugal, Switzerland and Turkey: 2008 instead of 2009. Sweden: 2007 instead of 2009. France: 2006 instead of 2009. Russian Federation: 2005 instead of 2009. Turkey: 2000 instead of 2001. Data for Iceland are missing. Data for 2001 for Korea are missing and this country is not included in the average (OECD32). Data for Australia and Chile refer to the public sector (general government and public corporations). Data for Austria, Czech Republic, Italy, Netherlands and New Zealand are expressed in full-time equivalents (FTEs). In New Zealand, FTEs are included for education, health and community services and personal and other services.

Source: International Labour Organisation (ILO), *LABORSTA database*; *OECD Labour Force Statistics Database*. Data extracted on 8 August 2012. Data for Turkey are from the Ministry of Finance and the Turkish Statistical Institute. Data for Korea were provided by government officials.

Figure F.8. **Government employment as a share of total employment (2009)**



Note: Greek employment data are provided by Greek authorities. The OECD average is based on available countries in 2009.

Source: OECD (2011), *OECD Economic Surveys: Greece 2011*, OECD Publishing, doi: *10.1787/eco_surveys-grc-2011-en.*

Recent measures might affect expenditures on compensation of employees in the medium- to long-term. In 2011, the government adopted a hiring policy that would replace only one of every five public servants who leave between 2012 and 2015 (one for every ten public servants in 2011) and a significant reduction to fixed-term contract employees (50% in 2011 and 10% in later years) (OECD, 2011b). These measures would come in the wake of a downward trend in government employment between 2009 and 2011. As mentioned above, civil servants accounted for 17% of total employment in 2009, that is about 770 000 employees. The government's Medium Term Fiscal Strategy document mentions a total public sector workforce of 727 000 in 2011. This would suggest a decrease of approximately 6% in staffing levels. Bank of Greek estimates indicated a 3% decrease in staffing levels between 2009 and 2010.

COFOG functions and sub-groups

Table F.1. **First and second-level COFOG**

General public services
Executive and legislative organs, financial and fiscal affairs, external affairs
Foreign economic aid
General services
Basic research
R&D general public services
General public services n.e.c.
Public debt transactions
Transfers of a general character between different levels of government
Defence
Military defence
Civil defence
Foreign military aid
R&D defence
Defence n.e.c.
Public order and safety
Police services
Fire-protection services
Law courts
Prisons
R&D public order and safety
Public order and safety n.e.c.
Economic affairs
General economic, commercial and labour affairs
Agriculture, forestry, fishing and hunting
Fuel and energy
Mining, manufacturing and construction
Transport
Communication
Other industries
R&D economic affairs
Economic affairs n.e.c.

Table F.1. **First and second-level COFOG** (*cont.*)

Environmental protection
Waste management
Wastewater management
Pollution abatement
Protection of biodiversity and landscape
R&D environmental protection
Environmental protection n.e.c.
Housing and community amenities
Housing development
Community development
Water supply
Street lighting
R&D housing and community amenities
Housing and community amenities n.e.c.
Health
Medical products, appliances and equipment
Outpatient services
Hospital services
Public health services
R&D health
Health n.e.c.
Recreation, culture and religion
Recreational and sporting services
Cultural services
Broadcasting and publishing services
Religious and other community services
R&D recreation, culture and religion
Recreation, culture and religion n.e.c.
Education
Pre-primary and primary education
Secondary education
Post-secondary non-tertiary education
Tertiary education
Education not definable by level
Subsidiary services to education
R&D education
Education n.e.c.
Social protection
Sickness and disability
Old-age
Survivor's
Family and children
Unemployment
Housing
Social exclusion n.e.c.
R&D social protection
Social protection n.e.c.

Note: n.e.c = not elsewhere classified.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, doi: *10.1787/gov_glance-2011-en*.

Table F.2. **General public services**

01.1 Executive and legislative organs, financial and fiscal affairs, external affairs
01.11 Executive and legislative organs
Administration, operation or support of executive and legislative organs.
01.12 Financial and fiscal affairs
Administration of financial and fiscal affairs and services; management of public funds and public debt; operation of taxation schemes; operation of the Treasury or Ministry of Finance, the budget office, the inland revenue agency, the customs authorities, the accounting and auditing services; production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services.
01.13 External affairs
Administration of external affairs and services; operation of the Ministry of External Affairs and diplomatic and consular missions stationed abroad or at offices of international organisations; operation or support of information and cultural services for distribution beyond national boundaries; operation or support of libraries, reading rooms and reference services located abroad; regular subscriptions and special contributions to meet general operating expenses of international organisations.
01.2 Foreign economic aid
01.21 Economic aid to developing countries and countries in transition
Administration of economic co-operation with developing countries and countries in transition; operation of economic aid missions accredited to foreign governments; operation or support of technical assistance programmes, training programmes and fellowship and scholarship schemes; economic aid in the form of grants (in cash or in kind) or loans (regardless of interest charged).
01.22 Economic aid routed through international organisations
Administration of economic aid routed through international organisations; contributions in cash or in kind to economic development funds administered by international, regional or other multinational organisations.
01.3 General services
This group covers services that are not connected with a specific function and which are usually undertaken by central offices at the various levels of government. It also covers those services connected with a particular function that are undertaken by such central offices. For example, the compilation of industry, environment, health or education statistics by a central statistical agency is included here.
01.31 General personnel services
Administration and operation of general personnel services, including development and implementation of general personnel policies and procedures covering selection, promotion, rating methods, the description, evaluation and classification of jobs, the administration of civil service regulations and similar matters.
01.32 Overall planning and statistical services
Administration and operation of overall economic and social planning services and of overall statistical services, including formulation, co-ordination and monitoring of overall economic and social plans and programmes and of overall statistical plans and programmes.
01.33 Other general services
Administration and operation of other general services such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government operated printing offices, centralised computer and data processing services, etc.
01.4 Basic research
Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view.
Administration and operation of government agencies engaged in basic research; grants, loans or subsidies to support basic research undertaken by non-government bodies such as research institutes and universities.
01.5 R&D general public services
Applied research is original investigation undertaken in order to acquire new knowledge, but directed primarily towards a specific practical aim or objective. Experimental development is systematic work, drawing on existing knowledge gained from research and practical experience that is directed to producing new materials, products and devices; to installing new processes, systems and services; or to improving substantially those already produced or installed.
Administration and operation of government agencies engaged in applied research and experimental development related to general public services; grants, loans or subsidies to support applied research and experimental development related to general public services undertaken by non-governmental bodies such as research institutes and universities.
01.6 General public services n.e.c.
01.60 General public services n.e.c.
Administration, operation or support of general public services such as registration of voters, holding of elections and referendums, administration of non self-governing and trust territories, etc.
01.7 Public debt transactions
Interest payments and outlays for underwriting and floating government loans.
01.8 Transfers of a general character between different levels of government
Transfers between different levels of government that are of a general character and not allocated to a particular function.

