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Towards a framework for understanding the recent
evolution of pension systems in the European Union

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This paper is a review and critique of the pension policy literature that discusses trends in the evolution of pension systems in the European Union over the last three decades, and the determinants of those trends. It is argued here that much of the analysis of recent developments remains at the phenomenal level, rather than presenting a persuasive causal narrative. This problem could perhaps be overcome by adopting a broader framework for understanding pensions and pension systems. The consequences of the changes to pensions across the European Union will be diverse at the household level, but there are reasons to expect particularly adverse effects for women, young people and those with uneven participation in labour markets. In terms of the economy, the expansion of private pension funds is likely to have an effect on the functioning of financial markets and on the balance-sheet behaviour of non-financial corporations that is different to that envisaged by promoters of privatisation.

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1. Introduction

1.1 What are 'pension systems'?

It is necessary to establish what is meant by the terms 'pension' and 'pension system' if an attempt is to be made to distinguish between pension systems across the European Union. Accepting the contention that meaning is use, this involves a brief consideration of the use of both terms. Starting with 'pension' there are two distinguishable and conflicting understandings that have emerged historically and which mix together in varying proportions at different times. Originally pensions were used as an instrument for bestowing state favour on particular individuals. This would be a gift given at whim, and therefore not something around which an individual could meaningfully plan. Gradually pensions were institutionalised as a benefit for state employees in privileged positions and professions. The development of capital markets enabled high income individuals to secure arrangements for themselves in addition to, or in place of, holding land or other assets. At the same time the spread of ad hoc arrangements within particular private occupational sectors led to the establishment of the idea of pensions as planned saving to compete with the idea of state favour. However, these elementary forms of private provision came to be seen as unsatisfactory, due to lack of coverage and widespread poverty in old age, and the priority of state provision regained position in the form of the *welfare state*. Initially small-scale, widespread public pension provision substantially expanded after the second world war, institutionalising retirement as "a new life stage" (Arza and Kohli, 2008: p3) and 'pensions' as the income to sustain it.

On one side of the discourse, therefore, pensions are considered to be conceptually akin to any other financial asset, sharing the primary function of securely storing and increasing wealth over a substantial period of time to provide for old age. From this perspective, it is a logical step to conclude that the appropriate institution through which to manage pensions are the financial markets. The state's role is then reduced to encouraging market participation through tax advantages and/or subsidies and to facilitate market operations in case of imperfections. But the other understanding of pensions, as an aspect of state provision, incorporates them within social policy and the welfare state or, in grander

abstract terms, social reproduction. This alternative view sees pension provision less in terms of uncertain individual saving/investment decisions over time and more in terms of influence and conflict regarding levels of collective provisions both across the levels of contributions and benefits and the forms by which these are determined.

The term 'pension system' has come to be used therefore as a means of capturing both meanings. It refers to the collection of public and private 'schemes', whose understood function is to provide pension income - specific streams of income to those post-retirement. The intentional circularity - pensions are pensions - allows the incorporation of historical and contingent conceptions of what is and is not a pension and introduces considerable complexity. The organisation of pensions is split between different public and private tiers and there are a great number of structural distinctions between different schemes within and across countries. Even where there is structural familiarity between pensions, there is much parametric specificity relating to the mechanisms of benefits and contributions and the norms of coverage. On the one hand, pensions form part of broader systems of economic and social provision, interacting with health and housing provision, for example, as well as with policies for poverty alleviation, and in and of themselves form the largest public transfer of income. But equally, pension organisation can become integral to the functioning of both labour and financial markets - pension portfolios follow particular patterns of behaviour and can grow to be a hugely influential player in financial markets, and labour markets are influenced by pension serving as a tool for attracting, or allowing for the replacement of, workers.

The question of what determines the specific nature of a pension system is therefore complex. There are both short and long term influences on pension provision ranging over shifting dependency ratios (workers v. retirees), economic activity and crisis, and the policies and practices of the state. There are ideational factors attached to pension provision ranging across welfarism to individualism. Finally, pension systems are perceived to be embedded within national contexts most notably, for example, by reference to welfare regimes, varieties of capitalism, or according to the depth and longevity of financial markets. A survey incorporating all of these aspects would reveal great diversity and

complexity. It would also show that certain factors taken as determinants of the character and development of pension systems are in fact but one part of their context. Pension systems are contingent upon the economic and social system within which they are embedded rather than being a product of that embedding. This paper does not attempt such a comprehensive survey – what is primarily attempted is a presentation of the approaches and arguments found in the pensions literature. However, the critical aspects of the paper attempt to capture the essence of the framework and support the argument just outlined.

1.2 Structure of paper

The subject of this paper is the evolution of pension systems across the European Union over the last two to three decades. Many of the distinctions between countries are necessarily glossed over, in order to focus on the sense of broader forces and trends at play at the level of ‘pension systems’ across the European Union, trends which have been described as a phenomenon of “financialisation” (Ashman and Fine (2013) quoted in Fine, 2013: p2). This paper reviews the literature that discusses and analyses these forces and trends. The main body of the paper looks at how we should understand the fact that the composition of pension systems has been changing over the last few decades. A key question being posed by the FESSUD project, and therefore determining the organisation of this paper’s argument, is whether this change can be characterised as the financial sector filling a gap produced by the drawing back of public provision. The main trend identified within the literature *is* the growing role of the financial sector, following decisions to introduce pre-funded schemes - as opposed to Pay As You Go (PAYG) – into pension systems in many countries across the EU.

What are the determinants behind these changes in pension systems, and how have the forces for change manifested themselves in different countries? Part three of this paper examines the determinants of the changes seen. In the literature it is suggested that there have been two core determinants. First there has been concern regarding the development of the cost of pension provision as it appears on the government’s accounts, which will be

broadly incorporated under the heading of 'fiscal pressures'. Second, there have been ideational pressures from the global pension policy network arising from a particular understanding of the role of finance in economic development.

A summary of the explanatory narrative found in the core of the pensions literature is as follows: in terms of 'fiscal pressures' there has been a growing consensus amongst political stakeholders that the affordability of existing state provision of retirement income is in question. The greatest focus in terms of the cause of this problem has been on demographic factors such as observed and predicted increases in life expectancy, and decreasing fertility rates. These factors together equate rising costs and falling revenues. Non-demographic factors have also hit the revenue side, such as stagnating wages, and low rates of economic growth. These pressures have been linked in the European context to the process of monetary union, which proscribes certain limits on state expenditure in terms of deficits and debt-to-GDP ratios. Fears regarding the 'sustainability' of state pension provision have been offered as a reason to decrease state PAYG pension benefits across the EU area. It is widely argued that the alternative would be large rises in contributions. High contributions rates feed into the cost of labour which, it is argued, threaten the ability of firms to be internationally competitive. Decisions have therefore been taken to reduce state pensions in a number of ways.

In order to compensate for these decreases in provision, many countries have introduced funded, individualised schemes, often - but not in all cases - administered by the private sector. Why should this specific response have been adopted? The literature suggests that one key determinant has been this policy's promotion by transnational institutions, particularly the World Bank. The promotion of private, funded pension schemes as a core part of a country's pension system has been theoretically supported by the idea that 'financial deepening' is necessary in order for economies to develop and mature, and a related view regarding the role that pension reform can play in establishing or supporting financial sectors. This has been linked in the European context to the promotion of freedom of capital movement across the Common Market.

The financial crisis of 2008 lent weight to pre-existing dissenting views regarding optimum pension system design, which have arisen out of opposing macroeconomic theories, political theory, and from the practical experience of policy implementation. In some Central Eastern European (CEE) countries, reforms brought in over the last 20 years have been repealed, or at least watered down. However, the biggest economies in the EU remain concerned about the future liabilities of the state - as does the European Commission - and remain attached to the general direction of travel proscribed before the crisis. In addition, through the intervention of the Troika, some countries are facing renewed pressure over the cost of state pension schemes, and are making a new round of reforms on top of those already made over the last two decades.

Some countries have been almost entirely immune from the move towards private pre-funded provision. This draws us to the second question asked above: how have the pressures towards financialisation manifested within individual country pension systems. This is the topic of Parts four and five of this paper. The form of the question as addressed in the literature is why certain countries have seemingly been more 'resistant' than others to the forces for increasing levels of pension provision privatisation. In analysing the individual responsiveness of states to specific determinants the literature has made recourse to the 'institutional characteristics' of the country in question. In some cases within the literature authors draw on Esping-Andersen's (1990) well-known work on welfare regimes in an attempt to establish theoretical pension system 'ideal types', whereas in other cases the grouping is more accurately described as an empirical appeal to family resemblances across pension systems in different countries. Part four discusses this question, supporting the second approach over the first. Part five presents the changes occurring across the European Union over the last three decades using such an approach. Whilst presenting the body of these arguments, this paper will also make some brief critical comments. The determinants found in the literature only go so far in offering a causal explanation of the structural change experienced by pension systems across the European Union. What is not explained are the macroeconomic factors contributing to fiscal pressures faced by states, or the reason for the widespread acceptance of the ideational

shift. Why have wages behaved as they have, why is growth anaemic? Why have the policy proscriptions of the World Bank been so influential, and what determined those views in the first place? The reason these questions have not been addressed lies in the restricted sense accorded to 'pension system' in much of the literature, which does not take into account the complexity of the system of pension provision as outlined above. With regard to the issue of "resistance" to reform, there is some question whether the Esping-Andersen categorisation has theoretical purchase, behind any empirical coherence that it can claim, or could once claim. Again, a broader appreciation of the scope of pension systems would facilitate a deeper understanding.

