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SOCIAL PROTECTION IN CYPRUS: OVERVIEW AND CHALLENGES

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Christos Koutsampelas* and Panos Pashardes

ABSTRACT

The aim of this paper is to provide an overview of the characteristics, recent reforms, shortcomings and policy challenges of the social protection system in Cyprus as it emerges in the aftermath of the crisis. As, Cyprus continues to recover, with its GDP being projected to grow by 3.1% in 2017 (Economics Research Centre), important challenges still exist in terms of high levels of unemployment, inequality, poverty and social exclusion; all unfortunate by-products of the recession. Upcoming demographic changes are also expected to exert pressure on the economic efficiency of the system. Therefore, mapping social policies in Cyprus is crucial at this point of time. In this spirit, the paper focuses on the following social policy fields: provision of income support to families, minimum income support, employment-related policies, pensions, health care, long-term care, while other policy areas (early education and child care, education and provisions to asylum seekers) are also briefly addressed. The most important policy reforms that were implemented from 2009 and onward are presented and briefly assessed, while a section is devoted in discussing potential policies which might be needed in the near future.

Keywords: Social protection, Cyprus

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Το Σύστημα Κοινωνικής Προστασίας στην Κύπρο: Προκλήσεις και Πολιτικές

Χρήστος Κουτσαμπέλας και Πάνος Πασιαρδής

ΠΕΡΙΛΗΨΗ

Ο σκοπός του δοκιμίου είναι να παράσχει μια επισκόπηση των κύριων χαρακτηριστικών, των πιο πρόσφατων μεταρρυθμίσεων, των μειονεκτημάτων και των προκλήσεων του συστήματος κοινωνικής προστασίας στην Κύπρο, όπως αποκρυσταλλώνονται μετά την οικονομική κρίση. Καθώς η οικονομία βελτιώνεται, το κυπριακό ΑΕΠ αναμένεται να αυξηθεί κατά 3.1% το 2017 σύμφωνα με εκτιμήσεις του Κέντρου Οικονομικών Ερευνών, σημαντικές προκλήσεις συνεχίζουν να υφίστανται σε όρους υψηλών επιπέδων ανεργίας, ανισότητας, φτώχειας και κοινωνικού αποκλεισμού. Επιπρόσθετα, οι επερχόμενες δημογραφικές μεταβολές αναμένεται να ασκήσουν πίεση στην οικονομική αποτελεσματικότητα του συστήματος. Ως εκ τούτου, η χαρτογράφηση των κοινωνικών πολιτικών στην Κύπρο είναι σημαντική σε αυτή τη χρονική περίοδο. Ακολουθώντας αυτό το πνεύμα, στο δοκίμιο εστιάζουμε κυρίως στα εξής πεδία κοινωνικής πολιτικής: παροχή εισοδηματικής υποστήριξης σε οικογένειες, πολιτικές απασχόλησης, συντάξεις, υγεία και μακροχρόνια φροντίδα, καθώς και αναλύονται εν συντομία η παροχή παιδικής φροντίδας, η εκπαίδευση και οι παροχές στους αιτητές ασύλου. Οι πιο σημαντικές μεταρρυθμίσεις που έλαβαν χώρα από το 2009 έως σήμερα παρουσιάζονται, ενώ αναλύονται εν συντομία οι επιπτώσεις τους. Στο τελευταίο κεφάλαιο συζητούνται πολιτικές που πιθανόν να χρειαστεί να εφαρμοστούν στο εγγύς μέλλον.

1. Introduction

The economic crisis that hit Cyprus during the period 2012-2015 served to highlight the importance of having an effective social safety net that can support those vulnerable to poverty and social exclusion. The crisis also helped bring to the surface several weaknesses and gaps of the current social protection system that need to be addressed. This paper describes the basic features of the Cyprus social protection system and considers challenges that have to be overcome for the system to provide adequate and sustainable support to all citizens.

Starting with a brief historical review, we trace the first seeds of social policy in Cyprus back in 1957, when the first Social Insurance Scheme was introduced. This scheme covered specific occupations and, consequently, a limited part of the population. In 1964, after Cyprus independence, social insurance was expanded to cover the largest part of the population. While at that time social policy in the newly born state started to develop, social spending was representing a small proportion of GDP and provisions were often insufficient.

The major humanitarian catastrophe caused by the Turkish invasion of Cyprus in 1974 created urgent social problems that required state aid. As a result, national resources were increasingly directed to welfare policies addressing the needs of the refugees and other war victims. This historical turning point caused financial strains and weakened the ability of the state to make adequate social provisions. Nonetheless, it also helped to embed in public opinion the need for a comprehensive social safety net providing support to those in need and mitigate economic risks especially in the old age, (Neocleous, 2014).

The first important welfare reform in Cyprus took place in 1980, when the House of Representatives voted the Social Insurance Law of 1980, which established the current Social Insurance Scheme in Cyprus. This new scheme, which introduced a proportional scheme of contributions by abolishing the flat rate character of the previous scheme, provides until today a wide array of short- and long-term earnings-related contributory benefits, such as family benefits, unemployment benefits, employment injury benefits and pensions. In parallel, non-contributory welfare policies started to develop so as to achieve a better social protection balance between the employed and the non-employed. In the early 00s, the existing child-related tax allowance was substituted by a universal child benefit, thereby correcting an important redistributive injustice. The child benefit contributed significantly in keeping child poverty at low levels during the coming decade, (Pashardes, 2007).

The public assistance scheme, which has been in operation since the British colonial era, was modified several times in order to expand its scope and better respond to contemporary challenges. Public assistance provided minimum income support to families or individuals who suffered from income deprivation and thus contributed in reducing extreme forms of poverty. This scheme, however, had several drawbacks, including the lack of universal coverage, incorrect targeting and inadequate labour market participation incentives (Pashardes and Polycarpou, 2011). Finally, the scheme was substituted by a Guaranteed Minimum Income (GMI) in 2014 - not coincidentally in the heart of the financial crisis. Overall, the crisis affected the social protection system in multiple ways; in some cases positively (by rationalising spending), but mostly negatively. Benefit rates were reduced in many cases, while stricter income and asset criteria were introduced to almost all means-tested benefits. Furthermore, some benefits were completely abolished.

In sum, the history of the Cyprus welfare state is a tale of gradual evolution, characterised not only by back and forth, but also by a positive tendency to exploit unanticipated events (like the Turkish invasion in 1974 and the 2012-2015 economic crisis) as opportunities for social reforms. Moreover, these social reforms drew support by all major political parties. Perhaps in this spirit, the Cyprus Parliament passed unanimously legislation in June 2017 that essentially establishes a new National Health Insurance Scheme (NHIS); a much needed reform, given the many shortcomings of the existing public health system.

It can be said that nowadays Cyprus possesses a modern welfare state consisting of a wide array of cash and in-kind (provision of services) benefits. About 22.2% of GDP is devoted to social protection policies. This figure is 5.4 percentage points below the EU28 average, but characterised by an increasing trend. Indicatively, social spending fluctuated around 14% of GDP before Cyprus accession to the European Union. The largest part of this spending is channelled to pensions and contributory benefits; while a smaller part is allocated to minimum income and other non-contributory benefits. The most important in-kind transfer is education, which is provided free of charge at all levels, including tertiary studies. At the same time, several other public services are provided at partially or fully subsidised prices to targeted population groups. Lack of universal health coverage is a recurring point of criticism of the current system, (Theodorou, 2012). Yet, the expectation is that the new NHIS is going to fill this gap.

Regarding its architecture, the Cypriot welfare state shares elements from different models and as such, its classification is not straightforward. It has certain Beveridge type features that are inherited from the British colonial era (Gal, 2010). At the same time, it shares commonalities with the typical Mediterranean welfare regime, such as the active role of family in complementing insufficient statutory provisions and political clientelism.

Furthermore, the economic crisis encouraged the adoption of means-testing practices typically met in liberal welfare states; while the EU membership has helped the transfusion of practices and ideas from other, usually more advanced, European systems. Gal (2010) groups Cyprus in the 'extended family of Mediterranean welfare states', yet the continuous motley reforms and modifications blur the lines of traditional typologies.