Table F.3. **Social protection**

10. Social protection
Government outlays on social protection include expenditures on services and transfers provided to individual persons and households and expenditures on services provided on a collective basis.
Collective social protection services are concerned with matters such as formulation and administration of government policy; formulation and enforcement of legislation and standards for providing social protection; and applied research and experimental development into social protection affairs and services.
10.1 Sickness and disability
10.11 Sickness
Provision of social protection in the form of cash benefits or benefits in-kind that replace in whole or in part loss of earnings during a temporary inability to work due to sickness or injury; administration, operation or support of such social protection schemes; cash benefits, such as flat-rate or earnings-related sick leave payments, miscellaneous payments provided to help persons temporarily unable to work due to sickness or injury; benefits in-kind, such as assistance with daily tasks provided to persons temporarily unable to work due to sickness or injury (home help, transport facilities, etc.).
10.12 Disability
Provision of social protection in the form of cash benefits or benefits in-kind to persons who are fully or partially unable to engage in economic activity or lead a normal life due to a physical or mental impairment that is either permanent or likely to persist beyond a minimum prescribed period; administration, operation or support of such social protection schemes; cash benefits, such as disability pensions paid to persons below the standard retirement age who encounter a disability which impairs their ability to work, early retirement benefits paid to older workers who retire before reaching the standard retirement age due to reduced capacity to work, care allowances, allowances paid to disabled persons undertaking work adapted to their condition or undergoing vocational training, other periodic or lump-sum payments paid to disabled persons for social protection reasons; benefits in-kind, such as lodging and possibly board provided to disabled persons in appropriate establishments, assistance provided to disabled persons to help them with daily tasks (home help, transport facilities, etc.), allowances paid to the person who looks after the disabled person, vocational and other training provided to further the occupational and social rehabilitation of disabled persons, miscellaneous services and goods provided to disabled persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.
10.2 Old age
Provision of social protection in the form of cash benefits and benefits in-kind against the risks linked to old-age (loss of income, inadequate income, lack of independence in carrying out daily tasks, reduced participation in social and community life, etc.); administration, operation or support of such social protection schemes; cash benefits, such as old-age pensions paid to persons on reaching the standard retirement age, anticipated old-age pensions paid to older workers who retire before the standard retirement age, partial retirement pensions paid either before or after the standard retirement age to older workers who continue working but reduce their working hours, care allowances, other periodic or lump-sum payments paid upon retirement or on account of old-age; benefits in-kind, such as lodging and sometimes board provided to elderly persons either in specialised institutions or staying with families in appropriate establishments, assistance provided to elderly persons to help them with daily tasks (home help, transport facilities, etc.), allowances paid to the person who looks after an elderly person, miscellaneous services and goods provided to elderly persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.
10.3 Survivors
Provision of social protection in the form of cash benefits and benefits in-kind to persons who are survivors of a deceased person (such as the person's spouse, ex-spouse, children, grandchildren, parents or other relatives); administration, operation or support of such social protection schemes; cash benefits, such as survivor's pensions, death grants, other periodic or lump-sum payments to survivors; benefits in-kind, such as payments towards funeral expenses, miscellaneous services and goods provided to survivors to enable them to participate in community life.
10.4 Family and children
Provision of social protection in the form of cash benefits and benefits in-kind to households with dependent children; administration, operation or support of such social protection schemes; cash benefits, such as maternity allowances, birth grants, parental leave benefits, family or child allowances, other periodic or lump-sum payments to support households and help them meet the costs of specific needs (for example, those of the lone parent families or families with handicapped children); benefits in-kind, such as shelter and board provided to pre-school children during the day or part of the day, financial assistance towards payment of a nurse to look after children during the day, shelter and board provided to children and families on a permanent basis (orphanages, foster families, etc.), goods and services provided at home to children or to those who care for them, miscellaneous services and goods provided to families, young people or children (holiday and leisure centres).

Table F.3. **Social protection** (*cont.*)