The conclusion of the paper considers likely consequences of the changes seen in pension systems, both from the perspective of households, which is the focus of Work Package 5, and from the perspective of the economy. It is not possible to draw exact conclusions regarding household outcomes following pension system reform without a detailed account of the circumstances in each country. However, some broad generalisation concerning household outcomes is possible, and it is predicted that the reforms seen will have a particularly negative impact on women, young people, and those with broken employment records. The paper closes with some comments on the possible consequences of the changes seen in pensions on the financial markets and on corporate finance. It is predicted that these are likely to be different to the outcomes envisaged by the promoters of reform.

2. Terminology within pension policy discourse

This section introduces some terminology associated with pensions, with regard to funding mechanisms, the relationship between benefits and contributions, and institutional set-up in terms of administration. Pension schemes can be understood as belonging to 'tiers' – this term referring to the institutional origin of a scheme. The occupational tier of a pension system for example often consists of a large number of separate schemes.¹ It is noted that state pensions are often distinguished in terms of the broadly understood purpose of the state tier at the time of its original implementation, as claimed by those who were involved in its political promotion. It is noted that in the literature it is claimed that the individual

characteristics of each pension system render it more or less amenable to particular reforms, with some systems experiencing considerable institutional inertia. This section highlights two key factors alleged to lead to resistance to the type of reform advocated, as we shall see below, by the global pension policy network: firstly the generosity of the state pension tier within the pension system, and secondly the level of fragmentation, and social partner involvement, in its management and delivery. These factors have been offered as an explanation of the diversity between EU member states despite common underlying determinants, which will be further explored in Parts four and five.

2.1 Purpose

Given the size of the cost of pension provision in relation to the overall revenue expenditure of governments, it is not surprising that the adoption and subsequent reform of state pension schemes tends to engage the public, and receive broad media coverage. State pension schemes are often distinguished in terms of their broadly understood purpose at the time of their original implementation, as claimed by those who were involved in their political promotion. On these grounds, a distinction is drawn between European state pensions that aim at poverty alleviation, which are historically associated with Beveridge, and pensions which seek to replace a certain proportion of an individual's income, which are historically associated with Bismarck. Whilst there have been, particularly in some countries, a great many reforms and tweaks to state pensions since their implementation, this historical distinction is widely used in the literature (e.g. Schludj, 2006). A distinct classification is that between 'social insurance' schemes and 'social assistance' schemes. Insurance requires contributions to have been made, even if the final relationship between contributions paid in and benefit received is weak due to the redistributive structure of a scheme. Social assistance is any benefit paid simply according to need. A state tier may incorporate a number of separate elements (schemes) in order to target different aspirations. Many Bismarckian state pensions (earnings-related social insurance) have for example been augmented by an element that seeks to alleviate poverty among those with

poor pension coverage within the main scheme (social assistance) (see OECD, 2011 for detail).

The nature of the state tier is understood to affect, and be affected by, the other aspects of a pension system. For example, where there is a strong private sector, there can be organised resistance to the introduction of generous state social insurance schemes that would lessen the need of individuals for additional insurance.² These inter-relationships are the reason why within the literature systems as a whole are often referred to as 'Beveridgean' or 'Bismarckian'. The distinction gains much attention in the literature as the nature of the state tier within the pension system has been argued to form part of the determination of a system's responsiveness to pressures for privatisation (Myles and Peirson, 2001: p305; Bonoli, 2003). The more generous the state aspect of the system, the more costly is transition to non-state provision. When benefits and contributions are both large, any period of time where contributions are diverted but benefits remain payable will put a strain on the state's fiscal balance. This is one key reason found in the literature why some countries appear to resist reform more than others (Schludi, 2006), and why in some cases we see reform failure or reversal, as will be discussed in relation to Central Eastern European countries experiences in Part five below.

2.2 Design

Two core aspects of pension design are the financing mechanism, and the nature of, and relationship between, contributions and benefits. These aspects of design set a context in which pension provision from a particular scheme is determined. These structural aspects of a pension scheme are not, however, immovable objects, in either the public or private sector, as has been historically demonstrated; households face uncertainty regardless of the scheme in question, and this uncertainty feeds into household behaviour.³ Pension schemes are financed in one of two ways: either through a Pay-As-You-Go (PAYG) mechanism, or through pre-funding. In a state-run PAYG scheme the flow of payments to current pension recipients is funded by taxation income (often payroll taxation, but also general taxation)⁴ from current workers. In a funded scheme, the flow of payments from

workers is used to buy a portfolio of assets - a fund - which is used to finance pensions in a variety of ways depending on the specific scheme.

In terms of benefit design, the first distinction is between defined benefit (DB) schemes and defined contribution (DC) schemes. Where benefits are defined, the worker - in theory - knows in advance the level of pension that they will receive.⁵ In a defined contribution scheme actual benefits can vary. To give some examples, a country might run a PAYG scheme where after 30 years of contributions via a payroll tax, a person qualifies for a benefit that replaces 60% of their average earnings for the best 10 years of their working life. This is therefore a PAYG, DB scheme that achieves income replacement. Alternatively, a country could choose to pay a flat-rate pension to everybody who can show residency for a period of 5 years, and fund it out of general taxation. This then is an example of a PAYG, DB scheme that aims to reduce poverty. Yet again, a country might adopt a funded scheme, whereby people pay into a fund administered by the state throughout their working life, and use their portion of the fund on retirement to buy an annuity on the open market. The benefit at the point of retirement will vary according to the market returns that have been achieved by the pension fund over the investment period and the annuity rates available at the point of purchase. This is therefore a funded, DC scheme that attempts to achieve some income replacement, without guaranteeing that replacement.

2.3 Detailed differentiation

These distinctions take us up to a point, in terms of being able to describe and compare different pension schemes, but these schemes differ widely on points of detail; there have also been some important contemporary systemic innovations that cut across the boundaries as set out here. To take detail first, states running funded DC schemes might intervene to ensure a floor to the system, to take on some of the risk that would otherwise face individuals. As another example, states can choose to place a ceiling on income replacement PAYG schemes, to introduce some horizontal redistribution. They can also, as we shall see below, introduce parameters into the scheme design which push the costs of changing demographics onto the individual, by putting a 'sustainability' variable into the

benefit calculation formula. Such a move reduces the distinction between Defined Contribution and Defined Benefit schemes, through the institutionalisation of considerable uncertainty into future benefits. States can also of course choose exactly how generous to make benefits and how tightly to link these benefits to the contributions made: the looser the relationship, the more redistributive the system. In terms of contemporary systemic innovation that blurs old distinctions, a key example is the *Notional Defined Contribution* scheme; in this case, instead of having contributions building up an actual capital fund subject to market returns, contributions are used to pay for current pension costs, in a similar fashion to a PAYG system. However, a record is kept of individual contributions, and this notional sum grows at a rate of return fixed by the state. At retirement, the individual can purchase an annuity (again at a rate fixed by the state) of the value matching their final notional sum, with the money being sourced from the current contributions of other workers. This system was introduced first by Sweden and has since been adopted by Italy, Poland and Latvia. It essentially introduces more levers by which the state can limit its pension liabilities, without recourse to the financial markets. One issue exercising the policy community is whether there is any real distinction between an NDC scheme and a DC scheme with demographic and economic parameters built-in. (e.g. Börsch-Supan, 2005). Finally, as noted above, social provision for old-age can have many additional aspects beyond what is strictly defined as pension provision. For example, a country might offer a low basic state pension but in addition offer free social and health care and free housing, at least to certain groups.⁶ Given the magnitude of the expenditure involved in these areas, this could, taken all together, end up providing more than a state offering an earnings-related pension scheme but charging for health and/or social care. The precise mixture of public v. private is also confused by this same issue. One country may offer generous state pensions, but require individuals to take out private health insurance, whereas another country might expect individuals to have private pension provision, but offer full public health insurance.

2.4 Occupational and private tiers

Retirement income is also categorised according to its institutional origin – the body responsible for administration. So far we have been talking only about state-administered pensions. The two other key institutions involved in retirement income provision are workplaces and private financial corporations. Occupational pensions can form part of a benefits package offered to workers. These can be funded or PAYG, and can be organised at the level of individual firms, or at industry level. Either way, the occupational tier is made up of a large number of individual schemes. In the past occupational schemes have tended to be defined benefit, for example, a pension scheme might offer a percentage of a final salary. This percentage depends on the accrual rate used to calculate pension benefits. For each year of service, you gain a higher proportion of the final salary; for example, if the accrual rate is 1/40, then 10 years of service will result in a pension valued at a quarter of your final salary. This pension will then often be linked to a measure of inflation in order that the pension holds its real value over time. Recently, many firms have moved away from a defined benefit schemes towards defined contribution schemes, as we will touch on briefly below. The state as an employer also often offers occupational pensions to public sector workers, as noted in the introduction, the oldest form of pension provision.

