



# **Annual National Report 2010**

## **Pensions, Health and Long-term Care**

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**On behalf of the**  
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Gesellschaft für  
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## 1 Executive Summary

The Cypriot economy exhibited comparatively high growth rates in the recent past (4.4% in 2007). Growth decelerated to 3.7% in 2008 and a sharp decline of GDP (-1.7%) took place in 2009. In parallel employment dropped (the employment rate for men decreased from 79.2% in the 4th quarter of 2008 to 71.1% in the 4th quarter of 2009; for women the respective rates were 63.2% to 62.9%). Unemployment considerably increased, from 3.7% in 2008 to 6.3% in March 2010. Youth unemployment is particularly high. But, so far, unemployment is of a rather short duration (the majority of the unemployed remain outside the labour market for a period less than a year). Under the impact of the economic crisis a number of specific policy packages were put in force with the aim to support economic development and social cohesion and promote macroeconomic stability. Despite fiscal strains, in 2009 social spending increased in order to cushion the effects of the crisis. Particularly important has been the implementation of the Social Support Scheme for Low-Income Pensioners since December 2009, as a means of addressing the steadily high poverty rates among elderly people.

Sustainability of pensions has been an issue of public concern over the last few years. After a protracted debate consensus among the relevant actors was achieved on some parametric changes in the General Social Insurance Scheme (the main first pillar scheme in Cyprus), legally enacted in March 2009. New legislation introduced stricter rules for early retirement; increased revenue through a phased rise of contributions for all those insured under the GSIS; and thus extended system sustainability for the coming decades. Notably, significant inequalities between the public and private sector in terms of funding pensions, replacement rates and level of overall pension benefits, as well as retirement age were not addressed by the recent reform. These constitute a major issue of public debate particularly as rapidly increasing pension expenditure for civil service retirees exerts strains on the rather high fiscal deficit. The Stability and Growth Plan recently submitted to the European Commission strongly stresses the need for reducing costs in respect to the state payroll and pensions expenditure, however, specific measures need to be negotiated with the public sector trade unions.

As to health care policy, not much progress has been made over the last year in respect to the introduction of the GHS (General Health System) plan, while the economic crisis conditions create doubts for its launching in 2011. Due to the long delay in implementing the plan, an amendment scheme has been submitted to Parliament in 2008 and has been debated since then. Evidently various parameters of the GHS need to be reassessed (e.g. funding levels, contribution rates) by updating actuarial and other relevant studies, and major steps for developing crucial preconditions must be speeded up (these include the reorganisation of public hospital administration and management, training of medical staff, decisions on the pricing of pharmaceuticals etc.). Considerable preparatory work has been made (particularly by the Health Insurance Organisation) but major structural changes are still pending.

Long term care is a less developed policy area and not a prevalent issue in public debate. Care services are primarily provided by family and kin. However, demographic changes in parallel with changes in family patterns may soon intensify needs for public care provision. Over the last year some steps have been taken to decentralise social welfare services and promote networking and cooperation between public, private and voluntary providers, with the aim to improve access. However, in the near future mechanisms of systematic needs assessment must be introduced, so as to effectively address demand due to rapid demographic ageing and secure the targeting of provisions to those most in need.

## **2 Current Status, Reforms and the Political and Scientific Discourse during the previous Year**

### **2.1 Pensions**

There are two main social insurance systems in Cyprus. They are both compulsory (public) first pillar schemes. The first (GSIS, General Social Insurance Scheme) covers all private sector workers (including the self-employed) and constitutes the largest component of pension expenditure, while the second (Government Employees Pension Scheme) covers public servants and employees in the wider public sector.

#### **2.1.1 Overview of the system's characteristics and reforms**

The GSIS was established in 1963 as a flat-rate contributions and benefits scheme but was reformed in 1980 with the introduction of an earnings-related scheme.<sup>1</sup> Currently its annual expenditure amounts to 4.5% of GDP. It comprises two components: a basic and a complementary benefit. The basic part of GSIS pensions concerns insured earnings before the 1980 reform, whereas the supplementary part is based on earnings since October 1980. Basic pension benefits are annually indexed to the rate of increase of insurable earnings, while supplementary pension benefits increase in accordance with the cost of living index. Pension increases take place each January, as well as each July (if the cost of living index is higher than 1%). The system is funded by tripartite contributions that since April 2009 amount to 17.9% of earned income (6.8% paid by the employee, 6.8% by the employer and 4.3% by the state). There is an upper ceiling of earnings (EUR 973 per week or EUR 4,216 per month) for which contributions are paid; any earnings in excess of these respective amounts are not subject to compulsory contributions.<sup>2</sup>

Civil servants, members of the education system, the police and the armed forces are insured under the Government Employees Pension Scheme (GEPS) that provides retirement and survivors' pensions. It is a pay-as-you-go system funded by employees' contributions and tax revenue. Pensions are indexed to the cost of living indicator on a six month basis. Public (and semi-public sector) employees are also entitled to the basic pension of the social insurance fund. Furthermore, government employees benefit from mandatory supplementary pension schemes that are tax financed too and provide comparatively higher replacement rates than occupational (provident) funds of private sector workers.<sup>3</sup> Compared to the GSIS, contributions paid by public employees have persistently been rather low (3.45%).

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<sup>1</sup> The 1980 reform also ensured uniformity in terms of qualifying conditions and pension rights accumulation for all private sector workers either in standard or non-standard employment (including the self-employed).

<sup>2</sup> Also imputed incomes on which contributions are paid by the self-employed increased by 5.29% in January 2010.

<sup>3</sup> Some other categories of public employees, such as employees of public utility corporations, local government and of other public law organizations are covered by separate "occupational" schemes that however operate under the same terms and conditions as for civil servants. These pension schemes constitute a small fraction of old-age spending. Supplementary (occupational) pensions of public employees are not based on contributions but are tax financed; and accruing benefits include both "guaranteed" lump sums and lifetime earnings (the roots of the privileged social insurance regime for government employees in Cyprus lie in the colonial era when the first measures of social insurance were introduced around the mid-1950s under the British rule and at a time when the majority of the public administration personnel were British).

Old-aged people (65 years and over), who do not satisfy minimum requirements for a pension under the GSIS or any other scheme, are entitled to a non-means-tested social pension<sup>4</sup> (provided they fulfil prescribed residence conditions). The social pension ensures universality in pension coverage (about 95% of social pension beneficiaries are women). The rate of the social pension is equivalent to 81% of the full basic social insurance pension; and as is the case with the latter, it is automatically indexed to earnings.

The second pillar consists in a number of provident funds established on the basis of collective agreements for various groups of private sector employees.<sup>5</sup> Currently about 35% of private sector employees are covered by voluntary provident funds that provide lump sum payments at retirement (as well as for invalidity, termination of employment, unemployment and death). Existing regulations do not highly facilitate transposition of rights across employers and often employment termination leads to cashing in of lump sum benefits. This condition does not provide incentives for accumulation of rights over the whole working life and do not secure a pension annuity solution.

Provident funds operate on a funded basis and significantly vary in respect to the level of benefits they provide.<sup>6</sup> The transposition of the Directive 2003/41/EC into law – in November 2006 [Law 146(1) on the Establishment, Registration, Operation and Supervision of the Occupational Retirement Benefits Funds] – aimed to create a more unified regulatory framework.<sup>7</sup> In accordance with this law, in January 2010 the Pension Funds Supervisory Authority issued two regulations aiming to improve management in social and occupational funds. They set out specifications for management qualifications, management principles and procedures and, most importantly, provide significant guidelines for the funds' investment policy (i.e. ceilings on the amount of assets to be invested in different instruments – equities, bonds, real estate etc.) with the aim to safeguard against high risk and promote transparency. Compliance will take place on a phase-in schedule.<sup>8</sup>

Moreover, the Board for Occupational Pension benefits, after consultation with social partners and the Ministry of Finance, has recently suggested changes in benefit provision when an employee quits job. The lump sum benefit provided consists of two components, based, respectively, upon employees' and employers' contributions. Until recently, when quitting a job the employee was entitled to the full amount of benefit accruing on his contributions, while the amount of the benefit received on the basis of the employer's contribution varied according to the number of years he/she worked for that employer. The range of the latter benefit-component, and the number of years of work required for entitlement to it were subject to agreements reached in each occupational fund. The suggested reform aims to legally regulate the second component of the benefit in relationship to the years of work required. The above Board proposes the maximum number of years of work required for receiving the full amount of benefit accruing on the employer's contributions to be five years<sup>9</sup>; in the case of two to three years of work the employee should be entitled to 50% of the benefit, and up to four years of work the entitlement should be set at 70% of the benefit. Nevertheless, there can still be flexibility as to the upper ceiling (maximum of the years

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<sup>4</sup> The social pension was introduced in 1995.

<sup>5</sup> Legislation for the establishment of provident funds entered into force in 1982. There are about 120 provident funds with more than one hundred members, as well as a number of smaller ones.

<sup>6</sup> These are defined contribution benefits.

<sup>7</sup> For the larger provident funds (with more than one hundred members).

<sup>8</sup> In March 2010, a training seminar on implementing the new regulations was organized by an actuarial services firm in collaboration with the Ministry of Labour and Social Insurance for the staff of pension funds.

<sup>9</sup> This does not correspond to the years for which contributions have been paid, as there is always a six-month lag in starting contributions payment.

worked for entitlement to the full benefit) and provident funds may opt for a lower number of years.

Regulations concerning management and investment strategies as well as coordination of benefit entitlement conditions among provident funds constitute significant developments. Nevertheless, further reform is required across the whole range of the numerous provident funds particularly in respect to converting lump sum benefits into lifetime additional pension income. Given the fact that occupational pension benefits provided by provident funds are often cashed in after termination of a job, discontinuity in occupational insurance persists with detrimental effects on entitlement accumulation over one's working career. More importantly, these conditions discourage employment flexibility.

In January 2010, basic pensions increased by 5.29% (in line with the increase to insurable earnings); no increase however was recorded for the supplementary part as the average Consumer Price Index (CPI) for the second half of 2009 declined by 0.06% (compared to that for the second half of 2008). The social pension was also adjusted respectively and amounts to EUR 315 since January 2010.<sup>10</sup>

The average withdrawal age from the labour market stands at 63 years; this coincides with the legal early retirement age (for both men and women); while the legal retirement age is at 65 years. Insured persons who have completed a minimum insurance period (28.5 years, or 70% of total insurable working life, that gradually is going to increase to 33.25 years) can retire at the age of 63 without any actuarial decrease of their pension. Replacement rates considerably differ between the public and private sector. For a public employee with earnings equal to the national average earnings of a male worker, the total pension income (including occupational pension and a lump sum benefit payment) amounted to about 80%, in 2006; the corresponding rate for a private sector pensioner (excluding the special allowance) was 45%. There is also a significant gender gap, as it is mostly women who receive the minimum pension (as well as the social pension), and for persons on minimum pension (plus the special allowance) the replacement rate for gross pension income amounted to 19% of male average earnings in 2006.