As said above, the aim of this paper is to provide an overview of the Cypriot welfare state as it emerges in the aftermath of the financial crisis. This point in time is crucial. The economic crisis weakened the financial capacity of the state to solve social problems. As Christou et al (2016) point out, this can result in the weakening of trust towards the state, which might undermine the legitimacy of the welfare system and the willingness to further finance it. After three decades of development, welfare policy is at a crossroads. By identifying the gaps, weaknesses and challenges laying ahead, this paper aspires to provide a mapping of potential policy reforms that could strengthen the social protection system.

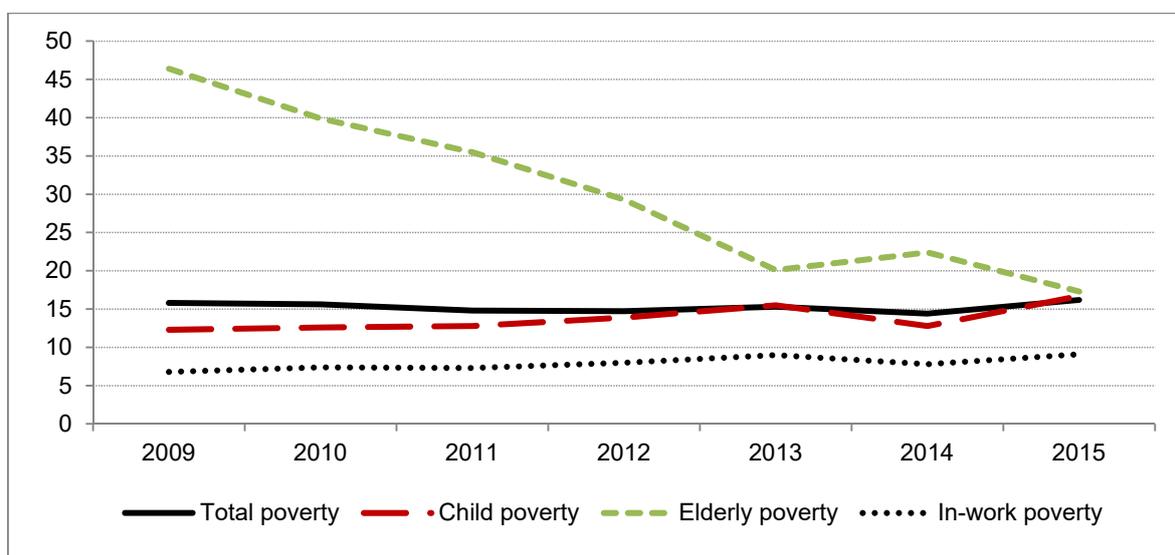
The structure of the paper is the following: in Section 2 we provide a description of social challenges in the aftermath of crisis as they are reflected on poverty and inequality indicators as well as a brief assessment of how social spending coped with those challenges. Thereafter, we examine the following social policy fields: income support in Section 3, employment-related policies in Section 4, pensions in Section 5, health and long-term care in Section 6 and other social policy areas (child care, education, taxation and provisions to asylum seekers) in Section 7. Section 8 sums up and concludes.

2. Poverty and inequality and social spending

The 2012-2015 recession in Cyprus caused significant distributional changes, which affected social outcomes. Figure 1 shows the evolution of at-risk-of-poverty (AROP) rate for five population groups during 2009-2015. The percentage of the population below the poverty threshold (i.e. 60% of the median equivalised income) is steadily fluctuating around 15%. Nevertheless, differences in poverty rates among groups are more pronounced. The most impressive change is observed with respect to poverty in the old-age, which is reduced from 46.4% in 2009 (one of the highest rates recorded in EU countries) to 17.3% in 2015, just 1% above the national mean. The main explanations of this distributional shift are that the income of persons aged above 65 is more resilient to the effects of economic crisis compared to the rest of the population (i.e. the crisis affected mostly the income on non-pensioners through job losses and wage reductions) and the gradual maturation of the

pension system¹. Alongside poverty rates, this phenomenon is also reflected in the relative median income ratio (65+), which measures the income of persons aged above 65 as a proportion of the income of persons below 65. This ratio, which is calculated by Eurostat, increased in Cyprus from 0.61 in 2009 to 0.81 in 2015.

Figure 1: Evolution of AROP rate for four population groups during 2009-2015



Source: EU-SILC, Eurostat Online Database.

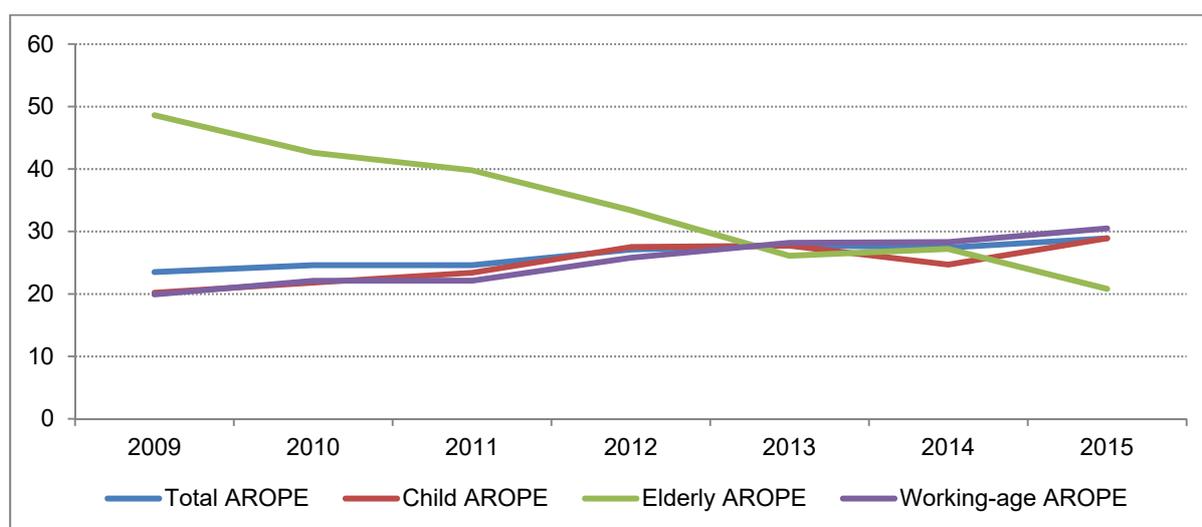
Child poverty, which traditionally stood at low levels in Cyprus for a variety of reasons (see Pashardes, 2007), reached 16.7% in 2015. In-work poverty also follows an upward trend reaching 9.1% in 2015. This level is not particularly high compared to what pertains in Europe (EU28: 9.5% in 2015). However, the Cypriot labour market was considered as a rewarding one before the economic crisis, in terms of offering good wages and attractive employment opportunities. It was also characterised by very low unemployment rates. The crisis has drastically deteriorated the situation in the labour market; a fact reflected both in terms of high levels of joblessness (unemployment still stands above 10% in 2017) as well as in the rising trends of non-standard employment, a point that we will examine later in Section 4.2.

0 reports the at-risk-of-poverty or social exclusion (AROPE) rate, which measures additionally to monetary poverty two other concepts; material deprivation (lack of necessities) and exclusion from the labour market (living in a household with very low work intensity). Similar patterns to those observed in Figure 1 are also evident in 0. This is largely

¹ The current pension system was introduced in the '80s and pensioners at the top end of the age scale retired before making enough contributions to be entitled to full pension. Poverty among the elderly declines over time in proportion to the decline of the share of these retirees in the pensioner population.

because the AROP rate is a major element of the AROPE rate. However, the AROPE rate contains information showing a more accurate picture of the incidence of lack of sufficient resources among persons. In that sense, it is alarming to consider that almost one out of three children in Cyprus is at risk of either poverty or social exclusion. The population AROPE rate is also high: standing at 28.9% in 2015 is far above the stated national Europe 2020 target of 19.3%, which seems non-achievable, unless drastic social policy measures are taken.