Finally, the private pension tier is made up of the individual financial policies available to individuals who want to save in this way in addition to, or instead of, saving through an occupational pension or a state pension. Many EU states offer tax incentives for people who seek to increase their retirement income in this way, by allowing tax-free contributions into private pension funds. Pensions differ from other savings vehicles in that they involve a commitment to use the accumulated funds to provide an ongoing pension income, by for example purchasing an annuity, rather than to provide a cash lump sum at retirement. If the decision is made at retirement to take the savings as a lump-sum cash payment, tax penalties will most often become payable.

To conclude this section it is necessary to highlight a further distinction often drawn between Beveridgean and Bismarckian systems, which relates to the idea of institutional origin. In the UK for example, there is understood to be clear disaggregation between the

state and occupational pension tiers. A flat rate basic state pension, administered by the state, can be complemented through membership of an occupational scheme, administered by the workplace, or a private scheme administered by a private financial firm.⁷ Employers make National Insurance contributions towards the state pension, but they have no decision-making role regarding the design of the state pension; that falls to the state alone. This reflects the particular nature of the UK where there is very little institutionalised tripartite decision making between the state, the corporate sector and trade unions. Many countries in the European Union differ from the UK in this respect, and this is evident in the way in which there is not the same disaggregation between 'state' and 'occupational' pensions. In France for example, the 'state' pension is a number of schemes aligning to different trades or professions, where the management (including decisions regarding contributions and benefits) and administration falls to a coalition of social partners. This is the case in a number of countries; it is an additional characteristic understood to pertain to Bismarckian systems. Individual schemes may be held together under a federal umbrella grouping, so that decisions taken at the federal level hold for individual schemes underneath. The level of federalisation is, however, different for different countries. Thus this section concludes by highlighting the second key factor that has been argued to lead to institutional inertia: the more fragmented a social-insurance based state pension, and the more social partner involvement in decision-making, the harder it is to reform. Bismarckian pensions are considered, due to their inherent features, to be the least able to introduce reforms shifting the composition of private v. public provision within the system.

3 General trends and their suggested determinants in the literature: What has happened and why

This part of the paper looks at general trends in pension system reform and their suggested determinants. The main trends identified are a fall in the generosity of state and occupational pensions, and a growing role of the financial sector, as private sector pre-funded pension schemes are introduced or expanded into the majority of pension systems

across the EU. Growth of private pension fund assets – an indicator of the growing role of the financial sector – particularly since 2000 is widespread, with France being the only major European country to resist the trend (even here there is some growth). In countries where institutional investors were already an important aspect of financial markets, the growth has been substantial, as can be seen from the example of the Netherlands in Chart 1.

This section looks at two core determinants proposed for explaining the changes at state level: firstly, projected pressure on fiscal budgets, and secondly, ideational pressures originating from a World-Bank led policy community. This is followed by a brief look at the pressures on occupational schemes. The section concludes with some comments on the strength of the arguments here reproduced.

3.1 Fiscal Pressures

The literature refers to a growing consensus amongst political stakeholders that the affordability of state provision of retirement income is in question. The greatest focus in terms of the cause of this problem has been on demographic factors such as observed and predicted increases in life expectancy, and decreasing fertility rates. These factors together equate rising costs and falling revenues. Non-demographic factors have also hit the revenue side, such as stagnating wages, and low rates of economic growth.

The first demographic change, and the most ubiquitous in terms of reference within the public policy literature from the 1990s onwards, is the observed and predicted increase in life expectancy: in a number of OECD countries, life expectancy at the average effective retirement age is now 18 to 20 years, about five to six years longer than it was 30 years ago. The second demographic change is the decrease in fertility rates. One suggested explanation for the decrease is the introduction of the contraceptive pill, first introduced in Germany and in the UK in 1961. Charts 2 and 3 are of a type seen in any number of global institution policy documents or national white papers, from the early 1990s onwards.

Taken together, these two factors have been used to argue that in the future a larger group of retirees will have to be supported by a smaller group of workers, which will mean that

contribution rates will have to go up if benefit levels are going to be retained, unless countervailing tendencies, such as a growth in migration into a nation's labour force, take effect. Expectation of a longer life, and the choice to have fewer children, are understood to be causally connected to the trajectory of an economy's development. There are also demographic pressures arising from historical chance, however, namely the approach of retirement for the unusually large cohort of babies born after the second world war.

In addition to demographic factors, the sense of fiscal pressure arises from a number of other important sources. Firstly, the success of PAYG pension systems in the past depended on growing wages, as was noted famously by Samuelson in his depiction of pensions as the greatest of all Ponzi schemes (Samuelson, 1958). However, the European area as a whole has experienced years of downward pressure on wages particularly at the bottom end of the wage distribution, as well as movement in factor distribution, as can be seen by declining share wages documented by the ILO.⁸ This phenomenon is the consequence of a number of trends throughout Europe, including wage moderation. In Germany for example, the minimum wage policy was overturned in one of a number of explicit attempts to drive wages down in the name of international competitiveness. Furthermore, economic growth itself has been unimpressive, as seen from Table 1, putting pressure on wages in absolute terms.

Finally, restrictions on fiscal deficits were deemed necessary to allow for convergence prior to monetary union, and were therefore a focus of the Maastricht treaty, and the subsequent Stability and Growth Pact in the early and mid-nineties. Deficits during the 1980s averaged between 4-6%, with some countries regularly pushing above 10%. The adoption of the treaty and pact meant in theory a serious commitment to aim for no higher than 3% (ECB, 2011). This fiscal tightening has meant that countries have less room to manoeuvre in terms of coping with what might turn out to be short-term issues, such as the additional cost of pensions during the retirement period of the baby-boom generation.

The argument is that all of these factors have added to a sense of sensitivity felt by national policy makers towards alleged vulnerabilities in their existing pension systems. In the European Union this sense of unease is widely spread and as such has inspired a number

of Council and Commission publications and interventions, despite the fact that pension policy remains a state matter (see for example Santos and Teles, 2013).

3.2 Ideational factors: The ‘Washington Consensus’ and Pension Reform

The second key determinant widely found in the literature is ideational. In 1994 the World Bank published the policy research report *Averting the Old Age Crisis*. The motivation behind the Report, as stated in the subtitle, was the wish to promote policies that both “protect the old *and* promote growth” that could be adopted by developing countries. The Report roundly criticizes the pension systems of industrialized countries and argues not only that developing countries should act differently when designing their own pension systems, but that it is imperative that the existing pension systems be reformed.

The Report makes passing reference to New Keynesian explanations of market failures arising from informational asymmetries, and therefore does not view the “unfettered market” as the driving force behind development (World Bank, 1994: p6). However, as the Chilean pension reform of 1980 is put forward as having founded an exemplar system - even if with some remaining faults - the driving logic is best categorised as ‘Washington Consensus’ era thinking (Ibid: p9; p95).

The Report argues that it is inefficient, and regressive, to use state PAYG systems to encourage savings by attempting to link contributions to benefits in an earnings-related scheme, as the link in such a scheme is always tenuous. Money is often shifted towards the better off, and if the dependency ratio of retirees to working population is increasing younger generations face a higher burden of contributions (Ibid: p130). The Report argues therefore that this function should be taken on by funded schemes, where the link between contribution to benefit is upheld, particularly if the scheme is defined contribution instead of defined benefit (Ibid: p216).

The Report also raises concerns with occupational pensions; the argument put forward is that these schemes can act as a friction in labour markets, as pensions are often not very portable, and therefore can act as a disincentive to someone seeking to move into a new job (Ibid: p165). Whilst some Bismarckian countries are understood by the Report as organising

their occupational schemes on an industry-wide basis, this is still not enough to allow for complete freedom of labour movement, particularly across national borders in an area like the European Union.

The Report recommends setting up 'multi-pillar' pension systems (Ibid: p233). The first pillar will be a scheme organised by the state and can be PAYG, although care needs to be taken to ensure parameters such as retirement age are aligned to lengthening life expectancy statistics, to ensure benefits are not set at an 'unsustainable' level. The aim of this pillar is to alleviate poverty in old age. A second pillar should be a funded scheme, where the goal is to link contributions to benefits. Because the schemes have to work together, contributions into this scheme should be mandatory. Finally, the third pillar is categorised as that part of the system that allows those who so wish to save more for their retirement; it will again be funded, as the second pillar, but will be voluntary, rather than mandatory.

There remains the question of who should manage the second-pillar: the funded pensions. In theory, funded schemes can be run by the state or by private financial institutions. The conclusion of the Report is that states tend to get poor returns, as they make investment decisions based on factors beyond simple return to the fund, such as the social benefits of particular investment projects, e.g. highly needed infrastructure (Ibid: p218). Furthermore, because large proportions of the funds are often used to buy government debt, state-managed funds encourage fiscal irresponsibility and increase the state's level of debt. The predominance of debt instruments on state pension books leads to inflation-risk, as non-indexed bonds do not keep up with high inflation rates, unlike equity or other alternative asset classes such as property. Higher returns, and less inflation risk can be achieved by investing in equities. Furthermore, funds should be able to invest globally, as this increases diversification thus decreasing risk whilst holding returns high. Private firms are likely to do better than state monopolies as competition will keep costs low and returns high. However, given that these funds will be performing a public duty, they will need high levels of regulation.

