

The Cypriot Pension System: Issues and Reform Options

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Abstract

Public Pension expenditures will roughly double by 2050 far outstripping planned increases in contributions. If unreformed beyond the August 2011 measures, spending on public pension schemes is expected to rise from about 9 percent of GDP in 2010 to about 16.5 percent of GDP by 2050 and drive public pension expenditures to be among the largest in the EU. The increase in outlays is expected to exceed by a wide margin the planned increases in contributions from employees and employers of about 3 percent of GDP and would thus require an increase in government transfers of 4.5 percent of GDP. By 2020 the need for government transfers is projected to increase by about 1.5 percent of GDP. Spending on non contributory pension schemes would add further to the fiscal burden. These developments will put an unsustainable burden on public finances. Reforms to ensure fiscal sustainability should start now.

Keywords: Social security, pension policy, pension reform, Cyprus.

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