



## **COUNTRY FRAMING REPORT**

# **Cyprus**

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## **Existing knowledge**

The first Social Insurance Scheme in Cyprus was introduced in January 1957 and it covered compulsorily the employed persons, with the exception of certain categories of agricultural workers. The self-employed persons and those workers excepted from compulsory insurance were given the right to be insured voluntarily.

This first scheme had a major reform in 1980 which introduced an earnings-related insurance, replacing the previous scheme of flat-rate contributions and benefits. Currently, there is only one Social Insurance Scheme (General SIS) which covers all employed and self-employed persons in the area controlled by the Republic of Cyprus.

The pension system in Cyprus comprises of:

- 1) The General Social Insurance Scheme, a compulsory earnings-related scheme which covers every person gainfully employed in Cyprus, both in public and private sector, including self-employed.
- 2) The Social Pension Scheme, an income-tested scheme, which covers residents of Cyprus with no or low pension income (i.e. housewives).
- 3) Occupational pension plans, which provide supplementary pensionable benefits to their members:
  - The Government Employees Pension Scheme
  - The Semi-government Sector Employees Pension Schemes
  - The Voluntary Provident Funds and other similar collective arrangements.

The old-age pension is payable at the statutory pensionable age of 65 for both men and women for both the private and the public sector, provided that the person has been insured for at least 10 years and given some other requirements.

In 2007 Hoffmaister, Catalán and Guajardo (2007) in their work “Addressing the Macroeconomic Consequences of Aging in Cyprus: The Case for Pension Reform” concluded that, policy-wise deep pension reforms were required to address the macroeconomic effects of aging. Until 2013, the rate of contribution, for the employees working in the private sector, was 17.9% on the monthly wage and was divided to 6.8% contributions paid by the employer, 6.8% paid by the employee and 4.3% paid by the State. For self-employed people the rate of contribution was 16.9% on the expected income: 12.6% was paid by the self-employed and 4.3%

by the State. It is worth noting here that until 2013, the public and semi-public sector employees had no or very little contribution to the pension scheme.

Following the huge financial crisis in March 2013 many reforms took place in the tax system of Cyprus, such as increase in: Income Tax, Special Contribution for Defence, Immovable Property Tax, Value-Added Tax, Special Credit Institution, and Special contribution for the private and public sector<sup>1</sup>. The social security system could not be an exception. Since the beginning of 2014, the rate of contribution increased to 20.2% on the monthly wage which is currently divided to 7.8% contributions paid by the employer, 7.8% paid by the employee and 4.6% paid by the State. For self-employed people the rate of contribution is 19.2% on the expected income: 14.6% is paid by the self-employed and 4.5% by the State. For the permanent employees of the public sector, the contribution is 3.95% for those who have been employed before 2011 and 7.8% for those who have been employed after 2011.

According to the statistical data regarding the schemes administered by the social insurance services (Social Insurance Services, 2018a) in 2014 there were 158, 743 pensioners benefited from the pension schemes. This number corresponds to 18.74 percentage of the total population of Cyprus and includes also the people who have received Social Pension, a scheme introduced in May 1995. In 2016 the average percentage of persons benefited from the pension schemes increased to 19.33 percentage. The average amount of pension in 2014 was 633.77 Euro per person (Social Insurance Services, 2018b).

The minimum monthly amount pension for a pensioner with no dependents for 2016 was 418.51 Euro and the minimum monthly amount pension for a pensioner with three dependants 592.89 Euro (Social Insurance Services, 2018a). The annual expenditures on pensions for the year 2016 were 1.261.200 thousand Euro spent to 148.977 pensioners making an average amount of pension 652.21 Euro per person. The mean monthly wage for 2016 was 1.879 Euro which yields to 34.65 percent of the average pension to the average (Social Insurance Services, 2018a; Statistical Service of Cyprus, 2016).

During 2014-2015, the *mean labour force participation rate* for persons aged 55-64 rose from 56% to 57.1%, (Statistical Service of Cyprus, 2016) both rates are above the 50%, an objective set by the European Council in the Lisbon agreements in 2000. Notice that the participation rate refers to the number of people who are either employed or are actively looking for work. The number of people who are no longer actively searching for work are not included in the participation rate. The respective *employment rates* for these two years in Cyprus were 46.9% and 48.2% respectively (Statistical Service of Cyprus, 2016). Given that during an economic

recession the participation rate decreases, there is a slight hope that things are stabilized after five years of recession in Cyprus. Nevertheless, the general feeling and the public opinion is not favouring the late retirement and the current working generation does not want to extend its working life.

