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Cyprus: Severance pay/redundancy compensation

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Cyprus

Phase:

Management

Type:

Severance pay/redundancy compensation

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Native name:	N. 24/1967 - Ο περί Τερματισμού Απασχολήσεως Νόμος του 1967
English name:	Termination of employment law 1967 (law 24/1967)

Article

Article 16 and chart IV

Description

The termination of employment law 24/1967 introduces the obligation for compensation to redundant employees who have a continuous service of at least 104 weeks. Redundancy compensation to employees is covered by the redundancy fund which is entirely financed by employers' contributions (1.2% on employees' gross earnings). The redundancy fund covers both individual and collective redundancies.

Compensation to redundant employees is calculated on the basis of the employee's length of service, as described in chart IV attached to the law:

- for up to 4 years of service, severance pay is two weeks for every 52 weeks of continuous employment;
- 5–10 years of service, two and a half weeks for every 52 weeks of continuous employment;
- 11–15 years of service, three weeks for every 52 weeks of continuous employment;
- 16–20 years of service, three and a half weeks for every 52 weeks of continuous employment;
- 21–25 years of service, four weeks for every 52 weeks of continuous employment.

The redundancy fund has upper thresholds for compensation payable to redundant employees. In 2021, the upper threshold is €55,555.92.

Comments

Compensation above the statutory provision is possible as a result of an agreement between employers and employees. This is, however, not a legally binding procedure.

In the industrial sector, collective agreements do not foresee higher compensations than those provided for by law. Nevertheless, after negotiations between trade unions and employers, the sums paid out in cases of dismissals are usually higher. The same applies to the tourism sector. In the construction sector, however, the collective agreements of certain companies provide for the payment of higher compensation. Similar provisions also exist in the collective agreements of large companies in the mining and cement industries. The Cyprus Employers and Industrialists Federation (OEB) finds the contribution rate of 1.2% of the employee's earning too high and postulate that the rate should be reduced to 0.6%. This view is also reflected in the [Annual Report 2019 of OEB](#) (see page 45).

In 2019, the fund received 2,729 applications and made redundancy payments totaling to €20,085,526 for 1,994 approved applications. In 2018, the redundancy fund approved 1,930 applications and made payments of €17,456,669, while in 2017 it approved 2,583 applications and made redundancy payments amounting to €28,149,640. In 2016, the fund approved 4,558 applications and made payments of €42,723,961. In 2015 due to the stabilisation of the labour market, the fund approved 5,411 applications and made payments amounting to €57,618,645 to redundant employees. In 2014, the fund approved 10,705 applications and made redundancy payments amounting to €99,778,643.

Generally, the effectiveness of the fund is recognised by social partners and public sector executives. Due to the increased redundancies in the course of the Great Recession, the fund provides income support to thousands of redundant employees. In 2013, the applications for redundancy payments raised to 13,592 and the fund made payments amounting to €90,679,678, while in 2007 the fund received only 2,972 applications and made redundancy payments of €26.919 million, corresponding to 2,740 approved applications.

One of the advantages of the redundancy fund is the accumulation of financial reserves in a period of high economic growth (high income and low payments due to low redundancies). During the recession, financial reserves were declining. While until 2012 the financial reserves of the fund had a growing trend, from 2013 they started to decline. At the end of 2012, the reserves amounted to €396.1 million and at the end of 2013 to €368.9 million. At the end of 2014, the redundancy fund has recorded a further reduction of its reserves to €329 million, while

at the end of 2015 - in line with the labour market performance - the reserves increased to €339 million. The reserves of the fund continued to increase from 2016 to 2019, reaching at the 31 December 2019 an all time record of €507.3 million.

On the demand of trade unions, the Ministry of Labour, Welfare and Social Insurance in 2012 has entered into consultations with the country's social partners with the view to revise some provisions of chart IV. More specifically, the revision aimed at increasing the maximum length of service for which compensation is payable by the redundancy fund from 25 to 30 years, as well as at increasing the number of weeks and the maximum weekly compensation payable by the fund. However, increasing pressure on the fund during the economic and financial crisis has led to the suspension of the consultations.

Cost covered by

Companies

Involved actors other than national government

Employer organisation

Trade union

Other





Involvement others

Redundancy Fund

Thresholds

No, applicable in all circumstances

Sources

-  EMCC legal framework of restructuring
-  Ministry of Labour, Welfare and Social Insurance / Social Insurance Services
-  Termination of employment law 1967 (law 24/1967) (Ο περί Τερματισμού Απασχολήσεως Νόμος του 1967, 24/1967)
-  OEB annual report (Έκθεση Διοικητικού Συμβουλίου ΟΕΒ για το Έτος) (2019)

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