Figure 2: Evolution of AROPE rate for four population groups during 2009-2015



Source: EU-SILC, Eurostat online database.

Income inequality has also risen significantly and stands at high levels. The Gini index increased from 29.5 in 2009 to 33.6 in 2015. Although income disparities are widening, not much emphasis is placed on combating inequality through direct policy interventions. Instead, the government policy focuses on growth-friendly policies aiming at boosting economic activity. In January 2017, the so-called “special contribution”, a tax levied on the gross monthly emoluments of all employees, self-employed and pensioners in the private and public sector was abolished. This contribution, which was estimated to bring to the state coffers around €80 million per year, had a progressive structure². Therefore, *ceteris paribus*, the anticipated effect of its abolition is an increase in income inequality. Similar regressive effects can be expected from the abolishment of the immovable property tax, which was approved by the Council of Ministers in 2016. The rationale of those policies is to boost

² Specifically, 0% for income up to €1,500, 2.5% for income between €1,501 and €2,500, 3% for income between €2,501 and €3,500 and 3.5% for income above €3,500. Furthermore, an extra 0.5% is added to the contribution rate of highly ranked public officials.

economic transactions, hoping that, eventually, the fruits of growth will benefit all citizens, including the economically vulnerable ones.

One question arising is whether the social protection system has responded in accordance to the changes in social outcomes which are described above. To examine this, 0 shows how the allocation of social spending changed over the period 2009-2014 (ESSPROS data).

Table 1: Expenditure allocation

		2009	2014	Change (pp: percentage points)
Total Social Protection	% GDP	19.1	23.0	3.9 pp
	in mil.	3,636	3,887	6.9%
Sickness/health care	% GDP	4.6	4.5	-0.1 pp
	in mil.	872	753	-13.6%
Disability	% GDP	0.7	0.7	0.0 pp
	in mil.	129	121	-8.0%
Old age	% GDP	7.3	10.9	3.6 pp
	in mil.	1,389	1,836	32.2%
Survivors	% GDP	1.1	1.4	0.3 pp
	in mil.	202	244	20.8%
Family/Children	% GDP	2.0	1.4	-0.6 pp
	in mil.	376	252	-33.0%
Unemployment	% GDP	0.9	1.9	1.0 pp
	in mil.	173	322	86.1%
Housing	% GDP	1.0	0.3	-0.7 pp
	in mil.	191	46	-75.9%
Social Exclusion	% GDP	1.3	1.1	-0.2 pp
	in mil.	242	193	-20.2%

Source: European system of integrated social protection statistics (ESSPROS).

Despite the tight fiscal constraints, social spending increased since the beginning of the recession both in relative (from 19.1% to 23% of GDP) and in absolute (from 3.6 to 3.9 billion euro) terms. However, the disaggregation of social expenditure shows a mismatching between social outcomes and the allocation of social spending. In particular, over the period under examination, spending for old age and survivors' benefits increased by 32.2% and 20.8%, respectively, reaching 10.9 and 1.4% of GDP in 2014, respectively. In contrast, spending on family/children policies decreased by 33%, amounting only to 1.4% of GDP in 2014. Similarly, spending on social exclusion appears to have remained at relatively low levels.

3. Income support

3.1 Family income support

Family income is supported by a series of contributory and non-contributory benefits that are available to all families satisfying the relevant criteria³. Table 2 provides an overview of the characteristics of the most important family benefits. Contributory benefits (which are administered by the Social Insurance Scheme) include the birth grant (a lump sum payable to mothers of new-borns), the maternity grant (an earnings-related benefit also given to mothers of new-borns), the wedding grant (which was abolished in 2012) and the funeral grant.

The most important non-contributory benefit in terms of coverage is the child benefit; a means-tested non-contributory benefit. In 2011, the government reformed the child benefit scheme by narrowing the definition of dependent child and introducing stricter income and asset criteria. In 2014, a new law amendment caused families with gross income over €59,000 to lose eligibility of the benefit. New changes are expected to be in effect as of 2018. Specifically, the Ministry of Labour, Welfare and Social Insurance is planning to increase the income thresholds according to the size of the recipient unit so as to take better into account the needs of larger families.

The single parent benefit was introduced in 2012 (partly to counteract an amendment of the Public Assistance Law which was negative for single parents). The single parent benefit was modified twice in 2013 and 2014. In 2013, the benefit rates were reduced and in 2014 single parents with annual income over €49,000 lost eligibility. Modifications of similar logic took also place in regards to student grant, which also became more targeted. Disability benefits were also affected, albeit slightly (mostly by freezing their indexation with the price index). The Mother allowance was abolished in 2012; however, the Ministry is currently planning to revoke the benefit.

In general, it could be said that non-contributory benefits were more affected by fiscal consolidation (in terms of reductions in benefit rates, stricter means-testing, tightening of the eligibility criteria) than contributory benefits, which at a large degree remained intact. Yet,

³ It should be also mentioned that EU Funds are utilised for financing welfare programmes which benefit families. For example, the project "Actions for Social and School Inclusion", financed by European Social Fund and national sources, targets through assertive actions pupils at risk of low educational performance, exclusion and early school leaving. In April 2017, a new programme titled "Baby's Dowry" was introduced, which is intended to finance the purchase of child-related basic goods and equipment (baby cribs, care items, etc.) by families with infants. Eligible are families entitled to the GMI benefit or judged to be in severe material. The program is financed by the Fund for European Aid to the Most Deprived (FEAD).

non-contributory benefits have stronger redistributive effects. Furthermore, microsimulation analysis in the context of Cyprus has shown the importance of non-contributory family benefits in fending off the effects of economic crisis on families with children, especially those most vulnerable, (Koutsampelas, Polycarpou and Pashardes, 2013). An immediate policy implication is that every euro spent in social transfers to families with children is likely to have a larger poverty-reducing effect during or immediately after the economic crisis thus increasing the poverty effectiveness of social spending.

Table 2: Overview of contributory and non-contributory family benefits

	Conditionality	Potential Beneficiaries	Eligibility Criteria	Rate of the benefit	Changes since 2008
Wedding grant	Wedding	Both spouses	contribution conditions	Flat rate	Abolished
Birth grant	Birth of a child	Mother of a newborn	contribution conditions	Flat rate	Not affected
Funeral grant	Death of household member	Family of the deceased	contribution conditions	Flat rate	Benefit rates reduced
Maternity benefit	Birth of a child	Mother of a newborn	contribution conditions	Depending on insurable earnings and # of dependants	Slightly affected ⁴
Child benefit	Increased needs of families with children	Couples with children	Income and asset criteria	Income related	Modified in 2012 and 2017
Single parent benefit	Increased needs of monoparental families	Single parents	Income criteria	Income related	Introduced in 2012. Modified in 2013 & 2014
Student grant	Cost of studies	Families with students	Income criteria	Income related	Modified in 2012
Mother allowance	-	Mothers of three or more children	Residency/other	Flat rate	Abolished in 2012/revoked in 2017
Financial assistance to multi-child families	Increased needs of multi-child families	Multi-child families	Residency, eligibility of child benefit	Flat rate	Not affected
Benefits to disabled persons	Disability	People suffering with disabilities	Depends on the degree/type of disability	Depends on degree/type of disability	Slightly affected

⁴ Legislation was modified so as to provide better coverage to mothers of newborns with complicated medical problems.

3.2 Minimum income protection

Characteristics of the system

Minimum income support is provided by the Guarantee Minimum Income (GMI) scheme, which was introduced in 2014; substituting the public assistance scheme. The aim of the GMI is to ensure a minimum acceptable standard of living for every person legally residing in Cyprus, who fulfils the relevant eligibility criteria. GMI is a top-up benefit, defined as the difference between the (estimated) basic and (actual) family income. The family income is defined as the sum of the monetary incomes of all the members of the family (recipient) unit. However, income from the certain sources is not taken into account⁵. The basic income is calculated as the minimum monetary income necessary to ensure recipients' access to a consumption basket of goods and services that correspond to the minimum standard of living accepted by the society⁶. The benefit is paid monthly to its recipients and can be supplemented with a housing allowance. The current value of basic income increases with the size of the recipient unit. Recipients are also provided with access to services that are considered necessary for their support, inclusion and activation. The provided services include housing, various vocational and education programmes, public health care services, childcare and long term care.