Crucially, the World Bank Report argues that the savings that will arise from introducing a funded aspect into the pension system are a good in themselves: high saving ratios are considered to be positively related to higher growth rates (Ibid: p126). The economic assumption of the report is that saving leads investment, and that more saving means more capital accumulation and therefore growth. Why save in a pension fund rather than a bank? A further implicit assumption of the Report is that the Anglo-Saxon model of the financial system is superior to the Japanese/European bank-based system. It is assumed that developing capital markets will assist growth in developing countries, by allocating capital in the most efficient manner possible, and that pension system reform is an opportunity for financial deepening by developing an inflow of funds into a country's capital markets. The report also argues that shifting to funded pensions allows for financial innovation even where capital markets are already flourishing.

Subsequent reports supporting the World Bank's view were published by the OECD (for example OECD, 1996) and others, indicating the arrival of a global consensus between policy leaders.

3.3 Determinants of changes in occupational pensions

The determinants above relate to changes seen in private and state pension provision. What has not been covered are changes in occupation schemes. Briefly, there are trends within occupational sectors, particularly a move from defined benefit arrangements to defined contribution, and a shift in asset allocation towards greater weight of equity within the composition of funds, and more international assets. These issues are touched upon in the next section when the UK and the Netherlands are discussed. One significant factor is considered to have been changes in accounting practises towards the universal adoption of American- style standards.

3.4 Some comments

The causal explanations for the encroachment of finance into pension provision as reviewed are not wrong, but can be accused of remaining at the phenomenal level. Pension reform

has taken place because of fiscal and ideational pressures. It is here briefly argued here however that both of these determinants only go so far in offering a causal explanation of the structural change experienced.

3.4a Fiscal determinants

The acceptance of the rising costs of pensions due from demographic change is near universal. The familiarity of this point is standing in the way of some important critical understanding of what is going on. On the one hand, there are two demographic pressures which are very different but often get pushed together; the cost of rising life expectancy and the cost of providing for the post-war generation. The second of these is a one-off cost; it could be managed through state borrowing, and the reason why this is considered by many to be unacceptable has little to do with pensions and much to do with various economic opinions regarding the rights and wrongs of state indebtedness. Increasing costs of pensions due to demographic factors are often portrayed as without end, yet presumably the length of life cannot go on indefinitely, and fertility rates are in fact in some countries now rising again, in some cases apparently in response to more generous childcare support. Trends in fertility rates can in any case be countered with the associated rise in labour market participation by the same women who had been offered more physiological control over fertility and the contributions of migrant workers.

A second important criticism is that the macroeconomic factors contributing to fiscal pressures faced by states have not been sufficiently explored: why have lower wages stagnated and why is growth anaemic? What has been behind changes in labour productivity? What are the consequences of wage inequality? These questions need addressing in order to uncover a deeper causal explanation of recent trends in pension system reform across the European Union.

3.4b Ideational determinants

A further point requiring further explanation is the reason for the widespread acceptance of the policy proscriptions of the World Bank. The theory underlying the World Bank Report

has not been without its critics. Why has the World Bank been so influential, and what determined its position in the first place? Whilst few people disagreed with the core World Bank assertions regarding the likely growing cost of ageing populations, the specific detail of reform urged by the Bank were questioned by organisations or individuals less convinced, for example, by the positive role of finance in development, or by the dangers of rising state debt. Considerable 'New Keynesian' dissent grew within the bank itself as articulated in a paper by Orszag and Stiglitz (1999) entitled "Rethinking Pension Reform: Ten Myths About Social Security Systems" that was presented at a conference hosted by the World Bank.⁹ An alternative theoretical disagreement arises from post-Keynesian literature, which also questions the role of financial deepening in development assumed by the Washington Consensus literature.¹⁰ Other, more empirical criticisms have also been forthcoming and political resistance to the World Bank's agenda has arisen in many of the countries where reforms were debated and/or introduced. The success of the World Bank programme in many countries despite these obstacles bears further examination.

4. Categorising pension systems: ideal types or family resemblances?

Parts four and five explore the suggestion found widely in the literature that institutional factors determine the responsiveness of different pension systems to the forces outlined above in Part three. Pension developments appear path-dependent on the specificities of the pension system in place at the origin. The claim is that pension systems belong to 'types' and that we see certain patterns of development shared by groups of countries of the same type. The grouping of pension systems is sometimes claimed to be theoretical, as in the case of Esping-Andersen (1990), and tries to deal with the question of *why* pension systems take the form that they do, or it is put forward simply as an empirical acknowledgment of the existence of family-resemblances across systems. After briefly discussing the first approach, the second approach is developed here and then adopted in Part five to allow for a summary of the reforms that have taken place across the European Union.

4.1 Pension policy, welfare regimes and ‘ideal types’

A categorisation often referred to in the literature is that of the three welfare capitalist regimes made by Esping-Andersen (1990: chp 1-3). Esping-Andersen split welfare capitalist regimes into three broad groups through recourse to two core criteria: the extent of de-commodification, followed by the nature of stratification created and/or endorsed by the state. Both criteria supported the adoption of a categorisation of welfare states into three groups which Esping-Andersen called ‘liberal’, ‘conservative’ and ‘social democratic’. Historically the political philosophy (of the dominant class) underlying *liberal* regimes has included support for market-organised distributive justice, in the name of celebrating individualism, alongside high regard for a sound work-ethic and self-dependency. Materially, the domination of this class is also explained, by recourse to the specifics of social organisation – the relatively small size and resource-base of unions for example. The welfare systems in such settings act as a safety net only, for those in dire need. *Conservative* regimes have adopted some notion of a socialist move towards de-commodification – i.e. explicit interventions to restrict people’s dependency on market outcomes in certain areas, in combination with, and indeed due to, a strong commitment to upholding the values of Christianity, including traditional Christian interpretations of family. This commitment, it is argued, explains the efforts made by the designers of these welfare regimes to enforce or support a level of social stratification, whereby class and gender distinctions are upheld. Finally, *social democratic* welfare regimes promote “an equality of the highest standards” (Esping-Andersen, 1990: p27), through adopting the universalism seen in liberal regimes but upgrading it to a level “commensurate with even the most discriminating tastes of the new middle classes” (Ibid, p27). Stratification is minimal: the “policy of emancipation addresses both the market and the traditional family” (Esping-Andersen, 1990: p28).

In terms of pension systems, the de-commodification distinction relates to whether the purpose of adopted pension schemes is to alleviate poverty, and thereby exist simply as a safety net should market solutions to securing retirement income fail, or whether the purpose is a more generous benefit that would enable people to avoid market solutions,

either paid at a flat rate or perhaps organised around the principle of income replacement. In terms of stratification, pension systems are definable according to whether they are broadly universal, displaying a strong commitment to egalitarianism, or aim to retain the social distinctions found among working-age people. Using these distinctions, the EU member state pension systems have been split into three groups. Firstly, a group could be identified of countries with minimal state provision and a large private presence, which would include the UK, Switzerland and the Netherlands. A second group could be formed of those countries that have in place non-market income-replacement systems, such as France and Germany. A third group could be made of those countries that have generous universal schemes, such as (previously?) found in many Nordic countries.

That pension systems at the time fit easily into the Esping-Andersen categorisation suggests that they formed a large part of the reasoning behind the categorisation in the first place, which is unsurprising given the proportion of welfare expenditure that is spent on the pension budget. The initial empirical fit is not enough to support the theoretical claim that welfare policies are determined by the 'ideal type' of welfare system behind them, however; this claim has met some considerable resistance. Firstly, other kinds of expenditure do not seem to fit so well into the categorisation. Secondly - and importantly for this work - pension policy has changed significantly since the 1990s, without it being clear if and how the 'ideal type' welfare regime behind the policy has changed, questioning the causal link between regimes and policies.

A further theoretical difficulty with the welfare regime ideal types approach is that it does not make reference to all of the categories associated with Neo-Liberalism and specifically financialisation. One obvious factor that requires more attention is the extent of the financial sector, and the corresponding strength of financial interests and the consequences of growth in both. At the level of private finance, this sector both depends upon and supports a number of high wealth and high income individuals. It depends upon them as they are the group who seek additional sources of retirement income beyond what can be offered by the state, and it supports them by creating financial instruments that will match their requirements. Growth in private finance also runs parallel to growth in

corporate finance. Changes in the behaviour of corporations towards accumulating financial rather than productive assets assist growth in private finance. Again there is a process of cumulative causation – as more and more money flows into the capital markets from institutional investors, asset prices are supported and inflated, justifying the decisions of both corporations and individuals to engage with those capital markets. Once in existence, the financial sector will mobilise against any moves to curtail its influence and profitability. As Fine argues, the form and extent of financialisation, and the policy responses to it, set the conditions to which *social* policy respond. Fine concludes that an understanding of social policy therefore depends upon an understanding of the material culture of financialisation (Fine, 2013). It seems more appropriate to think of welfare regimes as empirical contexts out of which policies emerge, rather than as the primary cause of those policies.

4.2 Family resemblances between pensions

Raising some concerns with the welfare regime approach is not to deny that there are recognisable patterns of development shared by groups of countries – that there are family-resemblances across systems. This describes the approach taken by some authors dealing with cross-national pension reform. This is considered uncontroversial, and is therefore adopted as the approach of this paper. Pension systems will therefore be placed into five groups before attempting a summary of reforms across the European Union in Part 5 using this approach.