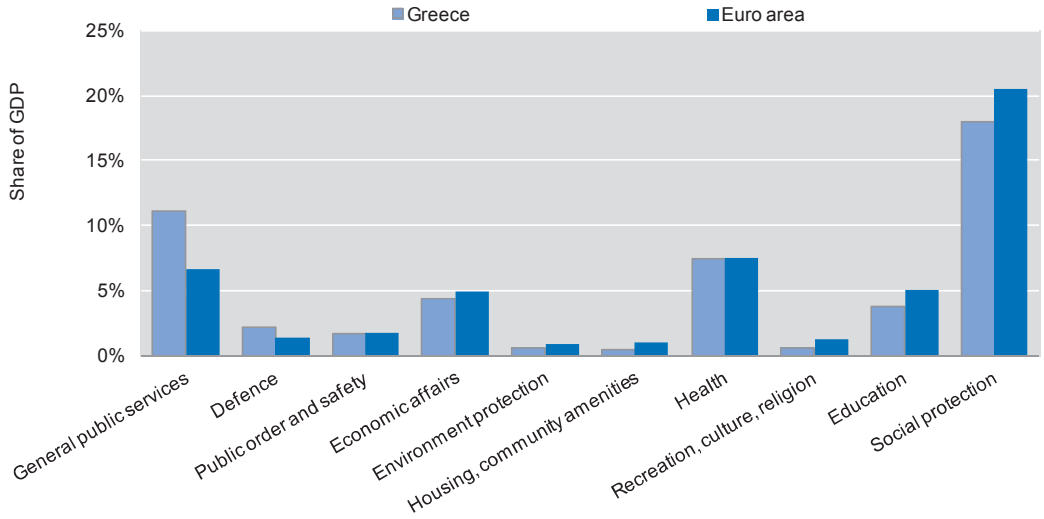
10.5 Unemployment	
	Provision of social protection in the form of cash benefits and benefits in-kind to persons who are capable of work, available for work but are unable to find suitable employment; administration, operation or support of such social protection schemes; cash benefits, such as full and partial unemployment benefits, early retirement benefits paid to older workers who retire before reaching the standard retirement age due to unemployment or job reduction caused by economic measures, allowances to targeted groups in the labour force who take part in training schemes intended to develop their potential for employment, redundancy compensation, other periodic or lump-sum payments to the unemployed, particularly the long-term unemployed; benefits in-kind, such as mobility and resettlement payments, vocational training provided to persons without a job or retraining provided to persons at risk of losing their job, accommodation, food or clothes provided to unemployed persons and their families.
10.6 Housing	
	Provision of social protection in the form of benefits in-kind to help households meet the cost of housing (recipients of these benefits are means-tested); administration, operation or support of such social protection schemes; benefits in-kind, such as payments made on a temporary or long-term basis to help tenants with rent costs, payments to alleviate the current housing costs of owner-occupiers (that is to help with paying mortgages or interest), provision of low-cost or social housing.
10.7 Social exclusion n.e.c.	
	Provision of social protection in the form of cash benefits and benefits in-kind to persons who are socially excluded or at risk of social exclusion (such as persons who are destitute, low-income earners, immigrants, indigenous people, refugees, alcohol and substance abusers, victims of criminal violence, etc.); administration and operation of such social protection schemes; cash benefits, such as income support and other cash payments to the destitute and vulnerable persons to help alleviate poverty or assist in difficult situations; benefits in-kind, such as short-term and long-term shelter and board provided to destitute and vulnerable persons, rehabilitation of alcohol and substance abusers, services and goods to help vulnerable persons such as counselling, day shelter, help with carrying out daily tasks, food, clothing, fuel, etc.
10.8 R&D social protection	
	Definitions of basic research, applied research and experimental development are given under (01.4) and (01.5).
	Administration and operation of government agencies engaged in applied research and experimental development related to social protection; grants, loans and subsidies to support applied research and experimental development related to social protection undertaken by non-governmental bodies such as research institutes and universities.
10.9 Social protection n.e.c.	
	Administration, operation or support of activities such as formulation, administration, co-ordination and monitoring of overall social protection policies, plans, programmes and budgets; preparation and enforcement of legislation and standards for the provision of social protection; production and dissemination of general information, technical documentation and statistics on social protection. Includes: provision of social protection in the form of cash benefits and benefits in-kind to victims of fires, floods, earthquakes and other peacetime disasters; purchase and storage of food, equipment and other supplies for emergency use in the case of peacetime disasters; other social protection affairs and services that cannot be assigned to (10.1), (10.2), (10.3), (10.4), (10.5), (10.6), (10.7) or (10.8).

Methodological note

The analysis uses unweighted averages, which is the arithmetic average of euro area countries' spending ratios. An alternative measure would use weighted averages, which is the ratio of the sum of member countries' spending. The degree of variation across countries on COFOG functions can entail some differences in the two averages.

In fact, weighted and unweighted averages for the euro area are essentially the same for most COFOG functions. The most significant difference is on social protection where the weighted average for the euro area is above the unweighted average by more than 2 percentage points, possibly due to significant variations across countries on social protection spending. Greece's spending is thus 2 percentage points below the weighted average for the euro area (see below).

Figure F.9. **Structure of general government expenditures by function as a share of GDP (weighted average), 2010**



Note: General public services include executive and legislative organs, financial and fiscal affairs, external affairs, foreign economic aid, general services, basic research, R&D general public services, public debt transactions (including interest payments), transfers of a general character between different levels of government. Economic affairs include general economic, commercial and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, manufacturing and construction, transport and communication. Social protection includes expenditures on services and transfers to individual persons and households as well as services provided on a collective basis; services include sickness and disability, old-age, survivor's, family and children, unemployment, housing, social exclusion. See Table F.1 for a complete list of the sub-groups for each function.

Source: *OECD National Accounts Database* (2012), doi: *10.1787/na-data-en*.

Notes

1. On the basis of the COFOG functions, spending on social protection and health accounted for 25.4% of GDP, approximately 4.7 percentage points above spending on social benefits. Both classifications include cash and in-kind benefits, but the COFOG classification includes also administrative costs that are not included in the classification by economic category and might help explain this discrepancy.

2. The figure would fall to 15% if total labour force instead of total employment is considered.

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Annex G
Design and implementation of means testing for social protection

Overall picture

This annex assesses the benefits and disadvantages of means testing social protection programmes. It also sets out the key considerations to guide the design of a new system. For this, it draws on data and information on unemployment assistance and employment-conditional benefits collected by the OECD for the OECD Indicators of Benefits and Wages (*www.oecd.org/els/social/workincentives*), as well as evaluations of means-tested programme implementation conducted by OECD member countries. It also highlights sources of additional information and analysis. Transition issues (transition costs, how long it would take to move to this new approach, and the financial and other possible consequences of such a move) are not addressed, but would also need to be taken into account.

The analysis finds that the benefits of means testing are significant and can be expected to outweigh the advantages of universal benefits. Means testing can be expected to cost less overall than universal benefits, allowing benefits to be targeted to those truly in need. Spending on means-tested transfers can be expected to be more redistributive than other transfers. However, administrative costs can be high compared to universal benefits. Appropriate design can reduce these costs and increase net benefits for society.

The practical application of means testing is likewise more demanding as reliable and timely information on applicants' income and assets is paramount. There is no single "best" approach, but again, careful design can minimise the issues, and the use of IT can also help. The social and fiscal returns on social protection are maximised by avoiding a "one size fits all" for the design of means-tested programmes.

The key design parameters for an effective and efficient means-tested social protection system are: at what level, individual or household, the income is considered; which kind of income is taken into consideration; how is the information on income obtained and updated; and in which way are benefits withdrawn as income increase. Given the current Greek context and public administration challenges, Greece will need significant support from experts in the international community (for example, from other EU member countries with experience of such reforms) to design a robust new system, and to manage a transition to full means testing.

Means testing and universal benefits: What is best?

Means testing overall can be expected to cost less than universal benefits (Box G.1). Means testing allows the targeting of benefits to those truly in need, there is a higher net benefit to society and it provides stronger support for social cohesion. It is, however, more demanding in terms of the public administration and its competences and capacities.