Entitlement to the GMI benefit is based on a complex set of eligibility conditions.

- *Age*: The applicant must be at least 28 years old. However, this restriction does not apply to married persons, single parents, orphans, disabled persons and persons who are under the legal care of the Director of Social Welfare.
- *Nationality*: Eligible recipients should be Cypriots, EU citizens and third country nationals only if they are (i) "long-term residents" as defined by the Aliens and Immigration Law or (ii) refugees, as defined by the Cyprus Refugee Law.
- *Residence*: All eligible recipients should have been legally residing in the government-controlled area of the Republic of Cyprus continuously for at least 5 years before the date of the application.

⁵ Specifically, the following incomes are not taken into account: funeral grant, birth grant, student grant, military grant, financial aid to low income pensioners, donations to philanthropic institutions, alimonies, benefits to disabled persons, the first €512 from participation in employment/training schemes and assistance through the welfare lottery fund. Income from employment is partially excluded from the definition of family income.

⁶ The level of the GMI benefit is calculated using the reference budgets methodology. This methodology involves the construction of special reference baskets, each taking into account the food, clothing, health, personal care, household, transport, communication and social needs of the recipient.

- *Employment*: Both unemployed persons and low-income working persons can apply for the benefit. In the case of low-income working persons, their working earnings are partially disregarded in the calculation of family income.
- *Movable property*: Deposits, bonds and shares cannot exceed €5,000 (plus €1,000 for each dependant). This threshold may increase up to €20,000 if it (i) is blocked to secure a loan, (ii) is deposited in the name of a minor child, or (iii) belongs to disabled persons.
- *Immovable property*: The recipient should not have immovable property that exceeds €100,000. However, home ownership is not taken into account in the means-testing when the house does not exceed 300 square meters.

Furthermore, eligibility for the GMI benefit is linked to a number of job-seeking/acceptance conditions and entitlement to the benefit holds as long as these eligibility conditions are met.

Minimum income and poverty relief

Finding the optimum level of minimum income for various types of households and in different circumstances is a challenging goal, insofar as the state must strike a balance between providing sufficient support to families without income, while preserving work incentives and respecting taxpayers' money. In pursuing this target, it is impossible to satisfy all goals and certain trade-offs are inevitable. In Cyprus, the authorities follow an internationally accepted method of deriving the value of a minimum basket (i.e. the reference budgets methodology) which, as explained above, is used for determining the level of the GMI benefit. This approach, besides its obvious advantages, has the merit of facilitating social dialogue.

During the design phase of the GMI scheme, the Economics Research Centre of the University of Cyprus assessed the impact of the GMI reform using microsimulation analysis. The aim of this analysis was to assess different scenarios in terms of their impact on various population groups. These scenarios were ex-ante and their scope was to provide insight that would help the final tuning of the GMI scheme. Furthermore, the estimations were based on not so recent (2012 EU-SILC) data; and obtained under the assumption of full take-up. Having in mind these caveats, the analysis yielded the general conclusion that the GMI scheme is expected to have:

- a negligible impact on the incidence of relative poverty (defined as the percentage of people with income below 60% of the median equivalised income),
- a considerable impact on the intensity of relative poverty, and
- a significant reduction of absolute poverty.

4. Employment

4.1 Employment-related contributory benefits

A number of contributory benefits are available to all employed persons to provide protection against certain job-related contingencies (loss of employment, employment injuries, illness, etc.). These benefits were kept intact during crisis. However, their levels might have changed to the extent that labour earnings have changed. Below, we provide a brief description of those benefits.

The *unemployment benefit* is payable to involuntary unemployed persons aged between 16 and 63. Nevertheless, persons between the age of 63 and 65 not satisfying the insurance conditions for old-age pension are allowed to receive the unemployment benefit up to the date they satisfy the relevant insurance conditions. Self-employed persons are not entitled to unemployment benefits. The unemployment benefit is calculated on a weekly basis and consists of a basic and a supplementary part: (a) the basic benefit is 60% of the insurable earnings up to the basic earnings, increased by 20% for a dependent spouse and by 10% for each child or other dependants; and (b) the supplementary benefit is equal to 50% of the weekly value of the insurable earnings that exceed the basic insurable earnings up to a maximum of two times the basic insurable earnings. The recipients of unemployment benefit should satisfy certain insurance conditions⁷. The period for which unemployment benefit is payable cannot exceed 156 days for each period of employment interruption. After this period, the unemployed can seek income support through the GMI scheme if they satisfy the required income and asset criteria.

The *sickness benefit* is payable to employed and self-employed persons who are incapable for work. The duration of the payments cannot exceed 156 days for each period of employment disruption. The payment of the allowance, however, may be extended if the insured person meets certain insurance requirements and he/she is not expected to remain permanently incapable to work. The recipients of the sickness benefit should satisfy certain insurance conditions (see footnote 7). The amount of the benefit is equal to 60% of the insurable earnings up to the basic earnings, and is increased by 20% for dependent spouse and by 10% for each child or other dependants.

The *injury benefit* is payable to any employed person who is incapable of work because of employment accident or occupational disease. The benefit is payable for up to 12 months

⁷ Specifically, they should have actual basic insurance at least equal to 0.5 of the insurance point and at least twenty six (26) weeks have passed from the week of commencement of his/her insurance and actual (or assimilated) insurance equal to at least 0.39 of the insurance point within the relevant contribution year.

from the date of accident/disease. The recipient should be employed on the day she had the accident/disease and because of the injury, cannot work and does not receive a full wage for this period. Entitlement of the benefit requires that the accident is clearly job-related.

The *disability benefit* is payable to employed person who suffered a loss of physical or mental capacity of not less than 10% because of employment injury. It can take the form of either a lump sum or pension, depending on the degree of disability. There are no insurance conditions to be satisfied for the payment of disability pension. The disability pension consists of a basic and a supplementary part which are related to the number of dependants and the earnings of the insured.

4.2 Labour market challenges, outcomes and policies

The labour market started to show clear signs of recovery in 2016. According to Labour Force Survey (LFS) data the employment rate in the 20-64 age group was 69.4% in the 4th quarter of 2016 (363.9 thousand employed persons) compared to 68.3% (351.5 thousand employed persons) in the 4th quarter of 2015. Long term unemployment was 5.8% in the third quarter of 2016, while the 2015 average was 6.8%. There was also a reduction in youth unemployment (persons aged 15-24) from the 2015 average of 32.8% to 30.1% in the 3rd quarter of 2016. Finally, the NEET rate (for the 15-24 age group) has considerably subsided: it dropped from 17.0% in 2014 to 15.9% in 2016, and is expected to drop further in 2017. Poverty among the unemployed persons was 42.0% in 2015, a figure below the EU28 average (47.6%) in the same year.

Income support to unemployed persons is provided mostly by the unemployment benefit and the GMI. However, the last years, Cyprus has been in a process of enhancing and upgrading its active labour market policies, by implementing many programmes targeting the unemployed, utilising both national and EU sources (EU Structural Funds). These programmes, besides offering vocational training and subsidisation of employment, sometimes are combined with in-work benefits.

Non-standard employment

A particular effect of the economic crisis on the labour market is a large increase in job insecurity reflected in the significant rise in the incidence of non-standard employment. According to LFS data, the number of workers on temporary and part-time contracts increased by 31.2% (from 42.3 to 55.5 thousands) and 84% (from 25.1 to 45.5 thousands), respectively, between 2008 and 2015. In 2016, as the economy continued to improve, the number of temporary workers dropped from 55.5 to 51.4 thousands. However, the number of

part-time workers continued to grow (from 45.5 to 48.5 thousands). Non-standard working arrangements are more common among young persons and women.