There are no restrictions to work for pensioners, and according to recent data about two thirds of pensioners between the age of 63 and 65 continue working. Contributions paid by those pensioners increase the rate of their pension at the age of 65.<sup>11</sup> Often, in the case of persons with low earnings, retirement after having covered only about two thirds of total insurable working life may imply a very low pension (even below the minimum pension). This may lead to the paradoxical phenomenon where "early retirees" of this category have their pension raised to the level of minimum pension, to which the special allowance is also added, while at the same time they may continue to have earnings from employment too.

The launching of the "Scheme for the Support of Low-Income Pensioners" in December 2009 constitutes a significant development in respect to tackling the high poverty incidence among the elderly in Cyprus. The measure was included in the National Strategy Report 2008-2010 and the scheme developed as an attempt to address a profound issue of improving the redistributive efficiency of social assistance benefits. Ten income brackets have been formed, ranging from less than EUR 5,200 up to EUR 10,398 yearly income (for a single elderly person), or from less than EUR 7,800 up to EUR 15,597 yearly income (for pensioners' households with two-persons). Benefits range between EUR 650 and EUR 800 (for the

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<sup>10</sup> Moreover, as the Cypriot economy experienced deflation in the first half of 2009 (the CPI decreased by 1.4% compared to the second half of 2008), there was no need for an inflation adjustment of pensions in July 2009.

<sup>11</sup> After the age of 65 no contributions are charged to working pensioners and thus employment after that age does not have any further positive effects on pensions.

highest and lowest income brackets, respectively, for single-person households), and between EUR 975 and EUR 1,200 (for two person households).<sup>12</sup> It is a clearly targeted measure forecasted to have beneficial redistributive effects among pensioners' households. According to a recent study (Andreou and Pashardis 2009), the scheme is expected to reduce income inequality by 1 percentage point on the Gini scale. Equally, a decrease of the poverty rate among pensioners from 52% to 47%-48% is anticipated in a year's time. The scheme is also expected to reduce the intensity of poverty by improving living standards for those pensioners that continue to fall below the poverty line. The measure will cost about EUR 60bn over 2010 (as indicated in the 2010 Budget) and about 50,000 pensioner households will benefit from it.

Table 1: Income brackets of eligible pensioners and amount of benefit

One person households		Two person households	
Income brackets (annual income, EUR)	Per cent of income increase	Income brackets (annual income, EUR)	Per cent of income increase
Up to 5,199	16%	Up to 7,798	16%
5,200-6,239	14%	7,799-9,358	14%
6,240-7,278	12%	9,359-10,918	12%
7,279-8,318	11%	10,919-12,477	11%
8,319-9,358	10%	12,478-14,037	10%
9,359-10,398	9%	14,038-15,597	9%

Source: Government Press & Information Office, retrieved from:

<http://www.moi.gov.cy/moi/pio/pio.nsf/All/061DDB91C2ED18B8C225759800515CB0?OpenDocument&highlight=συντάξις> .

In 2008 and 2009 pensioners – including social pension recipients – received a one-off Easter bonus irrespective of their income level (this amounted to EUR 300 for those with a pension from EUR 300 and over; for those receiving a lower pension the bonus was equal to the amount of their pension). This year however the bonus was targeted along the lines of the above support scheme for low-income pensioners. Pensioner households with a monthly income of less than EUR 1,000 (single pensioner) or EUR 1,500 (pensioner couple) will receive a bonus of EUR 300.<sup>13</sup>

Additional social welfare provisions to pensioners include: the “Social Card” that gives free access to bus transport and other facilities (every person 63 years and over – and invalidity pensioners independently of age – are entitled to it); a fuel allowance and other occasional one-off cash benefits that are provided on a means-tested basis.

### *The 2009 parametric reform of the GSIS*

A dramatic increase of the age-related dependency ratio (65+/15-64) from 17.5 in 2004 to 43.5 in 2050 will lead to a steadily declining ratio of contributors to pensioners (from 3.4 in 2007 to 1.2 in 2060). Consequently high strains on the PAYG system are forecasted. When Cyprus planned to set up a pensions reserve in 1980, it was projected that in fifty years (1980-

<sup>12</sup> The poverty line is set at EUR 10,398 annually for single-pensioner households and EUR 15,597 for two-person pensioner-households. Eligible are all low-income pensioners (under the GSIS, other pension schemes or occupational plans implemented in Cyprus).

<sup>13</sup> The bonus will be paid upon approval of an application. Eligible are pensioner households which have already applied for low-income support benefit as well as pensioner households with incomes between EUR 800 and EUR 1,000.

2030) an actuarial equilibrium would be achieved where the reserve would equal to 4 – 4.5 times the annual pensions expenditure. However, forecasts over the last few years indicated that this equilibrium would be broken around 2020 and the reserve would be depleted between 2036 and 2040, if no corrective measures were taken.

In order to deal with these serious financial strains and enhance the future viability of the GSIS, a reform was introduced in March 2009. After a protracted public debate and exhaustive negotiations (at the level of the Social Insurance Board, the Labour Advisory Board and other relevant bodies) with the social partners and both, the political coalition partners, and the party in opposition (DISY), the Gouvernement managed to counter serious reservations and achieve a broad consensus so as to finally pass the bill through the legislature a year ago. The reform left the structure of the pensions system intact and introduced only parametric changes with the aim to improve financial sustainability up to 2050. The aim was to achieve a fairer distribution of the financial burden among generations by balancing contributions to benefits and support longer working lives by increasing the minimum contribution period for entitlement to old age pensions.

Rather lax requirements for establishing a pension right (10 years of which only 3 years of contributions), in combination with the fact that the minimum pension for persons mostly covered under the basic insurance part is the same if they work 10 or 35 years have persistently contributed to early retirement. They also favoured contributions evasion by low-wage persons and the self-employed. The 2009 reform aimed to tackle these problems.

Two significant pledges made by the Gouvernement helped building consensus among the social partners. First the Gouvernement committed itself to contribute EUR 200 million every year, for the next five years to the GSIS so as to build a reserve of EUR 1billion in 2013. Equally important has been the Gouvernement's pledge to draft and submit to Parliament a bill for the management of the GSIS' reserves by spring 2010.

The reform focused on the revenue side introducing gradual increases of contributions - by 1.3<sup>14</sup> percentage points every five years (and in seven instalments, starting from April 2009) until the contribution rate (currently in April 2010 at 16.6%) reaches 25.7% in 2039. A phase-in schedule for increasing contribution rates of self-employed is also included in the reform. The option of cutting down expenditure by increasing retirement age and/or indexing GSIS basic pensions to the CPI (consumer price index) rather than to wages (that has been in force since 1980), was deemed inadequate. It met the opposition of social partners and, most importantly, it was considered to have negative effects on the adequacy of pensions, given the persistently high poverty rate among people 65 years and over.

On the expenditure side, the only option incorporated into recent legislation concerns a significant extension of the qualifying period for minimum pensions (from 3 to 10 years of paid contributions, to which 5 more years of credited contributions can be added – instead of 9 until recently -, thus increasing the total period from 12 to 15 years). This measure intends to encourage active ageing. Yet in the short term it may have an impact against women, given the higher frequency of interrupted or very short employment careers (particularly among older women failing to meet new rules, that leaves them dependent upon the non-contributive social pension).<sup>15</sup> The increase of retirement age of public servants from 60 to 63 years that took place gradually from 2005 to 2008 also contributes to active ageing. Until recently the

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<sup>14</sup> The increase is 0.5% for the employer, 0.5 for the employee and 0.3% for the state.

<sup>15</sup> Also the law abolished the right of public sector workers to be granted unemployment benefit for six months after leaving the service (indeed an unfair provision that absorbed a significant amount of the GSIS resources). As stressed in the Newspaper "Cyprus Mail" (9 March 2009, retrieved from: <http://www.cyprus-mail.com/>), "the amount plundered in this way is in excess of EUR 600 million – without taking interest into account. All the governments and the political parties are to blame for allowing this to go on for decades".



measure applies to only 50% of public employees. Particularly as regards the Educational Service, the Police and the Armed Forces the compulsory retirement age still ranges between 55 and 60 years. Over the last year the issue of increasing retirement age to 63 years for the police force and school teachers has been hotly debated in parliament. The issue sparked protests by students claiming that extending the retirement age will make it difficult for graduates to find jobs, as teachers will stay longer in employment. Interestingly opposition parties strongly supported the teachers' increase of retirement age, but the Government is wavering on its decision. Moreover, recently the opposition parties succeeded in passing by Parliament a bill for increasing the retirement age of the police force (from 60 to 63 years, in a phased-in way). The President of the Republic, however, refused to sign the bill on the ground that the majority of officers did not want the legislation which would be harmful for plans to renew the police personnel and improve its operational capabilities.

It is worth mentioning also that in 2007 the occupational (insurance) categories of the self-employed were restructured and an upward adjustment of notional insurable incomes for these categories was introduced (resulting in an average increase of 17%). This aimed to bring notional incomes of the self-employed closer to their actual ones. Relevant legislation passed in 2006 stipulates also regular monitoring procedures regarding the sustainability of pension coverage for the self-employed (annual reports are submitted to the Social Insurance Supervising Authority).

The issue of an efficient and effective investment policy by the GSIS is high on the agenda of the Government. A draft bill on the efficient management of the Fund's reserves has been elaborated for more than a year by the Ministry of Labour and Social Insurance and is still under a process of consultation with the social partners. The provisions under consideration comprise the establishment of an independent organisation in charge of the investment policy and management of GSIS' reserves. This organisation will be supervised by a governing board chaired by the Minister of Finance (and vice-chair the Minister of Labour); members of this board will be representatives of the Cyprus Chamber of Commerce and Industry (KEBE), the Cyprus Employers and Industrialists Federation (OEB), the Cyprus Workers' Confederation, the Pancyprian Federation of Labour (PEO) and the Democratic Labour Federation of Cyprus (DEOK), the Director of the GSIS and a representative of the Ministry of Finance. The Government proposes also the formation of an Investment Council in charge of implementing the investment policies approved by the above board.<sup>16</sup> Meanwhile, until new legislation will be enacted the Finance Minister, in consultation with the Social Insurance Board (in which the social partners participate), takes investment decisions.