Box G.1. **Fiscal implications of means testing**

The fiscal savings from the application of means testing can be very significant. For example, in the United Kingdom, where means-tested social benefits accounted for 2.7% of GDP in 2005 (compared to an OECD average of 1.5% of GDP),[1] beneficiaries of the means-tested Working Tax Credit received, on average, GBP 3 173 per year in 2011. If this amount were provided universally, the cost would have been more than 16 times the current expenditure. The UK government estimates that spending on means-tested transfers is more redistributive than other transfers, with possible additional social welfare benefits estimated at GBP 0.75 for every pound spent.

Compared to universal benefits, means testing can entail greater administrative (running) costs. In the Netherlands, the government estimated that the administrative costs of means-tested social insurance accounted for 8% of total expenditure in 2000 (compared 4% of total expenditure of non means-tested social insurance). In the United Kingdom, the Department for Work and Pensions estimates that maintaining existing claims for Pension Credit cost GBP 47 per claim in 2010-11, compared to GBP 17 for the non means-tested State Pension. Appropriate design can reduce these costs.

Note: 1. The United Kingdom is the country that provides most social benefits (in terms of share of GDP) through means-tested programmes in the European Union.

Source: National Audit Office (2011), "Means Testing", report by the Comptroller and Auditor General, HC1464, Session 2010-2012, National Audit Office, London; Van Oorshot, W. (2002), "Targeting Welfare: On the Functions and Dysfunctions of Means-Testing in Social Policy", in P. Townsend and D. Gordon (eds.), *World Poverty: New Policies to Defeat an Old Enemy*, The Policy Press, Bristol, United Kingdom.

Designing a social welfare system based on means testing: Key considerations

OECD member countries have chosen different design features depending on fiscal constraints, implementation capacity and programme objectives. An example of a new system is currently being phased in in the United Kingdom. Greek policy makers will need to evaluate carefully:

- At what level, individual or household, is the income considered?
- Which kind of income is taken into consideration?
- How is the information on income obtained and updated? And,
- In which way are the benefits withdrawn as income increases?

Different options for each of these features entail different levels of complexity and a trade-off between administrative costs and programme effectiveness (Table G.1).

Whose means?

Means testing can be based on individual means or on combined means of couples, families or households. Taking into consideration the means of the entire household can help target support to families in which all members are poor. However, evaluating household income can be complex and can lead to higher administrative costs and greater opportunities for fraud and error. An additional layer of complexity is added by the definition of household and family. Including only formal relationships, e.g. parents and children or married couples, will make targeting easier since official records already exist, but might exclude households that exist *de facto* if not *de jure*.

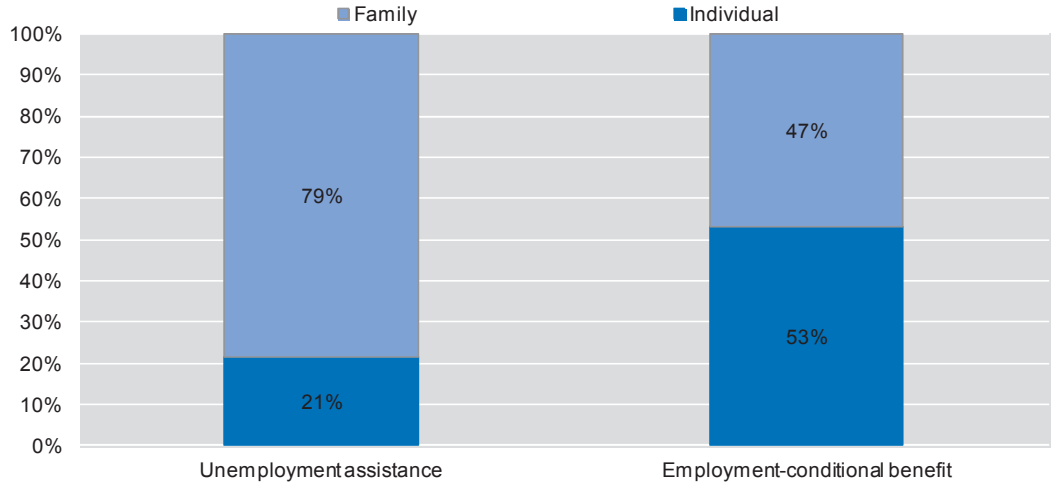
Table G.1. **Design features and options for means testing**

	Simpler ←		→ More complex
Whose means?	Individual only	Formal household or family relationship	Informal household or family relationship
Which means?	Employment income	Employment income and capital	Disposable income
How to obtain information?	Taken from other benefits	Based on established system	Separate verification of means
How to withdraw benefits?	Simple threshold	Smooth phasing out of individual benefit	Phasing out combined with other benefits

Source: National Audit Office (2011), "Means Testing", report by the Comptroller and Auditor General, HC1464, Session 2010-2012, National Audit Office, London.

Most OECD and EU countries rely on family income to test means for unemployment assistance. Ninety percent of the means-tested unemployment assistance under implementation in 2010 used family income rather than individual income. Programmes that tend to target more directly individual effort might rely to a great extent on individual income. Half of the employment-conditional benefits under implementation in 2010 used individual income (Figure G.1).

Figure G.1. **Use of family and individual income for means testing (2010)**



Note: See Tables G.3 and G.4 for details on the programmes.

Source: OECD Benefits and Wages: OECD Indicators, *www.oecd.org/els/social/workincentives*.

Which means?

Households can have different and variable financial means, including earned income, savings and property. Means tests can be designed to include all these means to ensure that benefits go to the neediest families, or only some of them. In 2010, of the 14 OECD and EU countries with means-tested unemployment assistance, 6 considered both earned income and assets, while the remaining 8 took into consideration only earned income (Table G.3).

The type and the value of the assets can also be modulated depending on the type of programme. For example, in the United Kingdom, owner-occupied property is, in general, excluded from the assets which are taken into consideration in the test, with the exception of the personal social services for older people. The choice of the assets to include helps target more carefully the beneficiaries of a specific programme. It is usually complemented by a disregard limit, a threshold below which the value of the assets is not taken into consideration. The lower the disregard limit, the more targeted the programme tends to be (Table G.2).