The evidence shows that non-standard employment in Cyprus is overwhelmingly undesired: 9 out of 10 temporary employees and 7 out of 10 part-time workers stated that they work on such contracts because they could not find better ones. These figures compare unfavourably with those in EU28, where the corresponding numbers in 2015 were, 6 out of 10 workers on temporary contracts and 3 out of 10 part-time workers. Put together, the evidence suggests a relative scarcity of quality jobs and discontent with precarious employment trends in the country.

As regards employment protection, the regulatory framework provides for additional protection of non-standard workers through the *Part-Time Employees (Prohibition of Discrimination) Law* and the *Employees with Fixed-Term Contracts (Prohibition of Discrimination) Law*. However, there is no evidence that this legislation is not so effectively implemented and monitored, so there are doubts about the extent to which it has the desired outcomes. This is supported by evidence that, on several occasions, basic employment rights and benefits are violated (Trimikliniotis, 2012; Demetriou, 2015).

In terms of social protection, non-standard workers have access to social provision on equal terms as regular employees. However, the existence of considerable labour market inequalities (unjustified disparities in earnings⁸, weak representation in the social dialogue etc.) might result to disparities in contributory benefits. For example, wage inequalities are likely to transform to inequalities in retirement income, as non-standard workers contribute to the first pillar of the pension system under the same rules as standard workers, but rarely have access to occupational pensions.

Overall, certain policies could improve the situation of non-standard employees. The regulatory framework (i.e. Prohibition of Discrimination Laws) provides protection to workers; however, the legislation should be monitored and enforced more actively. Furthermore, the social protection legislation could be expanded to reach better certain employment groups (e.g. dependant self-employed). Finally, it would be beneficial to promote further the representation of these workers in industrial relations and the social dialogue.

Youth inactivity

The recession caused a large rise in unemployment, especially among the youth: according to the most recent LFS data, the unemployment rate for persons aged below 25 is 30.1%.

⁸ According to da Silva and Turrini (2015) workers on permanent contracts in Cyprus, on average, have a 18.6% wage premium compared to fixed-term workers with similar qualifications. The corresponding EU average is 14.9%.

The latter is likely to translate to inactivity, in the sense of being unemployed without either being in education or training. This inactivity is captured by the NEET (Neither in Employment nor in Education or Training) rate, which in 2013 peaked at 0.4% in the 15-29 age group. Since then, the data show improvement with the NEET rate falling to 19.5% in 2014, 18.5% in 2015 and 17.9% in 2016. This improvement can be attributed to developments in the labour market, migration, as well as policy interventions that are designed to contain inactivity among the young - such as the National Action Plan for Youth Employment. Despite that, the levels of youth unemployment and NEET rate is still at a high level and policy efforts to reduce it should continue. In addition, it is important to promote structural reforms in the labour market and the education system to combat job market rigidities and mismatches between workers' qualifications and job requirements. Furthermore, policy measures are needed to reduce labour market inequalities that distort incentives - such as the wage gaps between private and public sector, women and men, and non-standard and standard workers. So far, no significant progress has been made towards achieving these objectives.

Gender inequalities

During the last decade or so Cyprus made progress towards fighting gender inequality and discrimination. Nevertheless, significant inequalities still exist in the labour market. Christofides et al (2013) find evidence of discriminatory employment patterns that keep certain groups of workers at the bottom of the job scale in Cyprus. He argues that this can be partly attributed to the high segregation of women in low paying industries and occupations (e.g. tourism and nursing); while, less opportunities are available to them to work in high paid jobs such as business administration, engineering and technology. The recent economic crisis might have deteriorated these problems. However, there is lack of relevant studies to quantify its impact on the gender wage gap.

In the last few years, the government of Cyprus has launched several policy initiatives to reduce gender inequity, including actions aimed at reducing occupational segregation and raising awareness among employees, employers and the general public. The rationale of these actions is that, to the extent that the gender wage gap can be attributed to stereotypes, there is room for further regulatory initiatives to eliminate them.

An area where further government action can be taken to combat gender inequality in the labour market, is reconciling work and family life. Currently, this reconciliation is often achieved at the cost of women selecting non-standard (part-time) employment or even temporarily withdrawing from labour market. The reconciliation of work and family life requires, among other things, the provision of affordable and comprehensive child care.

5. Pensions

5.1 The current pension system

The basic pillar of the Cypriot pension system comprises of the General Social Insurance Scheme (GSIS), a compulsory earnings-related scheme which covers every person gainfully employed in Cyprus, both in public and private sector, including the self-employed. Persons who are not eligible to old age pensions (or their pension is very low) are entitled to a social pension⁹. The social pension is calculated as a proportion of the full old age basic pension and is currently equal to €339 per month. Low income pensioners may also benefit from two other non-contributory benefits; the financial aid to low income pensioners and the Easter allowance.

Participation in the GSIS is compulsory for every person employed in Cyprus. The scheme is financed by contributions paid by employers, employees and the government. The total contribution rate for employees is 20.2% (with an upper ceiling of €4,533 monthly income); 7.8% paid by the employee, 7.8% by the employer and 4.6% by the government. The total contribution rate for the self-employed is 19.2% (14.6% paid by the insured and 4.6% by the government). The statutory retirement age is 65 for both males and females. Miners can retire earlier at the age of 58. Early retirement for the other insured is possible at the age of 63, if certain contribution conditions are met. However, certain actuarial penalties apply. Pensions paid by the GSIS consist of a basic and a supplementary part, and are calculated on the basis of the contributory period and the level of earnings. The basic part is indexed to the increase of the average gross insurable earnings and the supplementary part to the consumer price index.

The second pillar consists of occupational pensions. The Government Employees Pension Scheme (GEPS) provides supplementary pensions to civil servants, educational personnel, the police and the armed forces. Before 2012, the GEPS compulsory retirement age was 63 years, with early retirement allowed from the age of 58 without any actuarial reduction of benefits. After 2012, the normal retirement age gradually increased from 63 to 65, with different increases applying to different categories of public servants. The GEPS is financed by employee contributions of 5% of pensionable emoluments and is supplemented by general taxation on a pay-as-you-go basis. Importantly, the GEPS is not open to new appointees in the public sector after the 2011 reform. The Semi-government Sector Employees Pension Schemes provide occupational pensions to permanent employees of

⁹ Beneficiaries should also have resided in Cyprus for at least 20 years after the age of 40 or 35 years after the age of 18.

semi-state utility organisations, local government and other state authorities. There are also a number of voluntary provident funds set up by a single employer or a group of industry-wide employers that provide defined contribution lump-sum benefits to approximately 35% of private sector employees. Participation in individualised private pension schemes is also offered by several private financial institutions.

The pension system has been extensively reformed during 2009-2014. Most measures aimed at preserving its fiscal sustainability. Below, the most important reforms/measures are listed:

- In 2009, the Social Insurance Law introduced an increase of 1.3 percentage points every five years in the contribution of employees and employers. This gradual increase aims at absorbing the fiscal impact of ageing population.
- In January 2010 a means-tested top-up benefit scheme targeting low income pensioners was implemented to cope with the high rates of poverty in old age.
- In 2011, the contribution rates of public sector employees to GEPS was increased and participation in the scheme for new appointees in the public sector was closed.
- During the period 2012-2013 scaled reductions in pensions (and wages) were introduced for both public and private sector pensioners (and employees) in the context of austerity.
- In 2012 the statutory retirement age was linked to life expectancy. This automatic adjustment will be first applied in 2018 (covering initially the 2018-2023 period) causing increases in pensionable age.
- The 2012 reform also affected adversely pension entitlements in the public sector (GEPS pensions) by including, inter alia, increases in statutory pensionable age, introduction of disincentives for early retirement and changes in the tax regime for the lump sum retirement benefits.
- In 2013 stricter eligibility conditions were applied to old age pensions (GSIS pensions). Specifically the minimum contributory period for an old age pension gradually increased from 10 to 15 years over the period 2013-17.
- The indexation of pensions was suspended for the period 2013-2016.
- In 2014 the government reduced by a further 3% the pensions (and wages) of all public and broader public sector retirees¹⁰.