## **2.1.2 Overview of debates/political discourse and impact assessment**

The demographic challenge and the burden on public finances that this is expected to exert in the years to come constitutes an issue of ongoing concern and debate given the demographic pressures forecasted for Cyprus over the following decades. Since the early 2000s various reports and actuarial (and other) studies have made evident the need for reform (Republic of Cyprus 2005; European Commission 2007 & 2009; Ministry of Labour and Social Insurance 2006 & 2008; International Labour Office 2003; Komodromou et al. 2004; Catalan M. et al. 2008).<sup>17</sup> The reform measures decided by Parliament in March 2009, after long-term consultation with the social partners, aim to secure the GSIS sustainability over the next

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<sup>16</sup> Currently, according to regulations, more than 98% of the GSIS assets are placed in non-marketable government securities.

<sup>17</sup> Available studies converge on the finding that, if no reform (either parametric or structural) would take place, Cyprus would face a serious problem in financing pensions from 2020 onwards.

fifteen years, encourage active ageing, combat contributions evasion and promote system rationalisation. Demographic pressures, however, are forecasted to steeply intensify after 2025 and towards 2030, which means that further reform will be needed in the future.

Linked to ageing concerns is also the setting up by the Labour Minister of a new body for Demographic and Family Policy in order to elaborate proposals for a comprehensive policy on demography and the family. The measures should envisage supporting a rise in the fertility rate that for a long time has been rather low in Cyprus (1.4%, well below replacement level).

Targeting benefits is a major topic of debate predominantly among the social partners and political parties. The introduction of the support scheme for low-income pensioners based upon income criteria aims to tackle poverty among the elderly and improve adequacy of pensions. In an attempt to rationalise welfare benefits the Government assigned to an officials committee of the welfare division of the Labour and Social Insurance Ministry to scrutinise and group existing benefits and recipients, design an IT monitoring system and examine the possibility to introduce means-testing in respect to a number of benefits (student benefit, family benefit etc.). As the General Auditor of the Cyprus Republic stated in her 2008 Annual Report, welfare benefits increased over 2008 by 30%. This is mostly due to a rise of benefits to one-parent families and disabled persons but also to administrative and other deficiencies of benefit provision necessitating rationalisation and efficiency improvements. Yet, in public debate and the media, criticisms are raised against means-testing by social partners and politicians on the basis that tax evasion renders means-testing and targeting difficult and produces perverse effects.

A strong critical view has also been expressed in respect to the newly introduced support scheme targeted to low-income pensioners by a recent study carried out by Andreou and Pashardes (2009). As stressed earlier, the authors provide evidence about the beneficial redistributive effects of the scheme (reduction of the poverty rate among the elderly and improvement of living standards for those pensioners that continue to fall below the poverty line). Nonetheless they strongly question the timing of the scheme's introduction, as the economic crisis puts a strain on the public deficit. In addition, they make a strong argument for the work and savings disincentives that can arise as a result of the social pension increase (by this support scheme). In addition, the main opposition party (DISY) claims that the scheme will crowd out state resources for development purposes that could create new jobs and boost growth.

The great inequalities between the public and private sector in terms of funding pensions and the level of benefits constitute another major issue of public debate. The considerably high replacement rates of pension benefits enjoyed by public employees,<sup>18</sup> despite the very low contributions paid by them, compared to private sector workers, has recently been the subject of harsh criticism by the Federation of Employers and Industrialists (OEV) and the main opposition party (DISY). In a press conference marking OEV's 50th anniversary, the fiscal burden linked to a considerably high state payroll and retirement benefits extensively covered by the state budget was expressly stressed as a factor inhibiting growth prospects. Furthermore, it is argued that tackling the staggering inequality between private and public sector pension schemes by cutting down privileges enjoyed by public sector retirees might provide resources for redistribution to elderly people living below the poverty line.

As indicated above, civil servants' retirement benefits are largely funded by the state budget. According to figures compiled by OEV on the basis of the available statistical data, in late 2009, the average retirement benefit of a civil servant amounted to about EUR 1,700 per

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<sup>18</sup> Also for public employees pensionable earnings refer to the last salary before retirement.

month; this equals three times the pension benefit received by an average private sector worker (who has made all the necessary contributions).<sup>19</sup>

In the process of the preparation of the Stability and Growth Programme (for the budget period 2009-2013)<sup>20</sup> debate through the media focused on a new package of measures for tackling the economic crisis that might embrace significant drops in civil service incomes (either a two-year salary-freeze or a flat 1% cut on all gross salaries); changes in the salary scales for new hires in the public sector; a staged increase in the rate of contributions (from 3.45% to 6.80% by 2013); and introduction from January 2011 of employee contributions to a new civil service pension fund that would amount to 4% of wages in three-years time.<sup>21</sup> In parallel the issue of adjusting wages (and pensions) only once a year, instead of twice to the CPI was considered. In the face of strong reactions by PASIDY (the civil servants union), the Government backtracked and announced its willingness to start a dialogue over possible measures. However, the president of the Republic in a recent press conference warned for the strains on public finances exercised by an “oversized” public sector (its cost amounting to roughly about EUR 2 billion a year) that should not expand further.<sup>22</sup> Moreover the governor of the Central Bank of Cyprus warned that the pension expenditure for civil servants from 28% of the state payroll will rise to 50% by 2030 and suggested that both total pension expenditure and public servants salaries should be examined in the context of a long-term fiscal plan as the country’s budgets are going to be burdened by high financial costs due to abrupt population ageing trends.

The future of the GSIS reserves is also prevalent in public debate. How to address a long-standing problem, that has to do with falling reserves in recent years, is a main issue of concern to all relevant parties. Furthermore, the need to improve effective management of the Fund’s assets has been a central demand by the social partners. Noticeably in the parliamentary discussions preceding the enactment of the 2009 pension reform, reservations expressed by some trade union representatives in respect to the reform plan stemmed from their concern about the state’s debts to the Fund and the need for effective management. The pledge by the Government to consider an instalments plan for paying down its debt and also bring soon for discussion a plan for the Fund’s investment policy management facilitated consent by the trade unions. The latter repeatedly stressed, recently, the need for the Government to speed up submission to Parliament of the draft bill (under preparation) for regulating GSIS’ investment policy.

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<sup>19</sup> Also the retirement benefit of a high grade civil servant (e.g. head of department) amounted to about EUR 2,612 (plus a EUR 146,300 tax-free lump sum received upon retirement); while after the age of 63 years a state pension is also added raising monthly payments to EUR 3,105. This is almost double the maximum monthly retirement benefit received by a private sector pensioner (about EUR 1,700). In November 2009, there were 16,000 retired civil servants, and 69,254 private sector pensioners.

<sup>20</sup> Recently submitted to the European Commission (see also section 3 below).

<sup>21</sup> It is estimated that these two measures combined “would benefit state coffers to the tune of some EUR 50 next year, EUR 44 million in 2012 and EUR 35 million in 2013”, Newspaper “Cyprus Mail”, 18 March 2010, retrieved from: <http://www.cyprus-mail.com/cyprus/diko-move-right-direction-economic-measures/20100318>.

<sup>22</sup> Striking privileges of public employees include payment of a pension and a lump sum benefit to civil servants that quit public service (irrespective of age) in order to take on public office (i.e. become MPs, take on a job in a public enterprise or other agency of public law).

### 2.1.3 Critical assessment of reforms, discussions and research carried out

#### *(a) System modernisation, sustainability*

Over 2009 up to April 2010 significant steps were made to improving social insurance administration and facilitating information access by stakeholders (e.g. creation of a web portal by social insurance administration on citizens' pension rights, establishment of new district social insurance offices). Also, the recent bill for the consolidation and simplification of social insurance legislation aims to improve administrative efficiency. Participation of social partners in public debate on social insurance issues has been a significant component of public policy (e.g. in respect to the parametric reform measures enacted in 2009, the draft bill for the management of GSIS' assets, the "modernisation" of survivors' pension benefits scheme that is still under negotiation). Furthermore, a process of information and consultation with the social partners on the results of the triennial actuarial studies for GSIS aims to improve transparency and informed decision making by the relevant stakeholders in social insurance.

The new regulatory framework drafted by the Pension Funds Supervisory Authority for improving management in occupational/provident funds (with more than 100 members) and setting out guidelines for the funds' investment policy is a significant development on track to effectively modernising the organisation, management and supervision of social insurance funds. However, any significant reform of the existing voluntary provident funds, so as to progressively offer a wide range of second pillar coverage and allow for flexibility in (supplementary) pension-benefit rights transfer across employers – and a concomitant transformation of lump sum benefits into pension annuities that could increase monthly pension income among low-income pensioners – requires a broad social consensus that does not seem to be forthcoming.

The parametric reforms in the GSIS introduced, after long-drawn negotiations, intend to increase revenue and improve and extend system sustainability for a longer period than under the pre-reform conditions. Moreover, the social insurance system does not exhibit significant gender differences,<sup>23</sup> and provides for fairly equal treatment in respect to standard and non-standard employment, thus promoting employment flexibility.

#### *(b) Adequacy of pensions - Inequality between private and public sector pensions*

As stressed above, adequacy of pension incomes for a large number of retirees receiving minimum pensions because of low insurance record (or the Social Pension, because of no entitlement to GSIS or other pension) has persistently been a major problem. This is accounted for by the fact that the earnings-related schemes introduced in 1980 as an additional element to the basic (flat-rate) pension characterising the pre-1980 period have not matured yet. Consequently a number of retirees either depend entirely on the basic pension or have a low insurance record under the earnings related scheme. This is compounded also by the up to now rather lax requirements for establishing pension rights.

The poverty rate among people aged 65 and over has been persistently high (around 50% since the early 2000s).<sup>24</sup> Among EU countries Cyprus also exhibits the highest rates of poverty among women (and men) over 75 years of age (about 66% and 63% respectively in

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<sup>23</sup> Though gender differences in respect to survivors pensions need to be tackled.

<sup>24</sup> This is a very high rate compared to the national poverty rate that stood at 16% in 2008 (referring to the population that live in households with an income below 60% of the equivalized median household income after social transfers).