The grouping should arguably take account of the relative importance of the private sector in pension provision, whilst also acknowledging distinctions between welfare regimes. The importance of the financial sector can be appreciated by looking at the size of pension assets in different countries relative to GDP. Looking specifically at this indicator, the European Union splits into three groups: the Big Six, the European Core and Central and Eastern Europe (CEE). Chart 4 shows those countries with the biggest presence of pension funds on the financial markets. At the top of the group is the Netherlands, with assets worth close to 140% of GDP. Denmark and Ireland, at the bottom, have assets worth closer

to 40%. Chart 5 shows 8 member states, with considerably smaller private pension asset presence with assets in 2011 all worth below 10% of GDP. These proportions have been relatively stable, with the exception of Portugal. At the very bottom of the scale is France, with pension assets worth below 1% of GDP. Finally, Chart 6 looks at some example countries from Central Eastern Europe, which as we will see have undergone the most drastic period in terms of reforming pension systems. We can see the rising significance of pension funds in these countries, and particularly in Hungary a structural shift following the financial crisis.

This indicator alone might empirically support putting the EU member states into these three groups. However, in order to explore the idea of welfare regime distinctions it is useful to split the Big Six into two groups, to allow for the Esping-Andersen distinction between the Social Democratic (Nordic) countries and the Liberal (Anglo-Saxon) countries. In addition, the Core group will be split into two, to separate the 'peripheral' EU countries that have faced unique circumstances since the financial crash and recession in Europe.

5. Distinctions in reform process between five groups

This section seeks to offer a broad brush summary of the nature of reform in some example countries. The samples are drawn from five groups: CEE countries; "market-based" countries; "social democratic" countries; "Continental" countries; and "peripheral" countries. These groups are used in order to correspond to the literature on path-dependency, focusing on the size of existing private sector and the idea of welfare regime type. The literature highlights two issues as being of particular import: firstly, the generosity and, secondly, the fragmentation of the state tier of pension provision. The conclusions here are:

1. CEE countries have been in a state of institutional flux, enabling radical reform to take place. The nature of the reforms seen has reflected considerable World Bank influence.
2. "Market-based" countries have seen notable changes in their historically important occupational schemes. A comparison can be drawn between the UK where the state sector

has been suppressed at a low replacement level, and the Netherlands, where a more generous state sector has been maintained.

3. Sweden, previously the archetypal “social democratic” country, has moved some distance away from the principle of a universal benefit. Changes in political representation also suggest some deeper shifts in social organisation.

4. Many “continental” countries have drastically altered their state provision by introducing parameters into their benefit formulas that incorporate changes in demographics and economic circumstance. In many cases these countries have introduced private, funded pillars into their systems in an attempt to recover the ground lost by state provision. One notable exception is France, where very limited reform has taken place.

5. The “peripheral” countries have undergone similar reforms to the continental countries. In addition they are currently facing continued external pressure to push reforms further, with pension reform playing a key role in austerity packages.

5.1 Former communist states of Central and Eastern Europe¹¹

Reforms to the pension systems of the transition economies have arguably been most affected by the vision of the World Bank. The argument is that in terms of path-dependency, widespread institutional upheaval in these countries has meant that radical reform was possible without concentrated and organised public opposition. Furthermore the new states had the least ability to resist the pressures of the international development community, and the World Bank had “substantial influence as a counselor in the transition process.”(Dupont, 2004: p63) On deciding to join the European Union, some specific European demands have been added to support the World Bank’s agenda in terms of pension reform. Firstly the need for fiscal constraint, supported by the World Bank Report, has been further emphasised as a condition for monetary union, and the goal of free movement of capital across the common market supported calls from the World Bank for ‘global reach’ in pension fund portfolios.

There has been a slowing-down and even reversal of this reform direction in the last eight years. The question of what has caused this change has been met with competing

possibilities. One argument is that the financial crisis is the key determinant, both in terms of undermining people's confidence in the financial sector in the long run and in that the subsequent recession pushed extra fiscal pressure onto states in the short-run. Because the shift in direction clearly started before the financial crisis, however, it has been counter-argued that ideational factors must be important, and that changing views within the World Bank itself are the key determinant. However, as will be argued in the next section, in the European case a third possibility has to be taken seriously, which is the practical experience of implementation. The cost of transition has in many cases been higher than was predicted, and these costs have been exacerbated by the financial crisis and following recession, bringing us back to the significance of the fiscal limits imposed by the Stability and Growth pact.

5.1a Adopting the World Bank Vision

In *Starting Over in Pensions* Holzmann (1997), a senior World Bank employee at that time, described the position facing the countries moving away from central planning towards a market economy. He argued that two facets of the state pension design in these countries that did not align with a market system: their commitment to generous universal coverage, and the absence of "incentive structures" (Ibid: p107). State pension expenditure notably increased after the beginning of the economic and political structure reforms between 1989-91, and looked liable to continue to increase. The expected increase in state expenditure would require financing. Holzmann argued that raising contribution rates risked pushing labour into the informal sector where taxes and social security payments could be avoided, and therefore would be a weak lever in raising revenue to meet pension obligations. Making pension expenditure a higher proportion of the existent public expenditure budget would be to the detriment of the alternative uses of public revenue expenditure such as health and education, or capital expenditure on infrastructure. A non-monetary financing of public debt (selling bonds to private sector) "is still very much restricted because of the rudimentary financial markets and the risk of crowding out the private sector." (Ibid: p198). Holzmann concluded that "under modern (endogenous) growth

considerations, all those effects are detrimental to high quality growth” (Ibid: p199). On the other hand, moving at least partially to a funded system would have “economic benefits” (Ibid: p197): it would increase national saving and lead to the development of financial markets. The “positive assessment of the Chilean experience” (Ibid: p205) lent support to the argument that moving to funded systems was not only politically achievable but that also “the positive externalities expected from such a reform approach on saving and capital formation, financial market developments and labour market performance” (Ibid: p205) were valuable in their own right.

In retrospect the acceptance of these arguments and adoption of a broad programme of reform has been suggested to have been contingent upon the widespread failure of earlier attempts at more ‘conservative’ reform which were promoted in the first instance by the World Bank, and consistently favoured by the ILO, namely to reduce entitlements by raising age limits, price instead of wage indexation, larger penalties for early retirement etc. Dupont argues:

From a political perspective, it appears that a complete overhaul of the pension system has been easier to undertake than a tightening of entitlement rules in the existing earnings-related pension schemes. In Hungary and Poland during the 1990s, for instance, attempts to reduce replacement ratios were strongly rejected by the population, but more painful changeovers implied by structural reforms were accepted. There are several likely explanations. First, the existing systems had become highly unpopular and the prospect of being entitled to stable rights was warmly welcomed. Second, the complexity of the new rules, where replacement ratios were no longer explicit, allowed governments to hide the progressive decline in pensions (e.g. Poland).” (Dupont, 2004: p69).¹²

The significance of World Bank intervention is again noted: “The influence of the World Bank has been crucial, especially in countries with external financial difficulties. In Poland, a former member of the Bank took a direct part in the drawing up of pension reform.” (Dupont, 2004: p69).

5.1b Nature of the reforms

Nearly all CEE countries have decreased the generosity of their state tiers. Poland and Latvia stand out, having moved their main state scheme to a Notional Defined Contribution structure, where the relationship between contributions and benefits is very close. The remaining CEE member states have retained a Defined Benefit structure, but here too in many cases the relationship between contributions and benefits has been tightened (See Table 2). The motivation of tightening the link between contributions and benefits is the desire to institutionalise 'incentives' (see for example Holzmann, 1997: p197) to reward higher contributions resulting through higher wages and/or more complete contribution histories. However, in addition to a general move in this direction, most states also aim at a minimum income guarantee for pensioners, which is more redistributive by nature.

Given the decrease in state provision, during the 1990s and 2000s, many CEE member states promoted the growth of private pension funds by incorporating them as an essential tier of their overall pension systems. In many cases, contribution into these funds was made mandatory, making them a 'second pillar' following World Bank terminology (See Schwarz, 2011; Holzmann, 1997; Wagner, 2005; Draxler, 2012).

5.1c CEE after the Financial Crisis

Following the financial crisis, there has been a notable change in policy direction in some countries, particularly Hungary. It established a mandatory tier of private pension funds in 1998, with contributions set at 8% of income. In 2010, the Hungarian prime minister stopped contributions into the private funded tier, redirecting them into the state tier. This was at first a temporary move, but was later declared permanent. In addition, the assets of the pension funds were appropriated by the state, in effect nationalising the second tier (Simonovits, 2012; Escritt, 2011). As can be seen in Table 2, several other countries have also been led at least temporarily to reduce contributions into the private funded tier (See Moss, 2013; Ottawa, 2013; Krzyzak, 2013b; Schneider, 2012; Draxler, 2012). Moreover, industry press expresses concerns that other countries may yet be persuaded to take more radical action similar to Hungary (Stańko et al, 2013).