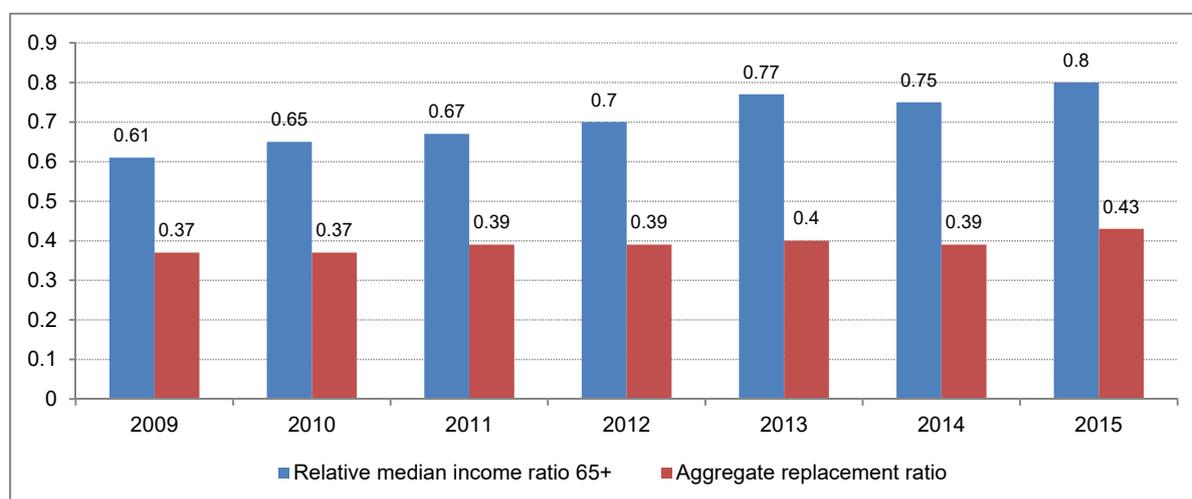
¹⁰ The same reduction was also applied on public sector wages.

5.2 Pension adequacy and sustainability

Current Adequacy

As we already discussed in section 2, poverty in the old age has reduced from 46.4% in 2009 to 17.3% in 2015. Similar reductions have been recorded by the AROPE rate (from 48.6% to 20.8%) and the Severe Material Deprivation rate (from 9.5% to 5.1%). The improvement in the relative income position of the elderly is also reflected in Figure 3 which depicts the relative median income ratio¹¹ and the aggregate replacement ratio. The relative median income ratio has been steadily improving during the last few years to reach 0.80 in 2015, from 0.61 in 2009. The aggregate replacement ratio increased from 0.37 to 0.43 over the same period.

Figure 3: Relative Median Income Ratio and Aggregate Replacement Ratio



Pension adequacy has been improved for both genders, however gender disparities still exist. According to the 2015 Pension Adequacy Report the gender gap in pension income is 37.7% and 35.2% for the 65-79 and 65+ age groups, respectively. Effective retirement age also differ between genders; 65.3 years for men and 60.8 for women, (Betti et al, 2014), as well as life expectancy. As a result, men face 3.7 percentage points lower risk of poverty than women.

Future Adequacy

According to the analysis based on the simulations of the 2015 Pension Adequacy Report, the net and gross theoretical replacement rates (TRRs) are projected to increase during the period 2013-2053. According to the baseline scenario of 40 years up to Statutory Pensionable Age (SPA) the net TRR is expected to increase from 58% to 70% for both

¹¹ This is the ratio between the median equivalised disposable income of persons aged 65+ over the median equivalised disposable income of persons aged up to 64).

genders. The corresponding increase of the gross TRR is 9 percentage points. The simulation exercise shows that the TRR can reach 75% in 2053 in the case of an increased SPA.

Overall, the projected gradual rise in replacement rates (irrespective of the underlying assumptions) is driven by the fact that the current pension system was initiated in 1980 (succeeding the previous flat rate scheme) and is still in the process of maturation.

One issue arising in the context of the recent crisis is to what extent the unemployment spells will affect future pensioners. The prospective replacement rates for both genders under the assumption of unemployment spells of 1, 2 and 3 years show that such spells do not impact heavily on the pension adequacy of the average earner. The same applies to career interruptions due to child caring.

That said, the recent economic crisis in Cyprus has caused much larger effects on the labour market and the careers of thousands of employees. These negative developments may translate to long absence from the labour market, discontinuous employment trajectories and engagement in unsatisfactory, non-rewarding employment, e.g. low-paid jobs and jobs with non-standard contracts. Thus, the impact of the economic recession on the future adequacy of pensions (especially among workers in vulnerable categories) has not yet been adequately analysed.

Sustainability

Demographic ageing is expected to exert pressure on the fiscal sustainability of the system. According to projections, the old age dependency ratio (population aged 65 and over as a percentage of the population aged 20-64) in Cyprus is projected to increase from 19.1% in 2013 to 44.4% in 2053. The share of working age (15-64) population, is projected to drop by 11.5 percentage points (from 70.2% in 2013 to 58.7% in 2053). Finally, the economic old age dependency ratio of Cyprus is projected to rise by 22.3 percentage points, from 29.4% in 2013 to 51.7% in 2053.

However, according to the analysis of the 2015 Ageing Report, the gross public pension expenditure is projected to remain stable during the simulation period (2013-2060) around the 9.3-9.5% of GDP. The demographic factors exert the strongest upward effect (+8.7 percentage points of GDP). However, the demographic effect is offset by the downward effects of the coverage ratio (-2.1 percentage points), the benefit ratio (-3.8 percentage points) and the employment rate (-1.7 percentage points).

6. Health and long term care

6.1 The current system of health care

Health care in Cyprus is provided by a highly centralized public sector which is regulated and coordinated by the Ministry of Health (MoH) and financed mostly by general taxation and to a lesser extent by contributions and co-payments. Health services are provided by six hospitals, four specialist centres, three small rural hospitals and thirty eight health centres, as well as many sub-centres (primary services). The services provided by the public system include primary care, specialists' services, paramedical services, diagnostic tests, emergency services, hospital care, dental care, pharmaceutical care, rehabilitation and home care. Health professionals in the public sector are salaried employees and have the status of civil servant.

The private sector works in a rather unregulated environment and is financed mostly by out-of-pocket payments and by private insurance. It largely consists of independent providers¹² with doctors acting usually as shareholders. Private sector provides services to those who can afford to pay for their treatment from own resources or through private insurance schemes¹³.

Cyprus devotes a relatively low share of its financial resources to health care. According to MoH data, total health care expenditures (THE) in Cyprus in 2016 accounted for 6.8% of GDP (EU average: 8.6%), divided between government (2.9% of GDP or 43% of THE) and private (3.9% of GDP or 57% of THE) sources. Out-of-pocket payments are the dominant source of private health care expenditures (49.4%); and, notably, Cyprus has one of Europe's highest proportions of health care spending by households (Ministry of Health, 2016).

Despite the fact that is financed through general taxation, the public health care system does not offer universal coverage. The income criteria applied exclude about 20% of the

¹² Around 1951 (67,1% of the total number of) doctors are working in the private sector; while there are 134 private health care group practice facilities (hospitals, polyclinics and clinics) (Health and Hospital Statistics, 2014)

¹³ Alongside these two dominant sectors, some other health care delivery sub-systems of minor importance exist, such as the Workers' Union schemes, which mostly provide primary care services. These schemes are offered by semi-state organisations such as the Cyprus Telecommunication Authority (ATHK) and the Electricity Authority of Cyprus (AHK). The first mostly have their own network of providers, while the second use private contracted providers.

population¹⁴ from public health care cover. In addition, user charges are imposed on most outpatient services. These appear to have had a negative effect on access to these services (Theodorou, 2014).

In the public sector, there are problems related to organisation and coverage since there is no referral system. There are also difficulties accessing some services due to long waiting times, pushing patients to seek health care in the private sector and bear the cost. The latest (2015) available data from the MoH show that around 20,000 patients were waiting for diagnostic tests¹⁵ and/or surgical procedures. Waiting times vary from 1 to 24 months, e.g. knee and hip replacements are delayed by 5-24 months, Pap tests by 14 months and MRIs by 17 months. In addition, vulnerable groups (such as third country nationals, illegal immigrants, asylum seekers and refugees) often have difficulty accessing health care services. For example, 18.9% of immigrants from third countries reported unmet needs due to access barriers (Theodorou, 2011).