2008). Moreover, the gap in respect to the poverty rate between elderly men and women significantly widened between 2007 and 2008 (see Table 2).<sup>25</sup>

Table 2: At risk of poverty (cut-off point 60% of median equivalised income after social transfers)

	2007			2008		
	Total	Men	Women	Total	Men	Women
<b>EU-15</b>	17 (21)	15 (18)	17 (23)	16 (20)	15 (17)	17 (22)
<b>EU-27</b>	16 (19)	15 (16)	17 (22)	17 (19)	16 (16)	17 (22)
<b>Cyprus</b>	16 (51)	14 (47)	17 (54)	16 (49)	14 (43)	18 (54)

Retrieved from: <http://epp.eurostat.ec.europa.eu>.

(In parenthesis the poverty rate for elderly people.)

Note: Available data do not record the effects of the economic crisis, given the fact that incomes refer to a year before the time-period in which the survey took place.)

As planned in the context of the NSR 2008-2010, on the basis of a study commissioned by the Labour and Social Insurance Ministry a scheme for targeted support benefits to low-income pensioners was approved by the Government in April 2009 and started being implemented in late 2009. This is a means-tested benefit scheme that provides a top-up monthly benefit to low-income pensions, ranging from 9% to 16% increase of pensions (see Table 1 above).

In April 2010, targeting was introduced also for the provision of the Easter benefit to low-income pensioners, and the Government intends to use targeting measures for other benefits as well (student benefit, family benefit, Cypriot National Guard benefit and first-home allowance). Certainly tax evasion distorts information on income and makes targeting problematic. Intensifying controls on undeclared labour, tax and contributions evasion is a precondition for an effective targeting policy so that the beneficial redistributive effects of it can be realised.

As mentioned above, Andreou and Pashardes (2009) show that the support scheme to low-income pensioners may reduce poverty among the population 65 years to about 47-48% in a year's time. Compared to this estimates, the Government's target to reduce poverty for this population group to 40% by 2011 seems rather ambitious and strongly depends on coordinated policy measures that could eliminate distortions in social assistance and channel resources to those most in need.

Inequalities between public and private sector pension schemes in terms of retirement age, funding and level of benefits is a matter of concern too. The very low contributions paid by public sector workers (compared to private sector workers), lower retirement age and the rather generous benefits that the former enjoy (including various perks and tax free lump sum benefits), place a heavy burden on the state budget. This brings to the fore the issue of sustainability, which the present crisis may accentuate further in the medium term (a rapidly rising public expenditure, heading towards 50% of GDP may not be sustainable). Proposals to increase contribution rates to private sector levels (for basic and supplementary pension) and introduce a contributions-based second-pillar pension benefit, for new entrants into the civil service, that have been suggested in the context of the Stability and Growth Programme (recently submitted to the European Commission), do not have the support of PASIDY.

<sup>25</sup> The total of the GSIS minimum pension plus the corresponding special allowance slightly surpass the minimum subsistence level, while the total pension income of persons entitled to social pension is even lower (it amounts to 86% of the public assistance allowance for basic needs).

Nevertheless negotiations need to be conducted given the rapidly increasing total amount of public sector pensions (about 12% yearly over the last five years) and the accumulated deficit of a number of semi-governmental organisation funds and local authority employees funds (amounting to around EUR 400 million, for those semi-public sector and local authority funds for which actuarial studies are available).

As to policies supporting active ageing, no major developments are recorded over the 2009-2010 period. The 2009 parametric reform of the GSIS tackled only marginally the issue by extending the minimum period for pension entitlement from 12 to 15 years. The phased-in increase of retirement age of public employees from 60 to 63 (between 2006 to 2008), has not closed the gap in respect to the private sector (where retirement age is at 65). Besides, roughly about 50% of public (and semi-public) sector employees can still retire at an age well below 60 years. We mentioned above the heated public debate and the controversies over the issue of increasing the retirement age of school teachers and members of the police force. Undoubtedly a phased-in increase of retirement age across the public sector might contribute to reaching the EU target of 75% employment rate of the population 20-64 years by 2020.

## **2.2 Health**

### **2.2.1 Overview of the system's characteristics and reforms**

Cyprus lacks a universal health care system. The need for health care reform has been an issue of ongoing debate in the country and successive governments since 1966 have at times invited experts to undertake research projects and develop a reform plan. However for some decades there was a stalemate in this policy area. In 2001 a first step was taken with the enactment of a law for introducing the General Health System (GHS). This law aimed at addressing major deficiencies and inequalities in health care. Initially the aim was to put GHS in operation by mid-2000s. Yet the target was soon dropped as unrealistic. Successive postponements of GHS's launch date followed. Some time ago the revised target of implementing GHS by 2009 was once more put off until the second half of 2011 amid concerns about organisational and financial issues.

Once again, recently, due to the economic crisis, serious reservations have been voiced by government officials about whether all necessary reforms can be achieved for launching the GHS in a year's time. In a press conference, a few weeks ago, the President of the Republic stressed that a vital precondition for GHS' launching is a major overhaul in the organisation and management of public hospitals (that should be run as independent units). In the same vein, the Minister of Health repeatedly stated to the press that "if we proceed with the GHS without having first established a sound basis (the cornerstone being the reorganisation of public hospitals as independent units) and secured the long-term efficient running of the system with strong internal control mechanisms, we will fail to achieve our aim".<sup>26</sup> Yet debate and consultation on the model of hospital organisation and management to be adopted is still in progress. Achieving agreement on this issue is a precondition for entering law-making procedures in respect to hospital restructuring. The Minister also stressed the need for debate and negotiation with all relevant parties, so that the broadest possible consensus can be achieved for the implementation of the GHS. He downplayed the crisis conditions as a cause of a possible delay and focused primarily on the need to proceed with the institutional changes so as to create the appropriate structures for the system's operation.

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<sup>26</sup> See for instance Newspaper "Alithia", 5 December 2009, retrieved from: <http://www.alithia.com.cy>.

In January 2010, equally serious reservations were expressed by the Parliamentary Committee on Health, where it was stressed that there has been a stalemate in respect to various significant parameters of the GHS (training of family doctors, reorganisation of hospitals, updating of the economic feasibility study of the GHS). The risk of missing again the deadline for launching the GHS has also been stressed by the Auditor General of the Republic of Cyprus in her 2008 Annual Report, where she clearly indicates major problems in respect to insufficient human and other resources so far and the absence of a tight strategic planning schedule.

As repeatedly stressed in the available literature (Golna et al. 2004; Antoniadou 2005), the organisation and management of the health care system in the country is obsolete and deficient, and proliferation of private health facilities without effective controls (and coordination with public health care) mechanisms lead to duplication, waste of resources and poor quality of services. From the late 1990s to the late 2000s total health expenditure as a percentage of GDP stood at about 6% (one of the lowest rates in the EU). Public health expenditure ranged between 2.5% and 3.5%. In the same period private health expenditure was about 3% to 3.5% of GDP (Andreou et al. 2010, p. 5). With the introduction of the GHS public expenditure is expected to increase.

The significant weight of private expenditure (about 60%, among the highest in the EU) is an indication of a regressive system of funding.<sup>27</sup> It has persistently been high and consists largely in out-of-pocket payments. Public health care covers about 70% of the population. However, the degree of satisfaction with the way public health facilities operate is rather low, and as consequence even those who are entitled to free care turn to the private sector.

Fast rising public expenditure on pharmaceuticals over the last couple of years is also a matter of serious concern (over one hundred million Euros in 2009). There is debate on whether fast rising expenditure ensues from legislation that more or less supports oligopoly conditions in the pharmaceuticals market, in the sense that only pharmaceutical products that have acquired a trading licence by the Pharmaceuticals Council can circulate in the market. Thus there are cases where less expensive drugs (either brand name or generic) cannot be supplied because they have no trading licence; and/or suppliers that got a trading licence, knowing that they have no competitor in the market, may overcharge their products.<sup>28</sup> Surprisingly, there is not much debate on pharmaceuticals policy.

Entitlement rights to free health care reflect considerable inequalities. A sizeable part of the population (government employees) is entitled to free medical care. Moreover, families with more than four children enjoy free access, independently of income (and from 2008, according to a government decision, this holds for families with three children too), as well as people receiving social assistance). The rest of the population has to pay charges that vary according to family income. Thus households with incomes ranging at similar levels are characterised by different entitlements. Expansion of private health care further compounds inequalities.

The Ministry of Health as well as the Pancyprian Union of Government Doctors (PASYKI) announced a swift increase of public hospitals work load, as patients turning to public

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<sup>27</sup> For an analysis of health expenditure see Pashardes et al. 2006 and Andreou et al. 2010.

<sup>28</sup> A characteristic example concerns the procurement of insulin products by the Pharmaceutical Services of the Ministry of Health in 2007. From the tenders made for this procurement, the Pharmaceutical Services of the Ministry selected an importing firm that offered the demanded quantity of drugs at the price of EUR 470,000, while a much cheaper offer (of EUR 229,000) by another enterprise was rejected on the grounds that the former firm had a trading licence in Cyprus, whereas the latter did not. This, certainly, places a heavy burden on public finances; the specific case was referred to the High Court and trial is pending (see Newspaper "Politis", 26 January 2009, accessed at <http://www.politis.com.cy/> ).



hospitals increased by 30% over 2009 mostly due to the economic crisis; and the trend is expected to intensify. PASYKI expresses worries about deteriorating quality of services due to staff shortage and insufficient infrastructure. Recently also the Democratic Labour Federation (DEOK) expressed deep discontent on the protracted delay in achieving the target of restructuring health care.

Geographical access to public health services is not a major problem, given the small size of Cyprus. However, particularly private health facilities are mostly concentrated in urban centres.

Concerns about waiting lists were expressed by the Parliamentary Health Committee. Even though the Ministry of Health's target is for a patient not to wait more than three months for surgery, this is not always the case. The rule that applies classifies cases in three grades of urgency: very urgent cases should be treated immediately; less urgent cases should be treated in a reasonable time period; while cases of even lesser urgency should be treated in three months time. However, there are not available data on the extent to which this rule is implemented.<sup>29</sup>

Measures that have been piloted in Nikosia Hospital since May 2009 by the Ministry attempt to deal with waiting lists by increasing hospital doctors overtime and improve surgery coordination (appointment of a surgery coordinator, cutting down slack time in the use of surgery operating theatres and extension of theatre operating hours). This resulted in an increase of surgical operations by 35% in the Orthopaedics Clinic of Nikosia Hospital, for instance. Contrarily, from the 500 hundred patients that need heart surgery and turn to the above hospital (the only hospital with a Cardiology Clinic) only about 300 can be operated, while the rest are referred to private sector clinics. A second Cardiology Clinic is planned to be created in the Limassol Hospital in order to cover existing need. But the cost of this measure has not been included in the 2010 Budget as a decision by the Council of Ministers is still pending.