Unemployment rates may be an obstacle to increasing working life and maintain quality life. During the period 2012-2015 unemployment rate among the working labour force in the age group 55-64 rose from 1.19% to 2.04%, for men from 1.58% to 2.66%, and for women from 0.75% to 1.38% (Statistical Service of Cyprus 2016<sup>2</sup>). Even though these numbers look small relative to 32.8% unemployment rate for the age group of 15-24 in 2015, still for seniors in the age group 55-64 is generally accepted that they find it difficult to obtain a new full-time job.

In a time series since 1999, the biggest percent difference on permanent contracts in Cyprus is almost 10 units. The highest percent is in 2002 (90.9%), and the lowest is in 2014 (81.1%). At the same time, the percent of temporary contracts has more than doubled between 2002 and 2014. The percent of temporary contracts in 2002 was 9.1%, and in 2014 18.9% (Statistical Service of Cyprus, 2016).

With very few exceptions, the contribution towards developing conceptual and theoretical approaches to extending the working life is limited. The work of Hoffmaister, Catalán and Guajardo (2007) and Hoffmaister et al. (2007), even though many changes have occurred since 2007, are noted here because of the comprehensiveness of the topic. In their studies it is suggested that radical reforms need to take place given that:

- a) In the coming 50 years, the population of Cyprus is expected to age substantially, a trend that is in line, slightly less severe than, those in the EU.
- b) Just as in many other countries, declining fertility rates and increasing life expectancy are underlying these aging trends. Cyprus has the third lowest birth rate in the EU (Eurostat, 2016)
- c) These demographic trends challenge the long-run sustainability of the pension system in Cyprus.

Until 2013, Cyprus was living a small miracle, with Services and Tourism product being the main income of the country. The shocking financial crisis of 2013 changed completely the lives of Cypriots, as many people lost their jobs, and many employees belonging to the middle class of Cyprus lost a high percent of their life-earnings due to the bail-in of Bank of Cyprus and the bankrupt of Popular Bank. Three years later, in April 2016, based on the actuarial study of 2014

figures, the Minister of Labour claimed that the Social Insurance Fund will be viable until 2080, meaning that pensions, maternity and illness benefits as well as unemployment assistance will remain secure until 2080. The announcement was quite surprising given the numbers mentioned above, given the uniform EU trend in pension funds being problematic, the fact that fewer young people are contributing to the fund because of the low birth rate and unemployment, and people collecting state pensions for longer because of the higher life expectancy. Until 2018 there is no raise in the contributions to the fund since 2014.

Private sector workers and private employers are contributing equally and fairly to the social insurance scheme; and even though the private sector is paid less than the public sector in Cyprus, and therefore the pensions of the private sector worker will always be less than those of the public sector, complementary and voluntary schemes such as the provident funds will sustain the retirement life of this type of workers. The real problem though, will be faced by the public and semi-public sector pension funds such as Cyprus Telecommunication Authority, Electricity Authority of Cyprus and Cyprus Broadcasting Corporation, to which as mentioned above, employees used to contribute nothing or very little until the last few years, while the contributions they have started to make recently do not justify the princely pensions of two and three thousands euro per month.

What is left to see is how things will evolve in the next couple of years and hope that no repetition of the 2013 experience will occur when the lawful taxpayers were called to bail-in the corruption, the indecisive measures, and the unfair private to public sector treatment.

### **Policies for reducing the risk of poverty in Cyprus**

Following the Report of European Institute for Gender Equality (EIGE), an autonomous body of the European Union “Beijing + 20: The 4th Review of the Implementation of the Beijing Platform for Action in the EU Member States” age is found to be a significant factor for being at-risk of poverty. Age affects women and men in the same way in relation to poverty. If the gender gap is low for the entire population, it widens significantly for those over 65 years. In 2012, elderly women were more at-risk-of-poverty than elderly men (16 % compared with 12 %). In Cyprus approximately one third of women are at risk of poverty. The gender gap can be explained by women’s lower lifetime earnings and smaller or interrupted social security contributions during pregnancy, due to caring responsibilities or greater propensity to work part-time (European Institute for Gender Equality 2015, p.33).