Several specific issues have been highlighted as playing a role in the roll-back of reforms across the CEE countries, of which three are particularly important, namely: transition costs, demographic changes, and high management costs of funds combined with volatile market returns (see for example Schwarz, 2011). In terms of policy reform transition costs, it is important to note that whilst shifting some of the responsibility for retirement income to a funded private system should in the long run reduce state expenditure in this area, to begin with expenditure is placed under additional pressure. This is because in most countries, contributions into private funds were diverted from the already existing contribution level, to avoid raising contribution levels to such an extent that people would be encouraged to move into the still flourishing informal sector where contributions are not paid. Therefore, whilst pension expenditure by the state remained unchanged for current retirees, contributions towards the state system were reduced. This led to increased government deficits. For countries seeking entry into the Euro-zone, this was a problem, as the Stability and Growth Pact has deficit targets. Initially it was determined that all mandated contributions into private pension funds would count as government revenue. This is no longer the case; countries with a private mandatory pillar are now offered a slightly higher target, but this is temporary (Schwarz, 2011: p13).

These transition costs were foreseen; several countries earmarked proceeds arising from privatisation to be used to cover some of these costs, but these proceeds were tailoring off just as the recession following the financial crisis hit employment rates and reduced contributions to the public scheme making the problem more pronounced. Furthermore, the informal sector has remained significant, with less of a shift into the formal sector than was anticipated. The imposed fiscal deficit target seems therefore to have been a large contributing factor towards the decision to divert more contributions away from the private funds back into the state scheme. As Schwarz notes, “of the 14 countries in the region with second pillars, only the five with immediate aspirations toward Eurozone entry chose to engage in this form of second pillar reversal” (Ibid: p15).

Pressures have also arisen in terms of demographic changes. The introduction of free movement of workers following entry into the European Union has led to a large net

migration away from many CEE countries within the key age range of 20-40 year olds. This adds to contribution rate pressures. Looking forward, a rapidly declining fertility rate would suggest that pressures are likely to continue in the medium term. Finally, in terms of the cost and performance of the pension funds themselves, there has been reported disappointment on both counts. Competition between funds has led to high advertising costs, for example. In terms of returns, all countries were adversely hit by the financial crisis.

5.2 “Market-based” countries

We turn now to the evolving pension systems in market-based systems. These countries can be characterised as ‘early financialisers’ in terms of the type of financial system in place. Possibly because of the historical strength of the financial sector, the countries in question do not have in place mature earnings-related PAYG state pension schemes. Instead, and related to the historical foundation of the pension schemes being based on Beveridgean principles, these countries tend to have universal flat-rate PAYG state pension schemes. However, there is a distinction in terms of the generosity of these state benefits, with the UK being notable by offering around 14% replacement of median wage, compared to for example the Netherlands where the replacement is 29%. The state pension is complemented by relatively long-standing occupational schemes and smaller private pension policies. It is therefore necessary to look at changes in occupational schemes when analysing the system as a whole.

5.2a The UK

The UK has a basic state pension with a very low replacement rate, and a long tradition of at least the more privileged workers supplementing this with occupational and private pensions. There is a minimum income guarantee, which works as a means-tested top-up to the basic state pension, for those who get to retirement without having successfully made alternative arrangements. There has also been a recent attempt to set up a state earnings-related scheme. However, commitment to the principle was questionable from the

beginning: to avoid replacing existing methods of achieving income replacement through occupational or private means, it was possible from the outset to opt-out of this state benefit if an alternative policy was in place (see Whiteside, 2003, for discussion of past UK reform).

Recent reform in the UK has taken the form of the state attempting to extend occupational scheme coverage; whilst not mandatory, workers are now auto-enrolled into occupational schemes. The state has introduced a funded, privately-managed scheme for workers who are not covered by another occupational pensions, called 'NEST' (see www.nestpensions.org.uk). The state has also introduced new regulations of occupational schemes, firstly the adoption of specific accounting standards in the name of making fund finance more transparent and more robust (see Clacher and Moizer, 2011, for discussion), and secondly making pension funds pay into a pool to insure workers against the risk of firm bankruptcy (www.pensionprotectionfund.org.uk). Moves to enhance regulation follow several very high profile corporate fraud scandals. The state has also maintained tax incentives to enter both occupational and private pensions. Mis-selling of financial products to individuals by the private finance sector has become a political issue, resulting in commitments to raise "financial literacy" to ensure that people are making rational optimal decisions when planning for their retirement income, to the extent that financial literacy is to be adopted into the secondary school curriculum (Knapman, 2012).

The choice to focus on these areas rather than increase the state pension has been justified with reference to the global policy consensus as embodied in the World Bank 1996 Report. Pension reform has happened following broad 'commissions' where the motivation was to associate as many stakeholders as possible with reform decisions, thereby de-politicising them (see for example Turner, 2005). A related - but non-state originated - change in the pension system as a whole has been the adoption in the occupational sector of DC schemes in place of DB schemes, which may relate, as has been argued in the case of Germany, to the change in accountancy rules (Clark, 2003: pp79-111).

5.2b Netherlands

The Dutch pension system can be categorised along World Bank lines as having three pillars. The state pension, or first pillar, is a relatively generous flat rate scheme; the second pillar consists of funded occupational pensions; and the third pillar is the private pensions, which is a small sector. Despite concerns regarding fiscal pressures, there has been minimal interference with the generosity of the state benefit, making the Netherlands an interesting case. One reason put forward in the literature why this is so refers to the PR system of democracy, and therefore co-operative government, which mean all reform has to be agreed by consensus. Commentators, arguing that the country still has unresolved issues concerning the fiscal sustainability of the pension system as a whole, see this as a weakness (see Riel et al, 2003: p64).

Occupational schemes in the Netherlands have a much higher coverage than is the case in the UK, and they involve more social partner engagement. The major reform in this sector in the Netherlands has been, however, the same move away from DB occupational schemes, towards something like DC schemes, which are known as *defined aspiration*.¹³ A second point of interest has been the change in the composition of assets held by pension funds. This has notably shifted out of government bonds and into international equity, again in line with World Bank thinking (Riel et al, 2003: pp69-72). This is arguably of some macroeconomic significance, but has received little serious attention in the literature.

5.3 “Social-Democratic” countries: Sweden

The Social-Democratic countries can be characterised as bank-based systems with developed capital markets. In terms of welfare regime, they are historically associated with generous universal benefits which have been seen as successfully engaging the middle classes into welfare regime defence. We might therefore expect to see cases similar to the Netherlands, but with more generous state provision, and less prevalence of private pension assets. In fact, Sweden has undergone some fairly radical reforms, which have been replicated elsewhere.

The Swedish state pension was once a prime example of a generous flat-rate scheme – a ‘people’s pension’. However, reforms in 1959 saw the introduction of a earnings-related state benefit, the *income pension*. The prior scheme was retained in a modified form as a *guarantee pension* directed more strategically towards the lower earners through means-testing (see Palme, 2003 for discussion of reform period). A further iconic reform was undertaken in 1994. This reform was shaped by three principles: pensions should be “based on lifetime earnings” they should be “linked to economic growth” and the system must be able “to tolerate demographic changes” (see Swedish Government webpages). The nature of the earnings-related element has been changed away from Defined Benefit towards Notional Defined Contribution. In addition, a funded element known as the *premium pension* has been introduced. The major part of the Income pension is still run as PAYG, with contributions recorded in notional accounts. There is therefore no investment volatility directly facing policy holders, although due to the incorporation of the automatic balancing mechanism, the costs of economic downturn have been pushed onto the individual. The Premium pension however is funded, so while a smaller part of the overall income replacement scheme, this does introduce investment risk to the individual.

5.4 Continental

This group holds the pension systems that historically have emerged from Bismarckean principles. The state has a long-established role in providing earnings-related benefits on retirement. Myles and Pierson (2001) argue that from the perspective of seeking pension reform:

“Employment-related, defined benefit schemes face a particularly acute problem, since the contract is highly individualised. Unlike generic schemes for those in ‘need’ or for ‘citizens’, each individual has his or her own contract with the government with specific benefits attached to their specific work record, years of contribution, and earnings history. Such programmes are not just another public service like roads or schools. Instead, they become invested with quasi-property rights in the same way as life insurance or equities.” (p321).

By this argument we should expect to see the most resistance against World Bank-led pressures to reform pension systems, not least because the cost of implementing the changes would be a huge barrier. Also, the absence of a strong existing financial sector means less lobbying for change.

5.4a Germany

Germany has had a state organised income-replacement pension scheme in place since 1957. Pension reform measures were introduced in 2001 “based on a paradigm shift in pension policy, in line with the mainstream of the international pension debate” (Schmahl, 2003: p118). The objectives of the system were changed “from the securing of living standards in retirement to stability of the contribution rate” (Joebges et al, 2012: p1). These reforms actively promote a larger role for privately administered funded schemes, to take up the slack following the reduction in state administered benefits. Contributions into qualifying private schemes are subsidised, creating a new facet to the pension system known as Riester pensions. In addition, a safety net has been established: a means-tested benefit, paid out of general taxation, and not payroll tax like the income pension.

Reduction in the generosity of the state earnings-related benefit was achieved by tinkering with the benefit formula. The German system works by members accruing Earnings points -one point is earned by a year’s work at average salary. Holding 45 points entitles you to a full pension. This pension used to be 70% of average earnings. Part of the reform was to agree to bring this down to 64% by 2030 (Schmahl, 2003: p129). Additional changes further reduce benefit payments, for example training periods are no longer accredited at all, and periods of unemployment accredited at a lower rate (Joebges et al, 2012: p1-2).