The introduction of the GHS is expected to enhance comprehensive and equitable access. Nevertheless, the great delay in implementing the Law for a unified health care system creates serious doubts as to the feasibility of the plan. The more so as the political stalemate in this policy field can be largely accounted for by the low pressure exercised on the Government because of "relatively cheap private health care"; while in case of emergency or of complicated treatment public coverage is available (Antoniadou 2005, p. 1017). Furthermore, the burgeoning of private facilities (and in parallel the progressive expansion of private health insurance schemes for various groups – e.g. University staff) create clashing interests in respect to an overhaul of health care. Demographic conditions have not so far exerted a strong pressure on health expenditure, a condition that partly explains the low level of health expenditure in Cyprus.<sup>30</sup> Yet, health care needs are expected to increase with demographic ageing over the coming decades.

### *Major developments*

The Health Insurance Organisation (HIO), established on the basis of the law enacted in 2001, has the responsibility for the implementation of the GHS that is planned as a unified system split into purchaser/provider operating on the basis of common costing methods and quality

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<sup>29</sup> Some examples of improvement in waiting lists lately announced by the Ministry of Health concern ultrasound checks, where waiting time dropped from 14 to 7 months, and bone density tests from 7 to 2 months.

<sup>30</sup> Other reasons are the absence of a comprehensive national health system up to now, as well as the low level of resources devoted to medical research.



assessment requirements. The HIO will manage the system finances and act as purchaser of health services.

The system will be funded by contributions. Hsiao and Jacob estimated the cost of the reform to about EUR 550 million, while revenues would amount to about EUR 600 million in the mid-2000s. On the basis of these calculations, the balancing of cost and revenue would make the plan sustainable.<sup>31</sup> Contributions were initially set at 9.1% of salaries (2.55% paid by the employer, 2% by the employee and 4.55% by the state budget). Given the long time span since the introduction of the legal framework for the establishment of GHS, assessments of the cost of the reform made by previous studies (for instance, Hsiao and Jakab 2003) needed to be reconfigured. The updated budget by the Ministry of Health for the introduction of the GHS (in a time span from 2009 to 2011) – based mostly on estimates by a study (on the long term sustainability of the GHS) commissioned to a foreign firm - put the total cost at EUR 122.3 million (EUR 29 million in 2009, EUR 64.8 in 2010 and EUR 28.5 million in 2011). The budget comprises “a general cost” (e.g. transfer of public employees to new health units that will emerge out of the management and organisational change, consultancy services etc.), and “a cost for the preparation of health care units to operate under the new system”. It also estimates that contribution rates need to be raised from 9.1% of salary to about 12-13%.

The system’s operation will be phased in (the new launch date is now set in the second half of 2011). Unified provision of primary health care will be the first step of the reform plan. This will be provided by general practitioners (GPs), outpatient departments, emergency and accident departments, as well as diagnostic centres. Inpatient hospital care will come into full operation after a period of 12 months since the launch of the GHS. A considerable time span is required not only for putting into practice a unified system of cost-accounting for medical practice services, but also for accomplishing administrative reforms that will make hospitals independently managed units. The latter step is held to be essential in order to establish a system of unified service provision by both private and public suppliers on a competitive basis. However, great delays in implementing most of these basic reforms (including the development of adequate medical training programmes for physicians) creates serious concern about meeting the launch target of 2011, or whether instead a further postponement will be required.

Given the time span since the passing of legislation for the GHS’ introduction, an amendment of the legal framework has been deemed necessary. A draft bill for an amendment scheme has been debated in the Parliamentary Health Committee since May 2008.<sup>32</sup> The bill put before parliament draws upon a joint report by the Ministries of Health and Finance that assesses developments in respect to the Health Insurance Organisation and the progress in the overall schedule for the GHS’ implementation. Among the issues discussed are the rising cost of the system’s implementation, the introduction of co-payment<sup>33</sup> when patients visit directly specialists instead of being referred by the general practitioner, as well as the extent of coverage of dental care under the GHS.

Significant worries about the extent to which preparatory work and required reforms are on track for meeting the deadline of the second semester of 2011 have been voiced by the

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<sup>31</sup> Furthermore Hsiao and Jacob stress that the reform plan “left key points ambivalent”, a condition that “might impair achieving the original intent of national health insurance”. Significant criticisms have also been addressed by S. Playbell the representative of the Sociological Association of Cyprus in the Parliamentary Health Committee (see Newspaper “Simerini”, 28 July 2008, accessed at <http://www.sigmalive.com/>).

<sup>32</sup> The previous Government placed before parliament an amendment too (in late 2007), without success though.

<sup>33</sup> A 10% co-payment for pharmaceuticals was already included in the initial health reform plan.

members of the Parliamentary Health Committee. However, as stated by the head of the Health Insurance Organisation (HIO), consultation with all relevant actors is progressing. Clinical protocols are being prepared. A dialogue with the Cyprus Association of Private Clinics is in progress with the aim to introduce the basic components of the DRG-based (Diagnostic Related Groups) costing method that is going to be used for secondary and tertiary health care services (in both private and public health providers). Global budgeting criteria are under consideration. Also the dialogue between the Ministry, the Pharmaceutical Services and the HIO that has been going on for some time hopefully will be soon completed and negotiations with pharmacists and other providers will follow. So far the Ministry's view is that the HIO should define reference prices for the drugs comprised in an agreed list, as a basis for calculating the cost of pharmaceuticals. In parallel the procedure for the procurement of IT for the system's operation is progressing; while the General Attorney's office has seconded two legal officers to the HIO for the preparation of the required regulatory framework.

On the other hand, the thorny issue concerning the rate of contributions for funding the GHS has not been brought under discussion in the Parliamentary Committee, as an (updated) actuarial study for the GHS's cost is still under preparation.

Moreover, a new round of discussions with the Pancyprian Medical Association (PMA) started in January 2010. Consultations for setting the rate of doctors' remuneration will start on a pilot level, in respect to three out of the thirty-one medical specialties (cardiology, pulmonology and ophthalmology). This is required so as to control whether doctors' remuneration remains within the limits of global budgeting to be used in the GHS. A major issue of dispute is whether pathologists and paediatricians could be accessed directly by patients without referral. The Ministry disagrees with this proposal, on the ground that it will boost self-referrals and hinder any control mechanisms. Furthermore such a measure may support similar claims by other specialties. Also the PMA demands that the fee for a direct access to specialty care will be low, while the Ministry puts it at 70% of the total cost of medical consultation, required tests and drugs prescribed.

Training of family doctors and specialists for the GHS has not progressed so far. Technical factors repeatedly obstructed the tender process for the provision of the required training services. Recently, the procurement board of the Ministry of Health, for a second time asked for a three-month extension in order to decide about the tender offers. Two previous tender rounds failed (in the first round proposals did not satisfy requirements, while in the second round the tender was annulled because it was not published in the EU's official gazette). As soon as the tendering process under way will be successfully completed the Pancyprian Medical Association will prepare the lists of doctors who will participate in training (500 family doctors and 800 specialists).

Other major prerequisites for the implementation of the GHS plan, such as changes in the organisation and management of the Ministry of Health, which, as repeatedly stressed by experts, is fragmented and inappropriate in respect to the requirements of modern management systems, and radical changes in the structure and management of hospitals need to be speeded up. Uncertainties that might affect set targets and deadlines have recurrently been mentioned by governmental authorities lately, in the light of the problems posed by the present economic and financial crisis.

### **2.2.2 Overview of debates/the political discourse**

Debate and political discourse focuses primarily on the delays so far in the implementation of the GHS and the prospects of the reform plan in the immediate future. An amendment bill submitted to Parliament in May 2008 is still under discussion, as mentioned above.

Over the last two years significant concerns about the prospects of the GHS were expressed in the respective parliamentary committee, as well as by the social partners and representatives of relevant associations. For instance, the representative of the Sociological Association of Cyprus presented strong arguments about the weaknesses of the GHS plan and made suggestions for improvements. The Association holds that the gatekeeping system is anachronistic and impractical for Cypriot society, given the relative lack of GPs; and it may not deliver expected cost-containment results. It is highly probable that dissatisfaction will rise and people will soon turn to the private sector. A “more generous” system is suggested that might include two schemes, a basic, compulsory scheme and a second, optional scheme; the latter will provide additional services not covered by the basic compulsory scheme. It is also suggested that the compulsory scheme would be financed by contributions as a proportion of an individual’s income. Participation in the optional scheme will be on the basis of a flat (and comparatively low) contribution (reference was made to a similar system that was implemented with considerable success in Slovenia).

Major disagreements with the Government’s proposals were also expressed by the president of the Pancyprrian Medical Association. The PMA disagrees with the co-payment to be introduced for patients that contact a specialist directly. But if such a “penalty” is introduced, it should be kept very low. The PMA also expressed disagreement with the provision that requires for a GP to have a minimum of 300 registered patients in order to participate in the GHS; the PMA demands for this provision to be abolished.

Overall, heated debate in the Parliamentary Health Committee has brought to the fore major concerns by political parties and representatives of relevant bodies and associations about the feasibility of the reform plan particularly given the protracted delay and the fast changing conditions since initial legislation passed in early 2000s. The pacing and breath of future developments very much depend on what amendments will be included in the bill still under discussion, how soon these will be approved and what the fiscal prospects will be in the immediate future.

Other significant issues debated in the media and among the relevant actors are the overcrowded outpatient departments in public hospitals, the waiting lists for tests and surgical operations, and the high – under the table – commissions earned by involved parties in the procurement of equipment and consumables by hospitals.

### **2.2.3 Overview of impact assessment / 2.2.4 Critical assessment of reforms, discussions and research carried out**

Under the present conditions (and without any reform) adequacy of coverage by public health care is deficient. Existing access regulations that allow a part of the population to have free access to public health care services (e.g. public sector employees), while the rest of the population is covered on the basis of income criteria, offers worrying signs of growing inequality. Furthermore, the low degree of satisfaction among the population with health care services is an indication of deficient quality.

Significant steps have been made by the HIO in the planning of major parameters (such as organisation of primary and secondary health care, costing methods, quality assessment

criteria etc.). But in terms of organisational modernisation very little progress was made over 2009 up to April 2010. Costing the system's introduction (as well as the share of contributions and tax funding) and its long-term sustainability are major issues that need to be re-assessed, given the long delay in implementing the plan. As mentioned above, Hsiao and Jacab's actuarial study estimated a balance (in the short and medium term) between the cost of the reform and the forecasted revenues for the GHS, if the reform were to be implemented by the mid-2000s. The same study also estimated that under the GHS health expenditure would double over a 7 to 8 years period due to comprehensive coverage and population ageing, as well as increasing importance of high technology health care services (see also Hanson et al. 2004). Undoubtedly the cost of the reform increases as implementation is delayed. And, obviously, any cost increase will lead to higher contribution rates.

