ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ
FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

Occupational Insurance in Greece: Challenges and Prospects

Executive summary in English

February 2022

The policy assessments and recommendations contained in this analysis express the views of the researchers and do not necessarily reflect the opinion of the members or management of the Foundation for Economic and Industrial Research (IOBE).

The study was prepared by Svetoslav Danchev, Georgios Gatopoulos, Niki Kalavrezou, Alexandros Moustakas, Ismini Patta and Konstantinos Peppas, under the supervision of Nikos Vettas, General Director of the IOBE and Professor at the Athens University of Economics and Business.

The researchers would like to thank the staff of the Hellenic Association of Occupational Pension Funds (ELETEA) and the Association of Greek Institutional Investors for their participation in working meetings and for their contribution to the study with data, ideas, and comments. Any errors or omissions are the sole responsibility of the authors.

IOBE is an independent, non-profit research organization. It was founded in 1975 and became a Public Benefit Foundation in 1991, with the aim of promoting scientific research on current and emerging problems of the Greek economy, supporting public discourse with objective information, and formulating proposals useful for policy making.

Copyright © 2022 Foundation for Economic and Industrial Research

This study may not be reproduced in any form or for any purpose without the prior knowledge and consent of the publisher.

Foundation for Economic and Industrial Research (IOBE)
11, Tsami Karatasou Street, GR-117 42 Athens | T.: +30210 9211200-10
URL: www.iobe.gr , Email: info@iobe.gr

The study was carried out with the support of:

Executive Summary

The study examines the prospects and challenges of occupational insurance in Greece. In particular, it describes the institution and the way it operates domestically and internationally, analyzes its course over the last two decades, and highlights its potential to contribute as a growth driver to the Greek economy. By identifying the limitations faced by occupational insurance in Greece, the prospects of the sector in the medium term are emphasized and interventions are proposed to strengthen it in the country, on the basis of good international practices.

Occupational insurance can play the role of a growth driver in the Greek economy. The institution, despite its systematic development in recent years in Greece, has great room for further development, as it remains much less widespread than in other European countries. In this direction, the proposed policy interventions concern five main objectives, in relation to: (a) the assurance of the adequacy of pension benefits, (b) the complementarity among the pillars of insurance, (c) the operational independence of each pillar, (d) the improvement of the effectiveness of the licensing and supervision regime of the Occupational Pension Funds (TEA) and (e) the establishment of adequate and fair incentives for the development of occupational insurance.

In order to meet the objectives, policy measures are proposed along four axes: (a) measures aimed at unifying and strengthening the supervisory bodies and simplifying the licensing procedures of TEAs, (b) interventions regarding the organization and operation of TEAs to enable a more flexible organizational scheme, including the possibility of establishing multi-employer TEAs, (c) financial incentives to insured persons and employers that will allow the healthy and sustainable development of occupational insurance - indicatively, in line with international practices, it is proposed to maintain tax incentives in terms of lump-sum pension benefits but in combination with the application of universal, institutionally guaranteed limits, and (d) broader interventions beyond occupational insurance, which concern the stimulation of this complementarity with the former and the third pillar of insurance, as well as by stimulating the domestic capital market. The effectiveness of these measures depends on the high degree of interdependence among them. For this reason, the proposed interventions are considered appropriate to be implemented in a synchronized way and not in a fragmented way.

The results of the macroeconomic analysis show that the development of the institution of occupational insurance in Greece can lead to the accumulation of significant capital reserves by the providers. The effect of the accumulation of reserves resulting from the additional voluntary savings stimulates new investment. Part of these new investments are distributed domestically, stimulating local demand and,

above all, boosting productivity. Therefore, new investments through these indirect channels affect the course of the economy, with the effects of these effects becoming particularly evident over time. The estimates examine the impact in scenarios with different hypothetical rates of extension of coverage to the population, different speeds of convergence with European practices, different average durations of insurance, as well as assumptions about the percentage of all investments directed domestically, and the rate of long-term return on investments.

On the basis of alternative assumption scenarios, the further development of occupational insurance is estimated to lead to a strengthening of the productive infrastructure of the economy, an increase in productivity and in GDP. Indicatively, it is estimated that with the development of occupational insurance, new capital buffers will arise in the second pillar that may exceed ten (10) percentage points of GDP in the long term. Accordingly, it is estimated that GDP may be higher by up to €2.7 billion in real terms (2019 prices). The sensitivity analysis shows that these direct effects are estimated to be greater the wider the coverage of the workforce by occupational insurance and the longer the duration of this insurance.

The interventions are also expected to have second-round macroeconomic benefits, through the strengthening of domestic savings and capital markets, as well as the wider financial services sector. Domestic investments of TEA reserves in financial securities are expected to increase the capitalisation and liquidity of the capital market, which in turn generally makes it more attractive for companies to raise new capital and boost investment and economic growth rates. In addition to the significant macroeconomic effects, the reform is expected to have a positive impact at the microeconomic level, including incentives for households to participate in the formal labour market. Tangibly linking contributions to accumulated capital in a personal account can boost employees' incentives to extend their formal working life and can boost workers' confidence in the social security system. In combination with the promotion of financial literacy, the insured will gradually become familiar with more extensive and potentially effective savings options.

The study follows a five-chapter structure. The first chapter provides a brief overview of the regulatory and tax framework of occupational insurance in Greece and internationally. The second chapter presents some basic figures of the Greek occupational pension funds compared to other countries. The third chapter focuses on the obstacles to the development of the industry. The fourth chapter describes the prospects for the development of the institution and the proposals for policy measures to strengthen occupational insurance in Greece by converging with international good practices. In the same chapter, estimates of the potential growth of the institution for the real economy, both in the short and long term, are presented. A short fifth chapter with conclusions follows.