Table G.2. **Capital conditions for selected means-tested benefits in the United Kingdom**

Programme	Savings and capital	Disregard limit (GBP)
Housing Benefit	Owner-occupied property excluded	6 000
Child tax credit	Not a condition of entitlement	–
Income support	Owner-occupied property excluded	6 000
Pension credit	Owner-occupied property excluded	10 000
Working tax credit	Not a condition of entitlement	–
Personal social services for older people	Owner-occupied property included	14 250
Council Tax Benefit	Owner-occupied property excluded	6 000
Jobseeker's Allowance (income-based)	Owner-occupied property excluded	6 000
Legal aid	Owner-occupied property included	3 000
Carer's Allowance	Not a condition of entitlement	–

Source: National Audit Office (2011), "Means Testing", report by the Comptroller and Auditor General, HC1464, Session 2010-2012, National Audit Office, London.

How to obtain information?

Reliable and timely information on applicants' income and assets is paramount. If a beneficiary already receives a means-tested benefit, the information collected for that benefit can be used for other programmes. Alternatively, the information can be based on existing records, like tax returns. In addition, each ministry or agency responsible for the benefit can assess the beneficiary's statement of income and assets. There is no single approach, and even within one country, different ministries and agencies can rely on different approaches, depending on the type of programme, the information that is already available and the degree to which implementing agencies already interact with applicants for other matters.

In the United Kingdom, the Department for Work and Pensions relies on interviews to determine eligibility for means-tested Jobseeker's Allowance and Income Support. The HM Revenue & Customs, on the other hand, relies on claimant estimates of income and assets and assesses overpayments and underpayments at the end of the tax year on the basis of tax declarations.

In the United States, a number of means-tested programmes require applicants to visit the office responsible for the programme's administration to establish and maintain eligibility. Offices responsible for administering the Special Supplemental Nutrition Programme for Women, Infants and Children (WIC); the Temporary Assistance for Needy Families (TANF); and the Food Stamp Programme require face-to-face interviews to determine eligibility. Interviews can help minimise the risk of fraud and errors. At the same time, they put heavier demands on implementing offices and agencies. In addition, the higher the requirements imposed upon applicants, the higher the risk that potential beneficiaries might be discouraged to take-up benefit, thus weakening the effectiveness of the programme.

Use of IT can help address these challenges. For example, web-based or partially web-based applications can automatically check that all required fields are completed before an application is submitted for review. Moreover, having the option of an online application can increase access to those who are eligible for benefits but who may have difficulty physically getting to programme offices. Categorical eligibility can also minimise information and data collection. If one claimant is found eligible for one programme, that person can be automatically eligible for other less-stringent programmes. This will, however, require a certain degree of integration and information sharing across programmes.

How to withdraw benefits?

Benefits can be withdrawn abruptly once income or assets are above a certain level or smoothly as income increases. Faster withdrawal of benefits can reduce public spending. However, it can create disincentives to work and save. Also, a smoother phase-out rate will require greater controls and more frequent revisions of benefits. There is a clear trade-off between programme costs, including administrative costs, and work incentives.

Phase-out rates measure the rate at which benefits are withdrawn. The lower the phase-out rate is, the greater the increase in net income and the stronger the work incentives. For employment-conditional benefits, the phase-out rate varies significantly across countries (Figure G.2). The rate at which benefits are withdrawn is relatively steep in Ireland and Austria (60% and 50%) and very smooth in the Netherlands (1.25%), with 5 programmes in the 10-20% phase-out rate range. Fiscal constraints, administrative capacity, as well as preferences for stronger (or weaker) incentives to work and save are factors that will need to be carefully assessed to determine phase-out rates.

United Kingdom "universal" means-tested benefit

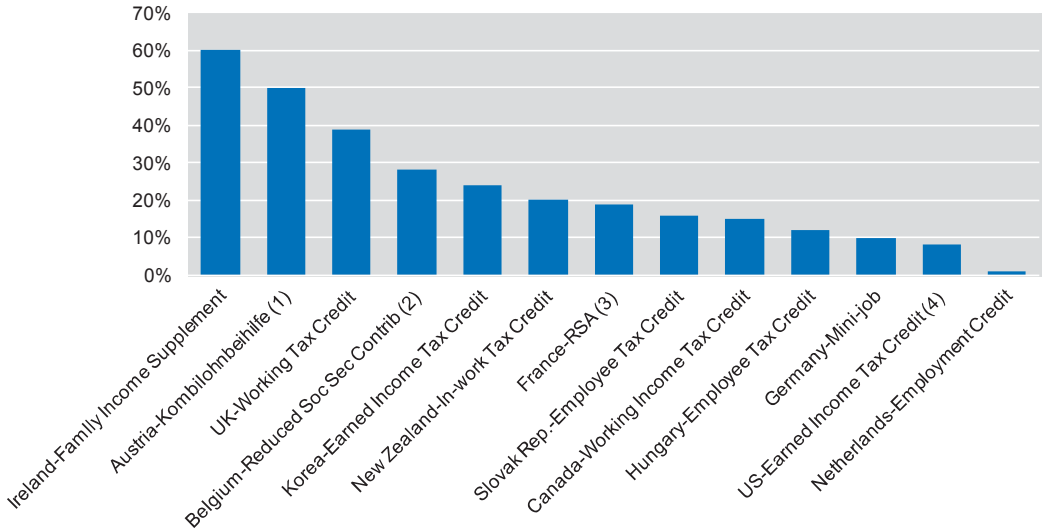
The United Kingdom is transitioning towards a universal means-tested benefit. The United Kingdom, however, represents a mature system which has developed and reformed in stages. The Universal Credit reform set out below is the most recent stage in this evolution. It does not necessarily represent the best pathway for other countries.

Key features of the United Kingdom's Universal Credit

The Universal Credit will provide a basic amount similar to the current Jobseeker's Allowance, the unemployment benefit scheme, plus additional amounts for disability, caring responsibilities, housing and children. It will replace most means-tested support with the exception of the Council Tax Benefit. Specifically, it will provide benefits that are currently provided through the Housing Benefit, the child tax credit and working tax

credit, Income Support, means-tested Jobseeker's Allowance, means-tested Employment and Support Allowance. The Universal Credit is expected to be applied to new claims in October 2013 and be phased in for existing benefits and tax credit recipients.