The present crisis exerts a significant strain on the state budget and raises worries as to the possibility of meeting the target of launching the system in 2011. On the other hand, however, as indicated above, the crisis conditions increased demand for public health care over 2009, but existing services fall short of satisfying it and people's dissatisfaction with publicly provided services remains high. This makes even more pressing the need for proceeding with the long-drawn plan of an overhaul in health insurance in the country.

The Ministry of Health is an associate partner to the European Network on Health Technology Assessment project. However, cost-containment issues related to health technology assessment have not so far been widely debated. On the other hand, there is an expressed concern about quality control methods, piloted initially in the Nikosia General Hospital (introduction of standards for hospital governance; clinical governance; health and safety issues; hospital infection control; incidence reporting and the enforcement of nursing standards particularly related to the patient information system). The pilot implementation of "clinical protocols" in the Nikosia General Hospital is expected to improve quality, efficiency and patient satisfaction. The three clinics in which the protocols have initially been implemented are the cardiology, pulmonary and orthopaedics clinics. According to the Ministry of Health the measure is expected to be progressively expanded so as to integrate into clinical protocols over 50% of incidents in the above hospital and other public hospitals by 2012. Quality assurance committees are to be set up in all public hospitals and the measure is planned to expand to the private sector as well, so that in the near future all health units can get accreditation on the basis of standards set by the major international health care accreditation bodies. However, no quantitative data has so far been publicly available (neither on clinical protocols specifically, nor on other dimensions of quality assurance).

## **2.3 Long-term Care**

### **2.3.1 Overview of the system's characteristics and reforms**

Official planning documents (e.g. NRS 2008-2010) stress the growing needs for long term care provision due to population ageing as well as the high incidence of poverty among the elderly.<sup>34</sup> Institutional and home care is provided by public, voluntary and private agencies (provision by the latter two categories of agencies is subsidised by the state – through the Grants-in-Aid Scheme<sup>35</sup>) to citizens with insufficient incomes to meet their basic and special needs. Among the main priorities for the immediate future are the promotion of the

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<sup>34</sup> For a detailed examination of social care and social assistance provisions in Cyprus in the early 2000s see Amitsis & Marini 2003.

<sup>35</sup> Over 2009 the total sum of EUR 8,269,900 was provided under the Revised Grants-in-Aid Scheme, which was approved by the Council of Ministers on March 2009.

deinstitutionalisation strategy, quality improvement and human resource development and particularly decentralisation of services and promotion of partnerships between state welfare agencies, local authorities and voluntary organisations.

As with regard to health care, geographical access is not a particularly accentuated problem in Cyprus given the fact that distances are comparatively small between urban and rural areas. However, further improvement of access is planned. According to the Annual Report of the Welfare Office of the Labour Ministry in 2009<sup>36</sup> decentralisation of the Social Welfare Services to several local offices in Nicosia, Limassol and Larnaca took place progressively. Furthermore, specialised local units are in the process of being created which will provide counselling, guidance and support to families and individuals. The Social Welfare Services operate thirty-four institutions, of which eight institutions provide for the protection of children and adolescences, six institutions provide for the care of elderly people, eight institutions provide for the care of persons with special needs, eleven institutions provide for the day-care of pre-school children and one institution provides for the protection to victims of trafficking.

The Social Welfare Services are also responsible for registering and inspecting non-governmental Homes for the Elderly (and Persons with Disabilities), Carers who provide services in their own homes for up to five elderly persons, as well as Children Day-Care Centres.

Roughly about 26,000 families get support (in cash or in kind) by the district offices and local units of Social Welfare Services: of them 23,000 families are recipients of social assistance benefit; 1,400 families receive care and/or preventive support services; while there are also a number of cases concerning adoption, parental support, and child custody. Other initiatives by the Social Welfare Services consist in: a networking process of local providers of care services to children, the elderly and the disabled (that is under way); and the development of telecare provision.

Among the main aims of the Social Welfare Service is to enhance the involvement of Local Authorities in the area of social welfare and to strengthen and mobilise voluntary organisations in social care provision. For this purpose various funding schemes are used (the Grants-in-Aid scheme mentioned above; a new scheme subsidising local authorities in the context of which 25 programmes received a total grant of EUR 495,000 in 2009; and a project –co-funded by the European Social Fund – for the “Improvement/Expansion of Care Services for Children and Elderly, Disabled or Other Dependant Family Members” recently completed).

Moreover, a study has been commissioned for elaborating a suitable institutional framework in order to enhance the role of localities and promote partnership with state welfare agencies and voluntary organisations. On the basis of the findings of this study the legal specifications for partnership working will be drafted. The study is co-financed by national and EU sources. Other initiatives for promoting decentralisation include a pilot programme under the name “street-level social worker” implemented in the municipality of Limassol; also a special programme of social care provision to children and elderly people (“Europe for citizens”) is in the process of being implemented by local authorities.

The issue of social care is also prominent in respect to promoting work/family reconciliation policy. Recently a technical committee of the Labour Advisory Body focused attention particularly on the lack of care services for babies and pre-school children (mainly for those up to three years of age), and suggested measures such as subsidies to nurseries and families

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<sup>36</sup> Obtained from the Ministry of Labour and Social Insurance.

and expansion of the operating hours of nurseries, in parallel with the establishment of day-long schools. The study shows that 6 out of 10 women who quit their jobs do so because of caring needs.<sup>37</sup> On the basis of these findings an action plan for work-family reconciliation policy is going to be prepared by the Labour Ministry.

As in the other South European countries, the family and particularly women have traditionally been the main care providers. To the extent that statutory care developed, it is addressed to the most deprived. It falls short of existing needs, which are largely covered privately through foreign minders. Understaffing of Social Welfare Services and/or employment on a term contract basis often create serious problems of discontinuity in the client-carer relationship.

In an interview to the Newspaper “Politis” (2 February 2009)<sup>38</sup>, the Head of the Social Welfare Services indicated that there are 2,500 migrant women caring for elderly people who are recipients of social assistance benefits (an extra benefit is provided for the coverage of care needs of this group of elderly people). However, care provision under this arrangement is hardly monitored as to its adequacy and quality.

### **2.3.2 Overview of debates/political discourse**

Long-term care is not a prevalent issue in public debate (and political discourse), even though family changes and demographic ageing contribute to fast increasing need. Changes in family patterns due to increasing women employment is of central importance in respect to elderly care that has traditionally been a service provided within the household. Particularly in the case of Cyprus, forced population movement in the mid 1970s, and later in that decade, highly disrupted family and kin networks as well as traditional local community support networks. As a result care problems intensified, in tandem with poverty problems among old-aged population.

### **2.3.3 Impact assessment / 2.3.4 Critical assessment of reforms, discussion and research carried out**

Financial sustainability of long term care should be ensured through a better targeting of services (and resources) to those most in need, and more efficient criteria of financial contribution by the persons receiving care according to their income level. Given the fact that there is no comprehensive coverage of the long term care needs of the population through, for instance, a mandatory social insurance scheme, provision of services by public institutions and/or state subsidised private or voluntary suppliers is addressed primarily to citizens with insufficient resources for whom other measures of public assistance apply too. In this respect, as is also indicated in the NSR 2008-2010, sustainability can be enhanced through effective targeting in parallel with monitoring and control of voluntary bodies, Local Authorities and private institutions co-financed by the Social Welfare Service of the Ministry of Labour and Social Insurance.

Encouraging and supporting families to provide care is an alternative strategy that is considered as a means of enhancing sustainability. However, the “burden” on women that this implies should be taken into account particularly when caring responsibilities create obstacles

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<sup>37</sup> The committee also suggested the introduction of tax incentives to firms in order for them to provide child care facilities. As indicated by the Equal Opportunities Parliamentary Committee recently, only two enterprises in Cyprus offer child care facilities.

<sup>38</sup> Retrieved from: <http://www.politis.com.cy/> .

to employment. In view of the deteriorating demographic conditions in the following decades, sustainability issues need to be based on a more sound basis requiring a systematic assessment (including an actuarial study) of future needs, costs and resources.

Concerning quality issues, accreditation and inspection policies are pursued by the Ministry for ensuring prescribed standards of care by voluntary and private providers (either in residential units or open care schemes). The development and strengthening of human resources is also a major challenge ahead. Pilot training programmes (of a “quick-win” type) for nursing care at home (e.g. general nursing and mental health nursing), currently implemented by the Ministry, are in the right direction but more efforts need to be made for human resource development in the future.

Currently a research programme on “Community Care and Elderly People” is being carried out by the “Research Unit in Behaviour and Social Issues” of the University of Nicosia. Among its aims are: to investigate the degree of dependence of elderly people (65 years and over) on their families and/or state services in socio-economic terms as well as in terms of meeting their care needs; to examine the impact of psycho-social changes due to ageing on the quality of life of elderly people; and to come up with suggestions on policy measures for the social integration of the elderly. The project also attempts to assess the community care scheme implemented in certain localities between 2004 and 2008. A random sample of 100 elderly persons (living either at home or in a residential setting) was interviewed and focus groups with carers were conducted. On the basis of the data presented so far (in a conference on the problems of elderly people in Cyprus that took place recently), it is evident that the majority of old-aged people living at home require systematic home help. This is mostly provided by kin and friends or by private minders (only 5% to 9% – depending on the type of need – receive help by community care programmes). A little over half of the respondents stated that their income is unsatisfactory, while a third of the respondents indicated that they receive economic help from their children (interestingly, also, 28% of the respondents stated that they provide economic support to their children). Over a third of the respondents expressed a negative view on residential homes, while the majority stressed the need for more and better quality home care provision by welfare services.<sup>39</sup>

Overall, systematic assessment of future needs (and required human and financial resources) is a major requirement for improving social care provision in relationship to social assistance measures (better targeting of provisions to those in need, coordination between different providers for a comprehensive coverage of needs). Given the fact that informal care continues to be the dominant source of care, a major challenge concerns also the systematic investigation of (family) caregivers needs and the burden placed on them (and particularly on women, by objective and subjective stress), with the aim to develop adequate support services. These matters are of crucial importance but need, however, to be considered in close relationship to changing family patterns (increasing participation of women in the labour force and a comparatively high rate of divorce in Cyprus) that progressively put limits to the capacity of the family to be a main provider of care. Consequently the need for improving, expanding and further decentralising public provision in the future becomes a major challenge.

