

# **Income Inequality, Poverty and the Impact of the Pension Reform**

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## **Abstract**

This paper examines income inequality and poverty in Cyprus vis-a-vis the European Union (EU) and investigates how these are affected by the recently implemented pension reform. The empirical investigation is conducted using individual household data drawn from the EU Statistics on Income and Living Conditions (EU-SILC, 2007). Income inequality and poverty in Cyprus is close to the EU average. Our estimates suggest that the pension reform decreases income inequality - the Gini coefficient and the S80/S20 ratio are decreased by 1 and 0,4 percentage units, respectively. Furthermore, the poverty rate is estimated to decrease by 1,3 percentage units. In conclusion, the pension reform is adequately targeted and leads to socially desirable results but potentially harmful side effects (higher fiscal deficit, reduced voluntary contributions to pension funds and labour market participation) need to be addressed.