Policies for reducing the risk of poverty are focused on the population age group of 65 years and over, families and other vulnerable groups. The beneficiaries of these allowances are described

below:

### **Old and retire**

- Old age pension: Payable to an insured person who completes the pensionable age, which is at the age of 65, and satisfies the relevant contribution conditions. These conditions can be found at the government e-portal of the Ministry of Labour, Welfare and Social Insurance (2017). If the person satisfies certain stricter insurance conditions then s/he is entitled to old age pension at the age of 63 (for example mine employees).
- Old age lump-sum payment: Payable at the age of 68 to those who paid social insurance contributions in Cyprus and reached the pensionable age but do not satisfy the conditions for the old age pension.
- Social pension: Payable to persons-usually housewives-who are not entitled to any other benefit after the age of 65. In 2014 the beneficiaries were 15,862 and the monthly amount paid was €36.28 for 13 months (Statistical Service of Cyprus, 2016).
- Home care or long-term care: Provided by the State to all persons legally residing in Cyprus whose resources are insufficient to satisfy their special needs for care.
- Provident fund: Mainly provided by organizations and businesses of the private sector. Provident Funds are financed by contributions from employers and employees. Employees may decide according to collective bargaining to pay voluntarily contributions for a private pension. The beneficiary usually receives the private pension as a lump sum payment at his/her retirement age or by monthly instalments in addition to the state pension provided through the General Social Insurance Scheme (GSIS). At 31.12.2010 1,681 provident funds were operating in Cyprus and 118,340 employees were benefited (Statistical Service of Cyprus, 2016). Note here that Provident funds also suffered the “haircut” of the 2013 financial crisis, since a substantial proportion of their resources were held as deposits with the banks (Casey & Yiallourous, 2013).
- Other benefits are: Easter benefit and old people’s social card (for example free public transportation by bus, up to 50% discount on any theatre etc.)

### **Disability allowances**

The disability allowances provided to beneficiaries by the Department for Social Inclusion of Persons with Disabilities of the MLSI are the following and details can be found at the e-portal of the Ministry of Labour, Welfare and Social Insurance (2017).

- Severe motor disability allowance scheme
- Care allowance scheme for quadriplegic people
- Care allowance scheme for paraplegic people
- Special allowance for the blind
- Mobility allowance for disable people
- Scheme to provide financial assistance for disability car
- Scheme to provide financial assistance for the purchase of wheelchairs
- Plan to provide wheelchairs through borrowing
- Disability parking card scheme
- Financial assistance scheme for the provision of technical means, instruments and other aids
- Scheme for the management/provision of technical means, instruments and other aids
- Financial assistance for organizations of persons with disabilities
- Financial assistance to the organizations of persons with disabilities for hiring social assistants for their members

### **Family and children**

In July 2014 following the financial crisis of 2013 the Government of Cyprus implemented a law regarding the Guaranteed Minimum Income (GMI). For the low-income person or family that fulfils certain criteria, the GMI is administrated through the Ministry of LSI (MLSI) and consists of €480 monthly income for the single, plus €240 monthly income for his/her spouse plus €144 monthly income for each family member under 14 years.

In addition, the following schemes are implemented:

- Maternity benefit: A monthly allowance payable during the maternity leave period of 18 weeks to pregnant women.
- Maternity grant: A lump-sum amount given to all women who have given birth while living in Cyprus, provided that she is a legal resident of Cyprus and herself or her husband fulfil their social insurance obligations.
- Parental leave: On August 2017, the Parliament of Cyprus voted on a legislation introducing two-week paid paternity leave for new fathers.