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<sup>39</sup> Information obtained from the project coordinator Constantinos Fellas (University of Nicosia).

### **3 Impact of the Financial and Economic Crisis on Social Protection**

The global crisis affected Cyprus with a time lag. GDP growth rate slowed down from 4.4% in 2007 to 3.7% in 2008, but a sharp decline was recorded in 2009 (-1.7%). For 2010 it is forecasted that GDP will stagnate (0.5% growth). From a marginal surplus of 0.9% of GDP in 2008, the state budget run into a 6.1% deficit in 2009 (and the public debt reached 55% of GDP). Cyprus is among the countries where no capital injections were required into the financial sector, as the comparatively low degree of internationalisation of its banking system limited exposure to toxic assets that triggered off the credit crunch. The sectors that have mostly suffered from the crisis are the construction and tourist industries, financial intermediation and real estate activities. However, significant knock-on effects of the economic downturn are manifest on most private sector businesses and on household consumption.

Employment rates declined over 2009 but continue to be relatively high. In the 4<sup>th</sup> quarter of 2008, the number of employed persons aged 15-64, as a percentage of the population of these ages stood at 71.1% (79.2% for men and 63.2% for women). In the 4<sup>th</sup> quarter of 2009 the employment rate dropped to 70% (77.2% for men and 62.9% for women). Part-time employment amounted to 8.6% of total employment (5.2% for males and 12.7% for females).

In 2008 unemployment stood at 3.7%; it shot up to 6.3% in March 2010 (affecting about 24,336 people; of them 11,755 are women). This is the highest rate since the 1974 invasion. Unemployment is estimated to further increase as economic activity is forecasted to stagnate over 2010. Youth unemployment is two and a half times higher than the average for the population (14.5% among people up to the age of 25 years). As to unemployment duration roughly about 50% are unemployed for less than three months, 45.7% for a period between three months up to a year, and only 4.5% for more than a year.

The economic downturn brought to the fore, in the public debate between political parties and other actors, major reform challenges concerning the inequalities in social insurance between the public and private sector; the sustainability of government spending on public sector pensions and the substantial fiscal effects of an ageing population in the medium and long term. However, packages of measures taken so far focus primarily on cushioning the negative effects of the crisis on firms, households and individuals. Since the onset of the crisis two packages of measures have been implemented, while currently the Stability and Growth Plan submitted to the European Commission embraces further measures for improving fiscal performance and stabilise the economy.

In the context of the Strategic Action Plan for coping with the crisis two packages of special support measures for the economy were approved by the governmental cabinet in December 2008 and late January 2009. These comprise measures, such as boosting demand; creating jobs through public work investments and public-private partnerships (expansion of social welfare and public utilities infrastructure including construction and repair of schools); supporting the tourist sector (reduction of airport landing surcharges, coverage of local authority charges on hotels by the state budget, decrease of VAT rates on accommodation for hotels; social tourism policies). In parallel, the above Strategic Action Plan (a rescue plan of EUR 300 million, in addition to an initial plan of EUR 50 million) provides a package of measures for employment promotion and labour market integration of vulnerable groups. These measures aim at improving the effectiveness of Public Employment Services; adjusting regulations and policies for foreign workers to the crisis conditions (introducing stricter rules for the inflow of foreign workers and actively attracting into the labour market economically inactive women and unemployed persons); intensifying the campaign for combating illegal



employment; and implementing vocational schemes for the unemployed and underemployed persons in industries facing serious problems.

Over 2009 state revenue decreased by 10.7%, but the Gouvernement opted for a 5% increase in public spending. Social spending has been boosted in order to cushion the effects of the crisis. Social benefits expenditures including subsidies to the GSIS increased by around 10%. Other measures taken include support packages for students from low-income families and for large families with more than four children, social housing policy implemented by the Cyprus Land Development Corporation, as well as a substantial increase of resources for low interest-rate housing and social loans provided by the Housing Finance Corporation to low income families, first-time home buyers and other vulnerable groups (young couples with low to medium income, low-income single-parent families, large families as above, families in depressed rural and urban areas and persons displaced during the 1974 Turkish invasion). The state housing plan was considered a support to the stagnating construction sector. Social allowances further increased by 6.3% in 2010<sup>40</sup>, while in late 2009 a targeted Support Scheme for low-income pensioners was introduced, budgeted to about EUR 60 million for 2010.

However increasing public expenditures under conditions of a shrinking GDP led to a sharp increase of the public deficit. Cushioning the effects of the crisis remains the Gouvernement's priority; however fiscal pressures necessitated decisive policy action for restoring fiscal discipline and promoting economic recovery.<sup>41</sup> A new package of measures was prepared by the Gouvernement in the context of the Stability and Growth Plan (March 2010). The plan aims to stabilise the deficit for 2010 and bring it down progressively so as to reach the Maastricht limit by 2013.

Among others, the measures include a hiring freeze in the public sector and a progressive reduction in the number of government employees<sup>42</sup> (by not filling vacated positions) as well as drastic reductions in the number of temporary employees (some sectors, however, are exempted from hiring freeze, e.g. education, health care and social welfare); cracking down on tax evasion and avoidance and reducing the state's operational and other expenditure; continued implementation of urban planning amnesty that was included in the previous packages of measures; review of property values for the purpose of taxation; increase of consumer taxes (increase in fuel excise and VAT rates for some goods); and a more systematic use of targeting for social benefits provision (also lifting the reduction of excise duty on heating oil during the winter time). Particularly as regards changes in the state payroll, measures will be negotiated with the union of public employees. PASIDY has already agreed on a pay freeze for 2010 on the condition that this will apply to the broader public sector (including local authorities and semi-public organisations). Other measures that are on the agenda of negotiations between the Gouvernement and PASIDY include a 10% reduction in the entry pay-levels for civil servants and downward adjustments in wage scales and reform of the civil service pension scheme so as to increase contributions by employees.<sup>43</sup>

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<sup>40</sup> There are 32,000 recipients of social allowances corresponding to 20,000 families (and the total cost for 2010 amounts to about EUR 7 million).

<sup>41</sup> If no measures were taken the deficit was estimated to climb up to 7% in 2010 and reach a staggering 10% in 2013.

<sup>42</sup> In 1990 the total number of civil servants was 33,978 and the state payroll amounted to EUR 374.5 million, while in 2009 the total number increased to 51,787 civil servants and the state payroll reached EUR 2 billion.

<sup>43</sup> In his speech in a conference on the "Cypriot economy: the road for exiting the crisis" (that took place in March 2010), the president of OEV called for a drastic reduction of public sector bureaucracy; a five year salary-freeze of civil servants; a 25% reduction in entry-level wages; a freeze on hiring for at least five years and coverage of staffing needs through transfer of personnel between department; and policies for narrowing the gap between the hours worked in the public and private sector. OEV considers that this gap creates distortions in the labour market and an inefficient distribution of resources. Representatives of the major

Demands have been persistently addressed to the Labour Minister by the trade unions for increasing the duration of unemployment benefit from six to nine months (or even longer). Furthermore, the Democratic Labour Federation (DEOK) calls on the Gouvernement to reduce the 60 days waiting period for unemployment benefit payment to 30 days. On the ground that long-term unemployment remains low in Cyprus, however, the Labour Minister repeatedly stressed that the Gouvernement's policy option is predominantly to provide support to firms to avoid dismissals, promote vocational training programmes and implement specific subsidy measures for the hiring of young persons entering the labour market and unemployed less than 50 years. A programme recently decided by the Council of Ministers to be co-funded by national and EU sources, under the Operational Programme "Employment, Human Capital and Social Cohesion", amounts to an EUR 8 million budget and will provide up to EUR 90,000 subsidy to firms for training workers who otherwise would be dismissed and/or for hiring unemployed (a major requirement is to keep the subsidised workforce at least two months after the termination of the programme). Eligible are firms that have been hit by the economic downturn, and it is particularly expected that the tourist sector will benefit most by it. In parallel, the Labour Ministry intensified controls on undeclared work, and took stricter measures for the issuing of work permits to immigrants (7,300 work permits in 2009, compared to 9,700 in 2008).

A (parametric) pension reform took place in 2009 with the aim to enhance the sustainability of the GSIS in the following 10 to 15 years. However the crisis conditions put further strains on the system (the economic downturn drains social insurance revenues but raises expenditure on unemployment and lump sum benefits by provident funds). Furthermore, actuarial studies on which the 2009 reform drew for estimating sustainability gains may not be entirely valid under the impact of the crisis conditions and thus need to be re-evaluated. Equally pressing is the issue of the increasing cost of public sector pensions and social insurance obligations by the state. Particularly as the Gouvernement is faced with a mounting fiscal deficit, debate on reducing the state payroll and reforming public sector pensions has been growing steadily over that last year. Negotiations with the public sector trade union (and the political parties) are key for any reform move. To add, also, that so far pension funds have not suffered from exposure to toxic financial products. As mentioned earlier most of their assets are invested in government securities. In the case of the provident funds, assets plummeted in value due to the financial crisis but losses were not so severe as to put (defined-contribution) benefits at risk.

Expanding targeting to most social benefits is also a major policy option partly conditioned by the present crisis (given the aim to reduce public spending, there is an urgent need for a more effective distribution of benefits to those in need). The Support Scheme for Low-Income Pensioners, though not solely a response to the impact of the crisis, as it addresses a more profound problem of a high poverty incidence among the elderly in Cyprus, was a first major step towards implementing targeted benefit schemes. Similar targeting conditions have also been introduced for the provision of the Easter benefit to low-income pensioners and the Gouvernement is contemplating to revise family and other benefits along targeting criteria.

As indicated above the crisis exerted a strain on the public health care system; demand for public health care increased, yet staff shortages and insufficient infrastructure put limits to the quality and volume of services. Furthermore, it is highly likely that the implementation of the GHS will be once more postponed due to fiscal problems and delays in introducing the required institutional and organisational changes. Needless to say previous actuarial studies

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political parties (AKEL, DISY, DIKO, EDEK) in this conference expressed agreement on cutting back the state sector, though views as to how this should be effected differ considerably.

conducted for estimating the cost of the GHS' implementation need to be re-evaluated before any decisions can be made about the level of contributions and tax funding requirements.

Overall, depending on the duration and depth of the crisis, the medium- and long-term actuarial balance of social insurance and health care may significantly worsen. A re-examination of actuarial projections will thus be needed as a basis for any major reform options.