5.4b France

The French pension system is widely regarded as particularly complex. It is a good example of a highly fragmented Bismarckian system. The first element of the state pension is a means-tested minimum guarantee for those not qualifying for other elements. The second element is a state administered contributory scheme replacing just over 20% of average

earnings, earned through 40 years of contributions. The third element is a mandatory earnings-related scheme, administered by industry associations. It is at this point that the fragmentation becomes apparent. Benefits are acquired through the accumulation of pension points. These occupational schemes have partially consolidated leading to the existence of two federal organisations, ARRCO and AGRIC, which deal with private and public sector workers respectively. These organisations have bodies made up of social partner representatives to negotiate the details of contribution and benefit design – the cost and value of a pension point. The majority of these schemes are organised on a PAYG basis - pensions are paid out of current contributions. The state and occupational tier are, as it were, moulded together, if compared to a system with greater disaggregation, such as the Netherlands.

The complexity is argued to make systematic reform difficult, with piecemeal reform inevitably effecting particular groups more negatively than others thus invoking serious resistance. Several efforts to introduce reforms in 1995 and subsequently have failed to make much headway (see Palier, 2003 for discussion of this reform period). Reform is being attempted by the current administration, following talks with trade unions and corporations, with a proposal being put forward in August 2013 aiming to increase the value of contributions, and the number of years that are needed to be made in order to qualify for full benefits (Steward, 2011). This is deemed to be unsatisfactory by the European Commission (Carnegy, 2013).

There is some limited movement in terms of moving from PAYG to funded systems in that some profession bodies representing the higher income professions have taken the voluntary decision to become funded. Furthermore, some higher income individuals seem to be deciding to hold pension assets “increasingly developing private savings to supplement the pension they will receive from the compulsory PAYG schemes, which – despite continuing to be financed – many believe is likely to diminish in future.” (Palier, 2003: p94, p109).

5.5 Peripheral countries

The final grouping of countries arises from the specifics of the eurozone crisis. Five countries in particular have experienced extreme pressure following the financial crisis and the ensuing recession, and have in some cases had national autonomy drastically reduced, being placed under economic and financial assistance programmes with decisions being delegated to officials representing the Troika of the European Central Bank, the IMF and the European Commission. In these cases additional reforms on top of reforms similar to those seen in continental systems are being currently debated.

5.5a Portugal

Portugal has an earnings-related state administered scheme, alongside a safety-net element, and a small voluntary occupational pension pillar. The state scheme has a replacement value of close to 70%. The state element was reformed in 2006 so as to introduce a “sustainability factor”. This incorporates the difference between the average life expectancy at age 65 in 2006 and the one that will occur in the year before the pension claim. Since the crisis, Portugal has been under pressure to reform its pension system further in order to reduce the growing public deficit. The latest proposals, submitted in August 2013, seek to incorporate additional features into the sustainability factor (Sourbès, 2013).

5.5b Italy

The Italian pension system has been in a state of flux for the last two decades. There were a run of reforms between 1992 and 2007. One goal was the reform of the state PAYG earnings-related pension in 1995 as part of a wider effort to meet the convergence criteria for joining the euro. There were some radical changes, with Italy following Sweden in adopting a Notional Defined Contribution system (Börsch-Supan, 2005). As noted above, this system draws a much tighter relationship between contributions and benefits. A notably long timeframe for implementation was initially agreed following union intervention. Following the onset of crisis, there were three reforms agreed between 2008

and 2011 as part of the Italian austerity packages (Segreti and Dinmore, 2011). These have among other things pushed through much more quickly previously agreed reforms, as well as increasing retirement ages for women, and introducing a life expectancy parameter. The state pension is now “related to the actuarial value of contributions and the pension age is linked to life expectancy” (Denk, 2013: p16). Despite these decreases to the state pillar, and publicity campaigns seeking to encourage private savings, “the private pensions market in Italy has remained tiny, with assets of about three per cent of GDP” (Davy, 2012).

5.5c Greece

Prior to the Eurozone crisis the Greek pension system was of the highly fragmented Bismarckian type, sharing some similarities with France. The most important part was a public PAYG earnings-related element that is mandatory but administered by a large number of bodies with social partner participation. A reform was narrowly passed in 2008 to merge the high number of funds involved in the mandatory earnings-related element into a smaller number, and to reduce some benefits, particularly with reference to early retirement (*BBC News*, 21 Mar 2008). Since the onset of crisis in the Eurozone, there has been a run of consecutive cuts being made to pensions, which have been agreed with Troika as part of the austerity package demanded in return for financial assistance. One of these reforms, agreed with Troika in 2011 (Ritchie, 2011), was challenged by the Greek Court of Auditors in November 2012 (Reuters, 1 Nov 2012). The Court gave the opinion that the reform was unconstitutional. However, the reform was adopted by Parliament as part of the 2013 budget in Autumn 2012 (*BBC News*, 12 Nov 2012). The reforms were hoped to save the Government “about half of the 9.37 billion euro savings it is targeting for 2013” (Reuters, 1 Nov 2012). Debate on the 2014 budget have begun without agreement having yet been reached with Troika officials (Bensasson and Ziotis, 2013).

5.6 Some comments

To understand any individual country it is necessary to consider aspects of social provisioning in old age not included within a narrow understanding of the term ‘pension

system'.¹⁴ These will be of considerable importance when it comes to understanding the impact of reforms at the household level. The purpose of this paper was, however, to draw conclusions about trends across the Union, which has of necessity involved looking for patterns and similarities at a general level rather than focusing on distinctions at the level of detail. It is the conclusion of this paper that there is merit in splitting European Union pension systems into groups with shared institutional characteristics – particularly financial systems and existing state pension infrastructure, in order to understand how forces felt by all countries are resulting in distinct policy responses. Furthermore, it is interesting to note how initial distinctions appear to be eroding as the financial crisis and recession have forced countries either to pull back on radical reforms or push further on conservative ones.

6. Conclusion: The likely consequences of reform

What will be the consequences of the changes seen in pension systems? To conclude I want to make some brief comments on this question, first from the perspective of households and then from the perspective of the economy.

6.1 Consequences from the perspective of households

From the perspective of households, there are five points arising from the broad-brush review of reform covered in this paper. First, many countries have accepted at least in part a new pillar of their pension system being a privately managed, funded stream whereby returns depend on the vagaries of the market, both during the course of the fund's accumulation and at the point of purchasing an annuity. This introduces new forms of uncertainty for households. For example, following the financial crisis and subsequent recession, the UK government intervened with a massive programme of asset purchasing, exchanging cash for the government debt held on corporate balance sheets, and the balance sheets of institutional investors. One purpose of so doing was to push down the yield – and so influence a longer-term interest rate – by pushing up the price. For those reaching retirement age, this meant a serious reduction in the annuity rates available,

which are strongly co-related to bond yields. This came on top of a crash in the value of pension funds following negative returns in the equity markets. People with exactly the same contribution history faced significantly lower retirement incomes retiring in 2009 than in 2001. And yet they could not possibly have predicted the nature and timing of events in the financial markets and the monetary policy that would be adopted in response.

Second, within state pension schemes, the costs of rising life expectancy and of economic underperformance have been pushed on to the individual, for example through the introduction of NDC schemes, or where DB schemes have incorporated demographic and economic risks into their benefit formulas: if life expectancy goes up, benefits per year will go down. The idea is that people will be incentivised to work longer, but this depends on two key issues: that there is work available, and that each individual is fit to work. Whilst life expectancy is projected to rise, up until now there has been little discussion of the expectation of quality of life. Many people face an extra 10 years of life in which they are highly incapacitated.¹⁵ Increases in life expectancy are not shared evenly. The issue of 'health inequality' is a growing one, with media stories picking up on the loss of years that metaphorically occurs if you walk the wrong way down a London street, going from the healthy living afforded by affluence to the poor lifestyle habits and dangerous work enforced by poverty.

Third, income level is important in acknowledging the impact of pension reform on poverty prior to retirement. Being coerced into saving for pension when on low income can place workers into vulnerable positions, as pension savings are distinct in being hard to draw upon at a time of crisis, such as a central heating boiler breaking down. When in this position it can be necessary to borrow to cover capital costs, with the result that individuals face even more engagement with finance. The cost of the loan can be greater than the return on pension savings. Not only does saving therefore make questionable sense with regard to current standards of living, but given the extension of means-tested social assistance provision it is possible to be the loser again post-retirement, as the savings that were achieved at some cost are then used against you when it comes to determining the benefits for which you qualify.

Fourth, the tightening of the relationship between contributions to benefit levels, whether achieved through private funded pensions or through parametric reform of state pensions results in the reproduction of the stratification seen in the labour market in post-retirement life. Those who face low incomes, and/or broken employment records, have reduced claim to post-retirement provision. The movement to temporary work arrangements and the stagnation of wages at the lower bracket lead to greater insecurity of income post-retirement. In terms of gender, whilst women may have gained the right to state contributions towards their pensions whilst their children are in infancy, there is still the problem of the reproduction of the lower earnings they face for the rest of their working life, both in terms of absolute earnings, and also due to women being more likely across Europe to work part-time on return to the labour market having taken on the majority of caring responsibilities.