- **Pregnant women rights:** The main rights of pregnant women consists of 18 weeks of maternity leave with the possibility to be extended under certain criteria, special rights for breastfeeding, protection of rights of pregnant worker (and of adoptive mother) when returning to work, and criminalization of the dismissal of a pregnant worker (or/and adoptive mother).
- **Widow's pension:** A monthly payment to the woman who was living with her husband at the time of his death, and if not cohabited, maintained by him exclusively or primarily. Widow's pension shall be entitled also to the man who is permanently incapable of self-support and maintained by his wife before she dies.
- **Other benefits for families** are the benefits for families with three or more children, the Car Purchase Grant for families with four or more children, and the Missing Person Allowance which is payable to the families of the missing persons as a result of the Turkish invasion of 1974 in the island.
- **Unemployment Benefit:** The beneficiaries of the unemployment benefit are persons who lost their job and are either between 16 to 63 who have been legally employed in the Republic of Cyprus or are aged between 64 to 65 and do not qualify for old-age pension. Self-employed persons are not entitled to unemployment benefit. The benefit lasts for 156 working days (approximately 6 months) and is equal to 60% of the person's average weekly basic earnings for which s/he paid contributions in the last contribution year, increased to 80%, 90% and 100% for one, two or three dependents respectively (maximum three dependents).

### **Health care**

In 2013, the Convention on the Elimination of All Forms of Discrimination against Women and the Committee on the Elimination of Discrimination against Women, among others urges the Republic of Cyprus to “ensure universal access to health care and services for all women, with particular attention to migrant and elderly women, as well as the swift implementation of the National Health Insurance System.” (United Nations, 2013). Finally, on November 10 2017, Cyprus ratified the Council of Europe Convention on preventing and combating violence against women and domestic violence, also known as the Istanbul Convention. The levels of domestic violence against women in Cyprus is 28% while the age group which is at higher risk is between 45-65 years (Mavrikiou, Apostolidou & Parlalis, 2014).

In 2014 the Cyprus Council of Ministers, decided the implementation of the National Health Insurance System by 2016 without success. In May 2017, the Minister of Health announced again



his determination of implementing the NHS in Cyprus. The absence of a national health system and the lack of universal care, impacts negatively the access to health services for low-income groups and especially women, and older women. Currently, the National Health Insurance System is yet to be implemented and healthcare is provided through General Hospitals (public hospitals) as well as through private clinics and medical centres. Even though the level of health care provided by the private clinics and medical centres is excellent in Cyprus the cost for any individual is extremely high and most of the time unaffordable. Public hospitals used to be (before 2013) free of charge for certain categories of citizens (such as public sector employees, or low-income employees) but since the financial crisis of 2013 a monthly contribution is deducted from all public servants. Until today the public health system faces many problems such as the long waiting lines for operations or screening tests such as MRIs, understaffing, burnout of the employees, violence etc. Because of these problems, patients who can afford it choose to visit specialists and diagnostic centres of the private health sector where they are obliged to pay on their own. Until 2013 any individual could have access to the Emergency/First Aid Department at free of charge and most of the people would take advantage of this service as they could not afford the private sector. Since 2013, the state imposed the indicative amount of €10 euros for all people to tackle the burnout of the Emergency personnel and to reduce the extremely high number of people seeking help at the Emergency Department. In addition, those who hold a medical card (civil servants, retired, low incomers) pay €3 for a visit at a physician/general doctor, €6 for a specialized doctor, and an additional of €0.50 for each medication prescribed. Those who do not hold a medical card are charged with €15 for a visit to a general doctor and €30 for a visit to a specialized doctor.

The National Screening Program for the early detection of breast cancer for women aged 50- 69 is one of the most important activities related to public health for women. The Program is free for all eligible women. During the 2003–2008 period, 118,569 invitations were sent to women and 34,317 received mammograms; 2,503 were recalled for ultrasound and in the final stage 1,539 were recalled again for further investigation (Mamas et al., 2012).

Groups such as third country nationals, illegal immigrants, asylum seekers, refugees, do not have easy access to the health system or are almost excluded from access. Roma, homeless and street children are negligible and therefore their access to the health care system does not constitute a serious problem.

Even though the above allowances, schemes and pensions there is still a long way to go for Cyprus as it is among the fourteen countries (BE, BG, CY, EE, ES, FI, IE, LT, LV, MT, RO, SI,

TR, UK) of the European Union who present low spending on pensions but also high at- risk-of-poverty rates relative to the EU27 average.

**Notes**

- 1) On the 1st of January 2017 the *special contribution* for the private and public sector was abolished.
- 2) Author's calculations.

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