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## 4 Abstracts of Relevant Publications on Social Protection

### [R] Pensions

- [R1] General trends: demographic and financial forecasts
- [R2] General organisation: pillars, financing, calculation methods or pension formula
- [R3] Retirement age: legal age, early retirement, etc.
- [R4] Older workers activity: active measures on labour market, unemployment benefit policies, etc.
- [R5] Income and income conditions for senior workers and retired people: level of pensions, accumulation of pensions with earnings from work, etc.

### [H] Health

- [H1] Health expenditures: financing, macroeconomic impact, forecasting, etc.
- [H2] Public health policies, anti-addiction measures, prevention, etc.
- [H3] Health inequalities and access to health care: public insurance coverage, spatial inequalities, etc.
- [H4] Governance of the health system: institutional reforms, transfer to local authorities, etc.
- [H5] Management of the health system: HMO, payments system (capitation, reimbursement, etc.)
- [H6] Regulation of the pharmaceutical market
- [H7] Handicap

### [L] Long-term care

**[R5] PASHARDES Panos and POLYCARPOU Alexandros, Income tax evasion, inequality and poverty, *Cyprus Economic Policy Review*, 2/2, 2009.**

*A consumer demand based method is used in order to estimate “the extent to which households in Cyprus under-report their income from self-employment, capital income and income from agriculture”. These estimates offer a basis for calculating the size of black economy. This appears to amount to about 7–8% of GDP. The authors stress that income underreporting produces a significant downward bias in measures of inequality and poverty. In the light of this they suggest that antipoverty policies should become more generous, though at the same time targeting measures should be implemented so that policies can be more effective.*

*[\* The paper only marginally touches upon poverty among elderly people – this category is included in the group of non-workers in the analysis of income inequality carried out by the authors]*

**[R5] ANDREOU Maria and PASHARDES Panos, Εισοδηματική ανισότητα, φτώχεια και η επίδραση της μεταρρύθμισης των συντάξεων, Nicosia, Economics Research Centre, 2009, pp. 1-33, retrieved from: <http://www.ucy.ac.cy/data/ecorece/DOP%2005-09.pdf>**

**“Income inequality, poverty and the influence of the pension reform”**

*In the first two parts the paper examines income inequality and poverty between Cyprus and the EU (on the basis of the available Eurostat data) stressing that Cyprus is classified close to the mean of EU countries in terms of both income inequality and poverty. In the third part the paper focuses on the recent pension reform in Cyprus and particularly on the introduction of the Scheme for the Support of Low-Income Pensioners in December 2009. The authors estimate that this policy measure will decrease inequality (the Gini coefficient will decrease by 1% and the ratio of the ratio of the highest to the lowest income quintile – S80/S20 – will decrease by 0.4). Furthermore, the poverty rate is forecasted to decrease by 1.3 percentage points. The policy measure will also improve the standard of living of households that continue to be below the poverty line after the implementation of the support scheme. Thus the measure will have positive effects in terms of the living standards of elderly people. But authors consider the timing of the implementation of the scheme inadequate, given the*

*conditions of the crisis. They argue that the policy leasure will have a negative impact on the fiscal deficit and “high levels of social pensions” will undermine the motivation for employment and savings”.*

[H] Health

[H1] ANDREOU Maria, PASHARDES Panos and PASHOURTIDOU Nicoletta, Cost and value of health care in Cyprus, Nicosia, Economcis Research Centre, 2010, pp. 1-31, retrieved from: <http://www.ucy.ac.cy/data/ecorece/DOP02-10.pdf>

*The paper examines aggregate health expenditure in Cyprus from the late 1990s to 2007 and shows that there exists an upward trend over time. Private health expenditure increased slightly faster than public health expenditure. The study also examines household health expenditure with a focus on the type of health care coverage of household members. The extent to which entitlement to free public care affects the well-being of households is amain focus, in relationship to the way consumers perceive the value of free medical care.*

*The major findings of the study are the following: the age of the household head and household income determine the level of health expenditure (health spending by households decreases with the age of household head up to 40 years and increases for older heads; as income increases health expenditure by households increases too, though at a declining rate; household health expenditure also varies in respect to type of health care coverage. Overall, the analysis shows that public health care in Cyprus benefits poor households and those with an old-aged head in the sense that the free access reduces private household spending.*

[L] Long-term care

[L] Interview by the Director of the Social Welfare Services Ms. Toula Kouloumou to the Newspaper *Politis* [«Πολίτης»], 2 February 2009, retrieved from: <http://www.politis.com.cy/>

*The interview focuses on fast increasing social needs in the Cypriot society since the early 1990s due to demographic ageing, changes in family patterns and gender roles. It highlights the difficulties faced by the existing social welfare services in responding to needs because of shortage of resources and understaffing. It also discusses recent decentralisation policies of social welfare services in an attempt to improve access and coordination of service provision at the local level.*

## 5 List of Important Institutions

### **Κέντρο Οικονομικών Ερευνών, Πανεπιστήμιο Κύπρου – Economics Research Centre, University of Cyprus**

Contact person: Panos Pashardes  
Address: PO Box 20537, Nicosia, Cyprus  
Webpage: <http://www.erc.ucy.ac.cy/>

*The Cyprus Economics Research Centre is an independent non-profit research institution linked with the Department of Economics of the University of Cyprus. It undertakes research in economics with a main emphasis on the Cyprus economy within the EU and the international setting. Macroeconomic policy issues including income distribution, inequality and poverty, as well as the structure and financing of social insurance are among the research interests of the Centre.*

*Recurrent publication of the Centre: The Cyprus Economic Policy Review (published bi-annually).*

### **Ινστιτούτο Εργασίας Κύπρου (INEK-ΠΕΟ) – The Cyprus Labour Institute (an Institute operating under the auspices of the Pancyprian Federation of Labour – PEO)**

Contact person: Pampis Kyritsis  
Address: 14, Simonidou (building ETKA/PEO, 2nd floor), 1045 Nicosia, Cyprus  
Webpage: <http://www.inek.org.cy/english/>

*A non-profit organisation established in the early 2000s by the Pancyprian Federation of Labour (PEO) with the aim to provide documentation to the unions, promote relevant research for an evidence-based intervention of the PEO and its trade unions members to policy areas that are of crucial interest to the trade union movement. It also promotes education and training on trade union issues and organises workshops and conferences. It publishes working papers and studies (e.g. on living conditions, wages, etc.). In 2008, it published a first (periodical) report on the Cypriot Economy and Labour Market. However, so far its research activities and publications have been limited.*

### **Cyprus International Institute for the Environment and Public Health**

Contact person: John Evans  
Address: 5, Iroon Street, 1105 Nicosia, Cyprus,  
Mailing address: P O Box 24440, 1703 Nicosia, Cyprus  
Webpage: <http://www.hsph.harvard.edu/cyprus/>

*The Government of Cyprus, in collaboration with the Harvard School of Public Health (HSPH), has established the Cyprus International Institute (CII) for the Environment and Public Health, located in Nicosia, with the aim to develop research and education on key environmental and health issues in Cyprus and the Mediterranean region (e.g. population risks associated with environmental factors) in order to provide evidence for environmental health policies.*

### **Research Unit in Behavioural and Social Issues (RUBSI), University of Nicosia**

Contact person: Constantinos Fellas (director)  
Address: 46 Makedonitissas Avenue, Nicosia, Cyprus,  
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Webpage: <http://www.rubsi.org/od/en/home/>

*RUSBI undertakes interdisciplinary research that promotes understanding of the factors and processes that influence the health and well-being of the Cypriot population. Research topics include health processes and outcomes linked to transition and change across key stages on the life-course, bio-psychological and socio-cultural factors associated with the promotion of health and healthy life-styles, social problems of ageing, critical appraisal of factors affecting the health of the population with the aim to inform policy-making and promote evaluation studies of health policy and practice. It also provides courses in the sociology of health.*

**eHealthLab – Department of Computer Science, University of Cyprus**

Contact person: Constantinos Pattichis (academic staff)

Address: Computer Science Department, University of Cyprus

Mailing address: P.O. Box 20537, 1678 Nicosia, Cyprus

Phone: + 357 22892697

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email: [pattichi@cs.ucy.ac.cy](mailto:pattichi@cs.ucy.ac.cy)

Webpage: <http://www.medinfo.cs.ucy.ac.cy/index.php/home>

*It promotes basic and applied research in the fields of Medical Informatics and Biomedical engineering and is linked to the department of Computer Science of the University of Cyprus. Research focuses mostly on medical technical solutions (e.g. IT systems in the operation theatre that aim to increase diagnostic accuracy by analysing and processing endoscopy images).*

**Το Υπουργείο Εργασίας και Κοινωνικών Ασφαλίσεων - The Ministry of Labor and Social Security**

Address: Byron Avenue 7, 1463 Nicosia, Cyprus

Webpage: <http://www.mlsi.gov.cy>

*The Ministry of Labour and Social Insurance is the main state agency for labour and social policy and its functions cover social protection, employment, industrial training, labour relations, terms and conditions of employment and safety and health at the work place.*

**Το Υπουργείο Υγείας – The Ministry of Health**

Phone: + 357 22 605601

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email: [emissouri@mphs.moh.gov.cy](mailto:emissouri@mphs.moh.gov.cy)

Webpage: [http://www.moh.gov.cy/moh/moh.nsf/index\\_en/index\\_en](http://www.moh.gov.cy/moh/moh.nsf/index_en/index_en)

*The Mission of the Ministry of Health is the continuous improvement of the health of the population of Cyprus, through the prevention of disease, and the provision to every citizen of high level health care, respecting the rights of every patient to high quality medical care delivered with dignity. The main features of this strategy are the emphasis on the prevalence and incidence of diseases and mortality data, the provision of equal opportunities for health care to all citizens, irrespective of their socio-economic status and place of residence, the promotion to the greatest possible degree of cooperation between the public health services and the private health sector and the improvement of effectiveness and efficiency of the public health services.*

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- (1) to improve the knowledge and understanding of the situation prevailing in the Member States (and in other participating countries) through analysis, evaluation and close monitoring of policies;
- (2) to support the development of statistical tools and methods and common indicators, where appropriate broken down by gender and age group, in the areas covered by the programme;
- (3) to support and monitor the implementation of Community law, where applicable, and policy objectives in the Member States, and assess their effectiveness and impact;
- (4) to promote networking, mutual learning, identification and dissemination of good practice and innovative approaches at EU level;
- (5) to enhance the awareness of the stakeholders and the general public about the EU policies and objectives pursued under each of the policy sections;
- (6) to boost the capacity of key EU networks to promote, support and further develop EU policies and objectives, where applicable.

For more information see:

<http://ec.europa.eu/social/main.jsp?catId=327&langId=en>