Figure G.2. **Phase-out rates across employment-conditional benefits (2010)**



Notes: 1. 50% of maximum rate in phase-out band. 2. Going down to 18%. 3. After social security contributions (and second rate of 5.1% for some types of families). 4. Without children; 16% with one child, 21% with 2 or 3 children.

Source: OECD Benefits and Wages: OECD Indicators, *www.oecd.org/els/social/workincentives*.

The 2012 proposed Universal Credit Regulation sets out eligibility, capital and income requirements. Specifically, it creates four categories of age-related allowances (single, aged less than 25; single, aged 25 or more; couple where both members are aged less than 25; couples where at least one is aged more than 25) and adds to these allowances elements (housing, children, etc.). For certain provisions, e.g. capital to be included in the assessment of means, it builds on rules for existing programmes. For the definition of earnings, it will rely on the HM Revenue & Customs Real Time Information.

The amount of Universal Credit received is designed to reflect, as closely as possible, the circumstances of a household each month. Earnings will be based on the actual amounts received in an assessment period (the Department for Work and Pensions is working with HM Revenue & Customs to fully understand the extent to which tax coding adjustments could influence Universal Credit awards).

The Department for Work and Pensions administers almost all of the means-tested programmes to be replaced by the Universal Credit with the exception of the Working and child tax credits, which are administered by HM Revenue & Customs. This entails, among others, processing new and existing claims, drafting regulations, monitoring and assessing implementation.

Table G.3. **Unemployment Assistance (UA) Benefit (2010)**

	Maximum benefit		Tests on		Permitted employment and disregards	Additions for dependent family members
	National currency	% of AW	Assets	Income		
Australia	12 033	18	Yes	Family	Disregard of AUD 1 612, 50% withdrawal up to AUD 6 500, 60% above. Couple: no UA for higher earner once income above AUD 20 527, spouse's UA reduced by 60% of earnings above this amount.	Parenting payment for dependent children (generally replaces UA). Partner allowance.
Austria	15 010	39	Yes	Family	No UA if earnings above EUR 4 396. UA reduced if spouse's earnings above EUR 5 940. Limit increased by EUR 2 970 for each child.	Each dependant: EUR 354.
Estonia	12 239	8		Individual	No payments if annual income exceeds EUR 12 239.	–
Finland	6 613	17		Family	Limits can be suppressed under certain conditions. Spouse's income only counted above EUR 6 432. Disregard of EUR 3 036 for single people, EUR 10 176 for couples and lone-parents, increased by EUR 1 272 for each dependent child. UA reduced (by 75% for a single person, 50% for a couple) for gross earnings exceeding disregard; special rules for earnings from part-time work.	EUR 1 254, EUR 1 840 and EUR 2 371 for 1, 2 and 3+ children respectively.
France	5 450	16		Family	Disregard for earnings less than EUR 7 267 then 1/1 reduction up to EUR 12 718; for couples, limits are EUR 14 532 and EUR 19 985.	Some for older workers depending on age and employment record.
Germany	4 308	10	Yes	Family	Disregard of EUR 1 200, then the withdrawal rate of UB II is 80% up to gross income of EUR 9 600 and 90% in a range between EUR 9 600 and EUR 14 400 (EUR 18 000 if children).	Additions for each child depending on age.
Greece	3 101	15		Family	No payments if annual income exceeds EUR 9 098.	–
Hungary	352 800	14		individual	For short-term (< 90 days) employment benefit is suspended. For "employment booklet" programme, the benefit is reduced by amount earned.	–
Ireland	10 192	32	Yes	Family	UA is reduced by 60% of average net weekly earnings if working less than three days per week.	21% of AW per adult, and 5% of AW per child.
New Zealand	11 536	24		Family	Gross income above NZD 4 160 reduces benefit at 70% rate.	Rates depend on family type.
Portugal	4 025	23		Family	Family income less than EUR 4 025/person. UA is zero if there are any earnings.	EUR 1 006 if dependants present.
Spain	–	–			–	UA only paid to people with dependents unless aged over 45. Maximum benefit of 21% of AW, paid for up to 30 months.
Sweden	83 200	23		Individual	Benefit not paid for days worked. Proportionally reduced in part-time work case.	–
United Kingdom	3 403	10	Yes	Family	Earnings disregards are GBP 260, GBP 520 and GBP 1 040 for single persons, couples and special groups (e.g. lone parents) respectively. Other forms of income reduce benefits on a 1/1 basis.	GBP 1 940 for spouse, plus various premiums.
Malta	5 192	29	Yes	Family	None.	EUR 424 (2% of AW) per dependant.

Note: For a 40 year-old single worker without children, with a 22-year employment record; all benefit amounts are shown on an annualised basis. AW: average wage.

Source: OECD Benefits and Wages: OECD Indicators, *www.oecd.org/els/social/workincentives*.

Table G.4. **Employment-conditional benefits (2010)**

Country	Name of programme	Type of benefit	Phase-out rate	Earnings when phasing out begins	Approximate maximum earnings when benefit is phased out completely	Income assessment unit
Austria	*Kombilohnbeihilfe*	Benefit	50% of maximum rate in phase out band	EUR 18 000 (47% of AW)	EUR 20 400 (53% of AW)	Individual
Belgium	*Complément de garde d'enfant*	Benefit	No	–	–	
	Reduced employee social security contributions	Reduced social security contributions	28% then 18%	EUR 16 650 (or 40% of AW)	EUR 26 445 (or 64% of AW)	Individual
Canada	Working Income Tax Benefit	Non-wastable tax credit	15%	Singles: CAD 10 500; families: CAD 14 500 (23% and 32% of AW, respectively)	Singles: CAD 16 667; families: CAD 25 700 (37% and 57% of AW, respectively)	Family
	Ontario Employment/Participation Start Up Benefit[2]	Benefit	No			
	Ontario Child Care Supplement for Working Families (OCCS)	Benefit	8%	CAD 20 000. Can also be reduced by receipt of Ontario Child Benefit	Net family earnings of CAD 36 375 for lone-parents and CAD 33 750 for couples (81% and 75% of AW, respectively)	Family
Denmark		Additional disregards for earned income in social assistance means test	–	–	–	
Finland	Earned Income Allowance (municipal income taxation)	Income tax allowance	For value of tax reduction: 5%	EUR 14 000 (35% of AW)	EUR 93 333 (233% of AW)	Individual
	Earned income tax credit (central income taxation)	Non-wastable tax credit	1.2%	EUR 33 000 (83% of AW)	EUR 88 000 (220% of AW)	Individual
France	*Prime pour l'emploi*[3]	Non-wastable tax credit	19.3% after SSCs (and a second rate of 5.1% for some family types)	Approximately EUR 15 334 (44% of AW)	Approximately EUR 21 260 and EUR 32 663 (61% and 94% of AW respectively) for an individual, or family with children	Family
	Revenu de solidarite active[3]	Reduction in withdrawal rate of social assistance	–	–	Approximately EUR 17 403 (50% of AW) for an individual	Family
Germany	*Mini-job*	Reduced social security contributions	10%	Full SSC reduction until earnings reach EUR 4 800 (11% of AW)	EUR 9 600 (23% of AW)	Individual
Hungary	Employee tax credit	Wastable tax credit	12%	HUF 3 188 000 (127% of AW)	HUF 4 698 000 (187%of AW)	Individual