In the aftermath of economic crisis, some of the problems in public health care (such as long waiting lists) are worsening further, mainly due to many patients still switching from private to public health care in order to reduce out of pocket payments¹⁶. At the same time, the economic crisis and the scarce public finances significantly narrowed the financing of the permanently overloaded public health system¹⁷. In addition, a large number of health professionals have resigned from the public sector as a result of deteriorating working conditions (e.g. too many patients, shortage of materials), low salaries and uncertainty regarding their working status under the newly planned NHIS. This has created staff shortages making the situation even worse, causing increasing patients' dissatisfaction.

6.2 The new national system

The introduction of a modern and comprehensive NHIS has been a long-standing issue in Cyprus dating back to the early 1990s. Following several technical studies, the Parliament passed the Founding Act of the National Health Insurance Scheme in 2001. However, since then numerous attempts to implementing the Act have failed due to disagreement among the

¹⁴ This is based on MoH estimations. This does not mean that 20% of the population in Cyprus is uninsured, since the vast majority of them have private health insurance through individual or group contracts (Theodorou et al, 2012).

¹⁵ Since 2012 some 14,770 patients are waiting for a magnetic resonance imaging test.

¹⁶ In 2014, 35,262 surgical procedures were performed at public hospitals compared with 3,510 in 2012, recording an increase of 4.2% (Health and hospital statistics, 2014)

¹⁷ The MoH budget decreased by 19.7% in the last four years, from €643 million in 2011 to €516 million in 2015; and slightly increased to €535 million in 2016.

major stakeholders. The healthcare reform gained new momentum during the economic crisis (2013-2015), when the inadequacies and inefficiencies of the current system escalated. Its reform was included in the Memorandum of Understanding (2014) between Cyprus and Troika (European Commission, European Central Bank and International Monetary Fund) and in the relevant Country Specific Recommendations of the EU Council of Ministers (2016). Finally, three Bills on the implementation of the NHIS were approved by Parliament on 16th June 2017.

The Bills include the following:

- The financial and operational autonomy of public hospitals, a pre-requisite for the proposed NHIS, will be completed in five years. During this period, the government will support any overruns, subject to controls and monitoring.
- The contributions to finance the NHIS will start in 2019. They will initially cover only outpatient care and (as percent of salary/pension) will be 1.70 for employees and pensioners, 1.85 for employers, 1.65 for the state, and 2.55 for the self-employed. One year later the contributions will rise to 2.65, 2.90, 4.70 and 4.00, respectively, and will cover both outpatient and inpatient care.
- The state will be the single NHIS provider, thus avoiding the option of a multi-tier health insurance system that would have allowed people to opt out of the public scheme and purchase health insurance from the private sector.

6.3 Long-term care

Long-term care (LTC) services are provided by public, private and community entities, while the role of informal carers is substantial. LTC focuses on the support of persons in need due to old age and physical/mental disability. The administration of health-related LTC policies and measures is the responsibility of the MoH; while the Ministry of Labour is responsible for long term social care through the Social Welfare Services (SWS).

LTC services are provided mainly to people with a high level of dependency, often elderly, and those with chronic diseases and physical, learning and mental disabilities. The Nursing Services of the MoH provide long-term health care by a network of community nurses through home visits to mentally ill patients, disabled people, artificially ventilated patients, and elderly people who live alone and encounter severe health problems.

The GMI and, in particular, the Social Benefits (Emergency Needs and Care Needs) Decree of 2014 - administered by the SWS of the MLWSI - incorporates the Scheme for the Subsidisation of Care Services, which covers the social care needs of the GMI recipients

and their family members. The Scheme mainly covers cash benefits and, in justified cases, in-kind services. The SWS also subsidise social care programmes provided by NGOs and the local authorities. These programmes (day-care, residential care, home care and childcare) cover the social care needs of older people, people with disabilities and children. The SWS provide also full time care in residential homes for older persons and persons with mental and physical disabilities, and operate Community Homes for persons with mental and physical multiple disabilities.

Only recipients of the GMI can be entitled to subsidisation of social LTC, except for persons with severe disability (motor/paraplegia/quadruplegia/blindness) who are entitled to subsidisation regardless of their income. The SWS collect information on the care needs of the claimant through house visits and specific assessment tools. Additional certificates/reports may be asked from other services, including medical reports. The information collected is assessed by Specialised Assessment Teams of the SWS. In case of approval of care provision, a care plan is developed with the co-operation of the beneficiary and the responsible officers.

As regards the types of care, according to the GMI and the Social Benefits (Emergency Needs and Care Needs) Decree of 2014, the following needs are covered:

- *Home care*: The GMI sets a ceiling on the fees paid for home-care at €400 per month. In some cases, the state may pay home care provided by a domestic third country helper. In this case, the amount is set at €397.78 (€309 wage and €88.78 social insurance contributions). The amount can increase in special circumstances (e.g. people with disabilities).
- *Day care*: The state may pay a cash benefit to recipients of long-term day care of up to €137 per month.
- *Residential care*: In addition to free residential care in public institutions, the state may pay cash benefits for residential care. The amount of these benefits varies from €625 to €745 per month depending on the needs of the beneficiary. Also, beneficiaries of residential care may receive an additional personal comfort benefit (€30 for mobility and €52 for non-mobility problems).
- *Respite Care*: The amount provided depends on the beneficiary's needs.

Given the lack of a comprehensive statutory scheme (i.e. the lack of statutory universal provisions), most families finance LTC services through out-of-pocket expenses. In addition, care is also often provided by family members (mainly spouses and children), based on the general values of the Cyprus society and the close family bonds. Domestic helpers are also

employed by more affluent families who besides housekeeping tasks often provide care services to the elderly and other family members who cannot look after themselves due to serious chronic health problems and disabilities. This practice is reflected in the large number of women immigrants (mostly from Sri Lanka and Philippines) who migrate to Cyprus to work as domestic helpers.

7. Other policy areas

7.1 Early Childhood Education and Care (ECEC)

Pre-primary education in Cyprus is mandatory for children aged 4 years and 8 months to 5 years and 8 months. Children of this age attend approved public, private or communal kindergartens. Attendance in public kindergartens is free of charge for children of mandatory age, while community kindergartens are subsidised. Public schools accounted for 41% of the total number of children in pre-school education. Non-educational childcare includes infant care centres, day-care and afternoon kindergartens.

Overall, the EU-SILC data show that participation in formal Early Childhood Education and Care (ECEC) in Cyprus are close to the EU average. However, there is still a considerable proportion of families relying on informal care arrangements. According to the same data source, 32% of children below 3 years old and 11% of children between 3 years old and the compulsory school age received care only by their parents in 2014. However, average participation rates may disguise significant differences between populations groups. In 0, we investigate this argument by calculating participation rates by income quintile and age group of children¹⁸.

Table 3: Proportion of children receiving childcare by income and age group

Income quantile	Formal care		Informal care		Only from parents	
	<3 yrs old	>3 yrs old	<3 yrs old	>3 yrs old	<3 yrs old	>3 yrs old
1	7.5	56.7	19.1	8.0	75.8	41.1
2	22.3	84.9	32.3	31.3	51.4	12.9
3	19.8	83.5	53.8	43.5	35.6	7.6
4	22.7	95.3	70.9	54.5	21.3	1.9
5	30.4	87.0	63.8	55.6	17.0	0.0
All	21.1	81.7	49.3	39.2	38.7	12.2

Source: EU-SILC 2012, authors' calculations.

¹⁸ Formal care, in general, includes pre-school (or equivalent) education and childcare services outside school hours at centres organised/controlled by public or private institutions (centre-base day care, organised family day care, crèche).