Table G.4. **Employment-conditional benefits (2010)** (*cont.*)

Country	Name of programme	Type of benefit	Phase-out rate	Earnings when phasing out begins	Approximate maximum earnings when benefit is phased out completely	Income assessment unit
Ireland	Family Income Supplement (FIS)	Benefit	60%	–	Approximately EUR 31 304 if 2 children (97% of AW)	Family
	Continued Child Dependant Payment (CCDP)	Benefit	No	–	–	Family
	Part-Time Job Incentive (PTJI)	Benefit	No	–	--	
Ireland	Revenue Job Assist	Income tax allowance against employment income	Allowance is reduced over three years, and not available for fourth and later years	–	–	
	PAYE tax credit	Tax credit	–	–	–	
Japan	Re-employment Allowance	Benefit	No	–	–	
Korea	Early Re-employment Allowance	Benefit	–	–	–	
	Tax Allowance for Female Wage Earners	Tax allowance	–	–	–	Individual
	Earned income tax credit	Tax credit	24%	KRW 12 000 000 or 32% of AW	KRW 17 000 000 or 46% of AW	Family
Netherlands	Employment credit	Wastable tax credit	1.25%	EUR 43 385 (96% of AW)	Phase-out stops at EUR 47 865 (106% of AW), with value of credit remaining at EUR 1 433 (or 3% of AW) for higher incomes.	Individual
	Income dependant combination credit	Wastable tax credit	No	–	–	Individual
New Zealand	Family tax credit	Non-wastable tax credit	100%	–	See maximum benefit column	Family
	Child tax credit	Non-wastable tax credit	Affected by the abatement regime used with the family support tax credit	–	Reduced when family support tax credit has been abated to zero	Family
	Additional lone parent credit	Wastable tax credit	No	–	–	Individual
	Minimum family tax credit	Non-wastable tax credit	100%	–	See maximum benefit column	Family
	In-work tax credit	Non-wastable tax credit	20%	Phased out from point where family tax credits are completely withdrawn. This point varies with age and number of children, but is higher than NZD 36 827, or 77% of AW.	Family	
	Tax credit for income under NZD 9 880	Non-wastable tax credit	20%	NZD 6 240 (13% of AW)	NZD 9 880 (21% of AW)	Individual

Table G.4. **Employment-conditional benefits (2010)** (*cont.*)

Country	Name of programme	Type of benefit	Phase-out rate	Earnings when phasing out begins	Approximate maximum earnings when benefit is phased out completely	Income assessment unit
Portugal	Means test on social assistance	Lower withdrawal rate	–	–	–	
Slovak Republic	Employee tax credit	Non-wastable tax credit	16%	EUR 3 692 (40% of AW)	EUR 4 647 (50% of AW)	Individual
	Child tax credit	Non-wastable tax credit	No	–	–	Individual
	Re-employment Allowance	Benefit	No	–	–	
	Activation Allowance	Benefit	No	–	Benefit not paid if job pays more than three times the minimum wage	Individual
Sweden	Earned income tax credit (EITC)	Non-wastable tax credit	No	–	–	Individual
United Kingdom	Working tax credit	Non-wastable tax credit	39%	Gross family income of GBP 6 420 (19% of AW)	Approximately GBP 18 215 (53 % of AW)	Family
United States	Earned income tax credit	Non-wastable tax credit	8% without children, 16% with one child, 21% with 2 or 3 children	USD 7 480 without children, USD 16 450 with children (16% and 36% of AW). All values increased by USD 5 010 if married.	USD 13 460 without children, USD 35 535 with one child, USD 40 363 with 2 children, USD 43 352 with 3 children (29%, 78%, 88% and 95% of AW respectively). All values increased by USD 5 010 if married.	Family
Romania	Re-employment Allowance	Benefit	–	–	–	
	Employee's Monthly Allowance	Tax allowance	Varies with number of dependants (phase-out threshold and cut-out point are fixed)	LEI 12 000 or 52% of AW	LEI 36 000 or 157% of AW	Individual
Bulgaria	Re-employment Allowance	Benefit	–	–	–	

Note: All benefit amounts are shown on an annualised basis. AW: average wage.

Source: OECD Benefits and Wages: OECD Indicators, *www.oecd.org/els/social/workincentive*.

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Glossary

Administrative data

Data collected by the OECD from the administrative records of Greek authorities (for example, data on beneficiaries) to support the analysis underlying the findings and recommendations of this report.

Beneficiary

An individual who is entitled to a benefit. The beneficiaries covered by this report are defined in terms of the programmes covered by the report (see Annex E). For example, some programmes target families as beneficiaries. Each programme covered by the report incorporates a specific definition of the beneficiaries.

Cash vs. in-kind vs. tax breaks

Benefits can be provided in cash (direct payments which can be used freely), or in-kind. Benefits in-kind comprise direct access to social services (such as childcare, long-term care for the elderly or health services) or payments made to cover the charges of specific services or needs (such as housing benefits). Tax breaks with a social purpose can be considered social benefits (e.g. tax expenditures towards families with children or favourable tax treatment of contributions to private health plans). **This report focuses on cash benefits.**

Categorical vs. non-categorical

Social benefits can be distinguished by the category of social risk that they cover, which are in four main areas:

- Demographic risk (old-age and survivor's benefits which are paid to widows and orphans).
- Health status (sickness, maternity and disability benefits).
- Caring responsibilities (benefits for parental leave, lone parents and those caring for invalid relatives).
- Unemployment (benefits for people who are available for work but have not been able to find work).