- Among children up to 3 years old, those in families in the lowest income quintile appear to have the lowest (7.5%) and those in families in the highest income quintile the highest (30.4%) formal childcare. Informal child care¹⁹ directly paid by the parents is relatively high in the middle and upper income quintiles, while the majority of children raised in low-income families receive only parental care.
- Among children from 3 to compulsory school age, as one would expect, the proportion participating in formal care is higher compared to younger children. However, we still observe that families in the lowest income quintile have low access to formal childcare. In general, families in low-income quintiles appear to depend less on informal care. Children in families in upper income quintiles appear to receive ample formal and informal care.

Overall, the results reported in Table 3 demonstrate the existence of a positive association between family income and participation in formal ECEC, implying that a number of low-income families either cannot afford childcare or find it economically sound to 'self-produce' these services.

Policy initiatives in childcare in Cyprus are mostly focused on short-term schemes that subsidise the kindergarten/nursery school cost of children living in vulnerable families, such as the unemployed, single and low-paid parents. The childcare costs of GMI beneficiaries is also subsidised, but participation in GMI requires the satisfaction of complex eligibility criteria. The state also provides financial support to NGOs and local authorities for the operation of childcare programmes, including day-care centres for pre-school age children.

7.2 Education

Primary education in Cyprus lasts six years and is compulsory for all children aged five years and eight months and above. Secondary education consists of the lower secondary level (gymnasium) and the upper secondary education (lyceum). Education is compulsory until the age of 15. Instead of lyceum, pupils may choose to attend technical/vocational education, to prepare themselves for entering the labour market rather than enrolling in tertiary studies. Higher education is provided by three public universities, five private universities, and several other higher education institutions that do not have the status of university. Access to all public institutions is free of charge for all citizens at all levels, while admission to public universities is open to all secondary education graduates after succeeding in national (Pancyprian) entry examinations. Student grants are provided to eligible students for financially supporting their families.

¹⁹ For defining informal care, we used SILC variables rI050 and rI060.

Cyprus devotes considerable resources on education: total public spending on education amounted to 7.1% of GDP in 2013. The overall educational outcomes are mostly considered satisfactory, at least as regards the national Europe 2020 education targets, which have been already achieved. In particular, the percentage of early leavers from education and training (18-24 age group) has decreased from 13.7% in 2008 to 5.2% in 2015 (far below the EU and national target of 10%). As regards tertiary education attainment, the percentage of persons aged 30-34 who have completed tertiary education stands at 54.5% (2015), well above the national target (46%) and the EU average (38.7%).

7.3 Asylum seekers and refugees

Cyprus, despite its proximity to Syria and North Africa, does not face a major migration crisis as other Mediterranean countries (e.g. Italy and Greece) due to island's geographical isolation from Continental Europe and Northern Europe. Yet, the number of asylum applicants is on the rise (1,754 in 2014, 2,265 in 2015 and 2,940 in 2016) according to Eurostat data. The majority of asylum seekers enter from areas that are not controlled by the government of the Republic of Cyprus.

Asylum seekers are entitled to economic support in the form of vouchers but also in cash. The total amount of the financial support, however, is below the GMI levels and not sufficient to cover the asylum seekers' needs. Asylum seekers have access to the labour market but only under certain restrictions. In particular, they can seek employment six months after having submitted their asylum application and their access to the labour market is restricted to certain industry fields and occupations²⁰.

Once granted the status of refugee (or the recipient of subsidiary protection), asylum seekers can participate in the GMI scheme and become eligible for more generous financial support. Furthermore, they have free access to the labour market under the same rights to employment as Cypriot and EU citizens. That said, however, the procedures for granting a refugee status to an asylum seeker can be lengthy, depending on the situation and the nationality of the applicant (AIDA, 2016).

As regards access to services, asylum seekers, recipients of subsidiary protection and refugees are entitled to free medical care in public medical institutions, while all non-national children have access to education under the same conditions that apply to Cypriots. There are also transitional classes aimed at facilitating the integration of non-national children to Greek speaking schools.

²⁰ For further information, see Ministry of Labour, [Employment of Asylum Seekers](#).

8. Conclusions

The scope of this paper is to offer an overview of the characteristics, recent reforms, shortcomings and challenges of social protection in Cyprus as it emerges in the aftermath of the crisis. This exercise is crucial at this point of time, because, despite the conspicuous improvement of the economy there are still serious social challenges that need to be overcome. The levels of poverty and social exclusion are at high levels (indicatively, the current AROPE stands far above the national Europe 2020 target of 19.3%), while the risk of poverty is even higher among the more vulnerable population groups. In parallel, we should not underestimate the effect of the ominous demographic changes looming on the horizon (i.e. population ageing).

To address these challenges, several policy suggestions are possible. Income support to families with children has weakened during crisis. This is unfortunate as many studies have shown that child poverty is characterised by cyclicity, (Bitler et al, 2017). According to Eurostat data, child poverty increased in 22 out of 27 member states during 2008-2014. The normative message sent to policymakers is that preserving, or even enhancing, family policies is the appropriate response in a recessionary environment. But, even now, strengthening family income support will yield considerable distributional gains.

The economic recovery will gradually result to increases in employment and wages. Yet, there are persistent labour market inequalities which might require a certain degree of intervention. Regulatory and other initiatives can be employed to combat gender stereotypes in the workplace. While measures that reconcile family and work might contribute in reducing the gender wage gap. The incidence of non-standard employment has risen at high levels during crisis. It is not clear whether this is the result of the need of enterprises for flexibility or the weak bargaining position of employees. Yet, there is empirical evidence that these employees are wage discriminated resulting to high risk of in-work poverty, (Da Silva and Turrini, 2015). Moreover, social provisions provided to them might be insufficient. More effective monitoring mechanisms to enforce the regulatory framework might be needed, as well as to design social protection measures suitable to the needs and vulnerabilities of non-standard employees.

The fiscal sustainability of the pension system appears to have been preserved after the 2009-2014 pension reforms. Furthermore, the most recent quantitative evidence (poverty indicators, income-based indicators and theoretical replacement rates) show that the current and future adequacy of the average pension has been improved. Of course, this does not preclude the existence of high risk of poverty among the more vulnerable groups of pensioners (former non-standard and low-skilled workers, workers in arduous and/or

hazardous jobs). Indeed, the impact of the recent reforms on the retirement paths of those groups has not been assessed and consequently not addressed. And, while the issue of pension adequacy resurfaces occasionally in the social dialogue, the debate is preoccupied with the need of enhancing the supplementary pillars of the pension system. This emphasis is not coincidental as it reflects the power of well organised occupational groups (public sector employees, private employees represented by strong trade unions) which have or might have access to occupational pensions.

The recent health care legislative initiatives are expected to provide remedies to several problems of the current system (expand coverage, reduce waiting lists, improve the quality of services). Although the political climate has never been so good for implementing this much needed reform, the road to fully accomplishing the NHIS is long and may not be as smooth as one would wish. A potential risk is that the final cost of the new system may end up being much higher than projected. It is also possible that the new financing scheme might have adverse effects on employment due to increased labour costs. Finally there are concerns regarding the ability of the new system to provide sufficiently good services so as to reduce out-of-pocket expenses and the need to purchase expensive private health insurance from people who are already insured by the NHIS.

The provision of long-term care is also a policy area that needs to be reformed. The supply of informal care by family members might prove insufficient in view of population ageing. Changes in societal values and norms might also exert a negative effect on the supply of informal care. Possibly, the way forward is to build a comprehensive statutory scheme of LTC services. In the context of such reform, the financial burden of long-term care will be transferred to the welfare state and treated as an insurable risk.

Nowadays the Cypriot economy has returned to robust economic growth. The reinvigoration of the real economy has already started to fill the state coffers. To close this paper optimistically, this allows for the possibility of utilizing resources to repair the recession-hit welfare services. Moreover, in the aftermath of the recession, the political vigour of the various clientele groups (always underlying and compromising the operation of the welfare state) has weakened. These two factors taken together create a widow of opportunity to build a better welfare state, more capable of dealing with the big challenges of the era. In this way, this crisis can be construed as an opportunity rather than a catastrophe.

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