The benefit levels, benefit administration and associated services, etc. are often adapted to the specific needs of each category. In this case, benefits are termed "categorical", and require proof of the social risk: to qualify for old-age benefits, evidence that the claimant is in the category "old age" must be presented: to quality for sickness benefits, evidence that the claimant is sick must be presented, etc.

Many countries have a last "category" of social assistance benefit which is conditional on need (it may be called a **minimum income benefit**) and not restricted to a particular social risk, among those listed above. Here these are called **"non-categorical social assistance"** (NCSA) benefits. The basic legislation defining NCSA benefits nearly always requires people who are able to support themselves, through work or otherwise, to do so. At the level of practical administration, claimants of NCSA benefits are managed by caseworkers (or "social workers") who require some claimants to be available for work and exempt others from this requirement (typically because they are assessed as falling into one of the other social risk categories described above).

Contributory benefits Benefits are conditional on past contributions.

Disability benefits Benefits paid to individuals who are limited in the kind or amount of activities that they can perform due to a long-term physical condition, mental condition or health problem.

EUROMOD Tax benefit simulation model covering EU countries, allowing for calculations of the effects of taxes and benefits on household income and work incentives. The model has been developed by researchers at the Institute for Social and Economic Research at the University of Essex and the Institute for Advanced Studies in Vienna, with the support of the European Commission.

Incapacity benefits Disability benefits and sickness benefits.

Income replacement vs. supplements "Income-replacement" benefits include only those which are not normally paid to people who are in full-time work, in contrast to child allowances, housing benefits or in-work benefits, for example. The latter are called "supplements" because they typically top-up other sources of income (either a main income replacement benefit or some earned income).

Insurance vs. assistance Insurance benefits (also called **contributory benefits**) are conditional on a record of past contributions to an insurance scheme. They are financed primarily through contributions. No income threshold is usually considered for eligibility.

Assistance benefits (also called **means-tested benefits**) are conditional on current income falling below a certain level (the "means test"). No record of past contributions to scheme is requested for eligibility. They are financed primarily through general taxation.

A few benefits are conditional both on past contributions and on a means test (e.g. an unemployment allowance paid only to unemployed people with no resources and having exhausted their rights to unemployment insurance). A few benefits can also be non-contributory and not means-tested ("universal" benefits paid under some circumstances,

e.g. some child benefits). In principle, pensions can be either insurance- or assistance-based.

Long-term unemployed Unemployed for duration of at least 12 months (ILO definition).

Marginal Effective Tax Rate (METR) The fraction of any additional earnings that is taken out by the combined effect of taxes and social contributions. METR = 1 – (change in NET/change in GROSS). METRs are computed for an earnings change of 1% of AW (average wage).

Means-tested benefits Benefits which are conditional on current income falling below a defined threshold (the "means test").

Net replacement rate For pensioners, this is the pension as a percentage of net pre-retirement earning, taking account of personal income taxes and social security contributions. For the unemployed, this is unemployment benefit as a percentage of net earnings when in work, taking account of personal income taxes and social security contributions.

Overlapping Situation where multiple institutions or benefits provide the same service or cover the same needs. Overlapping creates duplication of structures, inefficient use of resources and opportunities for fraud and mismanagement.

Pensions A pension is a special kind of income-replacement benefit. It is a regular payment made to people retired from the labour market for reason of age and to some widows, as well as to disabled people or people unable to work for labour market reasons (typically in some countries older workers unable to find work).

Poverty rate The poverty rate is the percentage of the population that falls below the poverty line. The poverty line uses the OECD standard, which is 60% of the median equivalised (adjusted for household size) disposable income before social transfers. It is used in this report also because of the need to be consistent with the poverty line used in the EU-SILC, which is the reference source for indicators on poverty and social exclusion in the EU (Regulation 1177/2003). It should be noted that there are other possible definitions, and that the baseline year for calculating the evolution of the poverty rate is a critical factor in assessing the evolution of the poverty rate (see Chapter 1).

SILC Statistics on Income and Living Conditions. The SILC consists of a sample of about 14 000 people and notably contains detailed information on income, health, work and family status for individuals, as well as income, composition and general living conditions for households in Greece. Income data include detailed information about social transfers at the programme level: amount received and average number of months of receipt. Not all programmes are listed in the SILC questionnaires but the main ones are

included, providing useful information on the characteristics of beneficiaries.

Social benefits The OECD defines social expenditures as: "The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer." Since only benefits provided by institutions are included in the social expenditure definition, transfers between households – albeit of a social nature, are not in the social domain.

There are two main criteria which have to be simultaneously satisfied for an expenditure item to be classified as social:

- The benefits have to be intended to address one or more social purposes.
- Programmes regulating the provision of benefits have to involve either: *i)* inter-personal redistribution; or *ii)* compulsory participation.

Social contributions Actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid.

Social programme See **social welfare**.

Social protection In the Greek context, the term refers to insurance and assistance benefits as well as in-kind services. For the scope of this report, see **social welfare**.

Social security In the Greek context, the term refers to insurance benefits.

Social solidarity In the Greek context, the term refers to assistance benefits.

Social welfare The term social welfare programme is used in this report to refer to any baseline state or national programme payment made to, or in respect of, any individual. Social welfare generally encompasses a broad range of public policies and actions to alleviate poverty and distress. It does not distinguish between the instruments through which these policies and actions are carried out or the way in which they are financed (for which see the distinction between insurance and assistance).

SOCX (OECD SOCial eXpenditure) *OECD Database for Monitoring Social Expenditure* both at the individual level and the aggregated level. The main social policy areas are as follows: old-age, survivor's, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing, and other social policy areas.

Tax Tax (OECD definition) designates any compulsory payment to the general government that does not give access to a benefit in proportion to the amount paid. Naturally, social security funds are part of the general government.

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(42 2013 09 1 P) ISBN 978-92-64-19648-3 – No. 60591 2013

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Contents

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Co-funded by Greece and the European Union (European Social Fund, Operational Programme «Human Resources Development 2007-2013»)

ISBN 978-92-64-19648-3
42 2013 09 1 P