Fifth, young people are in a particular situation following the most recent pension reforms. Whilst a number of reforms have claimed to be acting in the interest of generational equity - claiming that it would be unreasonable to ask today's young people to have to make large contributions in order to cover the high cost of the retirement of the baby boomer cohort - in practice the reduction of benefits of course makes young people losers from the reform. Furthermore, current labour market conditions have led in almost all countries to a notable increase in young person unemployment rates, affecting pension contributions. This is exacerbated by particular changes in arrangements in specific countries. For example, Germany has changed rules so that pension contributions are not earned when in training. In the CEE countries, it is not possible for young people who have private pension policies to contribute to those policies when working in other EU countries. All of these factors worsen the situation facing young people.

Taken together, it would be reasonable to assume that women, young people and those with broken employment records will be made more vulnerable in terms of pension provision across the European Union, as the stratification seen among working-age people is reproduced at retirement. The pressure to work for longer will have unequal repercussions as long as health inequalities remain, and there will be greater uncertainty

for everyone, following the introduction of the volatility of financial markets. In order to understand the position in individual countries fully, it will be necessary to look into each country in detail. It will be necessary to see how much other areas of the welfare programme are growing in order to alleviate problems caused by falls in pension provision, to look at the level of inequality amongst working age people, and to look at the nature of the financial sector to which people are being exposed.

6.2 Economic consequences of changes in pension systems

The increasing size of pension funds is likely to have consequences on the functioning of the financial markets and on the balance sheet management decisions by non-financial corporations. This was, of course, the intention of the authors of the World Bank Report. However, there are reasons to expect the consequences to be other than those intended. To take one example, it was argued that the demand for pension funds spurs helpful innovation in more mature capital markets:

“In the United States, pension funds and life insurance companies became the main forces behind financial innovations, after the Employee Retirement Income Security Act (ERISA) of 1974 ... New instruments have been tailored to the needs of pension funds (such as zero-coupon bonds, collateralized debt obligations, mortgage-backed securities, indexed futures and options, and guaranteed income contracts). These financial instruments have transformed illiquid loans into highly liquid and tradable securities and enabled new forms of risk sharing, facilitating both business investment and housing finance.” (World Bank, 1994: p177)

As has become clear, the push to create more and more assets that could be accorded the AAA rating desired by the ever-growing demand of pension funds was based on flawed aspects of modern financial theory that adopted a naive view of statistic inference within its models of asset pricing (See for example Mandelbrot and Hudson, 2005 for a critical discussion of modern financial theory). The consequence, as was very clear during the financial crisis, was increased systemic risk. Holders of assets did not understand the assets they were holding, and did not appreciate their vulnerability.

Finally, it has been argued that the nature of corporations – and of capitalism - could be changed by the increased participation of pension funds in the capital markets. The suggestion was that by placing capital in the hands of the workers we would establish “pension fund socialism” (Druckner (1993) quoted in Clark, 2000: p43). This possibility was already being discussed in the 1960s, and was not to everyone’s liking: “with the rise of institutions of which the pension funds are a prime example, we see on the horizon a serious question regarding the private character of ownership in our society. I would suggest that property ownership and control is one of the major problems which the pension funds and other fiduciary institutions will pose for us in the coming years.” (Harbrect and Murray, 1961: p355) The idea behind pension fund socialism assumed that pension funds would take an active role in corporate management. However, this has not proved to be the case. What we see instead is the ever-growing inflow of funds inflating asset prices and making financial asset investment ever-more appealing to corporations. On the other hand, where previously firms may have been reticent to issue much equity due to fears of diluting control, this fear is overcome for the very reason that pension funds are very passive in their management role and offer little threat (See Toporowski, 2000 for theoretical discussion of impact of pension funds on corporate behaviour). The consequences of these changes in balance sheet behaviour pose a pressing question for understanding the processes of financialisation.

Footnotes

¹ ‘Tier’ and ‘pillar’ are sometimes taken as synonyms. In this paper ‘pillar’ will be used only according to the strict World Bank definition, to be explained below.

² As was seen for example when the UK – historically associated with Beveridge, and offering a low universal benefit – attempted to introduce a second state pension that was related to earnings (see for example Emmerson, 2003).

³ In France for example, as we shall see below, reform of the public scheme has to date been marginal, and yet those on high incomes are beginning to complement these schemes

with private pensions due to an expectation that the structure of the state scheme will change before they retire (see for example Clark and Palier, 2003).

⁴ The exact income stream is politically important. One recent wave of reform has been the separation of poverty-alleviation elements from earnings-related schemes in terms of revenue, so that the (growing) cost of these elements is seen to be held apart from employer contributions (see Lagoutte and Reimat, 2013).

⁵ The caveat being the uncertainty referred to above – the scheme might change and does not fix amount but a mechanism.

⁶ Scotland for example roughly matches this description, as the Scottish Parliament offers additional benefits to the UK-wide state pension (see

<http://www.ageuk.org.uk/scotland/money-matters/pensions/state-pension/> and

<http://www.scotland.gov.uk/Topics/Health/Support-Social-Care/Support/Older-People/Free-Personal-Nursing-Care>).

⁷ However, there are complications. For example, mandated private scheme membership might be administered by the state, as in Sweden for example (see Palme, 2003) or in the UK, where the state intervenes in ensuring there is a private alternative to occupational schemes for workers in workplaces with no occupation scheme of their own (see www.nestpensions.org.uk).

⁸ “In 16 developed economies, the average labour share dropped from 75 per cent of national income in the mid-1970s to 65 per cent in the years just before the economic crisis. It then rose somewhat but declined again after 2009.” (ILO, 2013).

⁹ The authors take issue with the World Bank's specific policy recommendations regarding the necessity and benefits of adopting and promoting a private, defined contribution pre-funded pillar into pension systems.

¹⁰ Post Keynesian theory claims a reversal of the direction of causation between savings and investment so that investment is largely determined by profit, by access to finance and by expectations. Investment determines income, which in turn leads to savings being created which equate to the initial investment. This fundamentally brings into the question

the idea that a key policy goal should be to try and increase savings rates (see for example Cesaratto, 2006). More generally, post-Keynesians have challenged the promotion of financial liberalisation that is one part of the Washington Consensus approach to development (see for example Arestis, 2005).

¹¹ General information for all countries discussed below drawn from OECD (2011)

¹² The issue of the extent to which people understand the repercussions of certain reforms is important. Beyond the point of unfamiliarity with financial instruments, there is a deeper issue concerning the fundamental ‘unknowability’ of capital market developments.

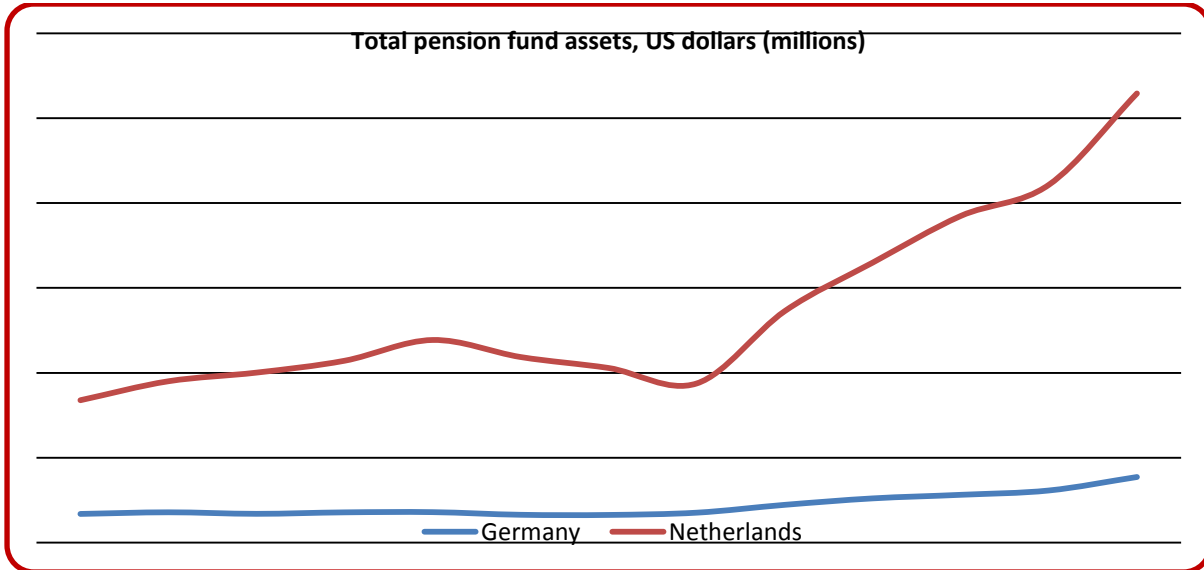
¹³ The UK are looking at a similar idea, with Pensions Minister Steve Webb talking about “Defined Ambition” plans (see e.g. <http://www.theactuary.com/news/2012/04/webb-goes-public-with-defined-ambition-plans>)

¹⁴ The European System of Integrated Social Protection Statistics (ESSPROS) is a common framework developed by Eurostat that attempts to provide a coherent comparison between European countries of social benefits.

¹⁵ This may explain the emergence of a new measure, the Healthy Life Years (HLY) indicator (also called disability-free life expectancy). Countries are incorporating life expectancy however, not HLY stats.

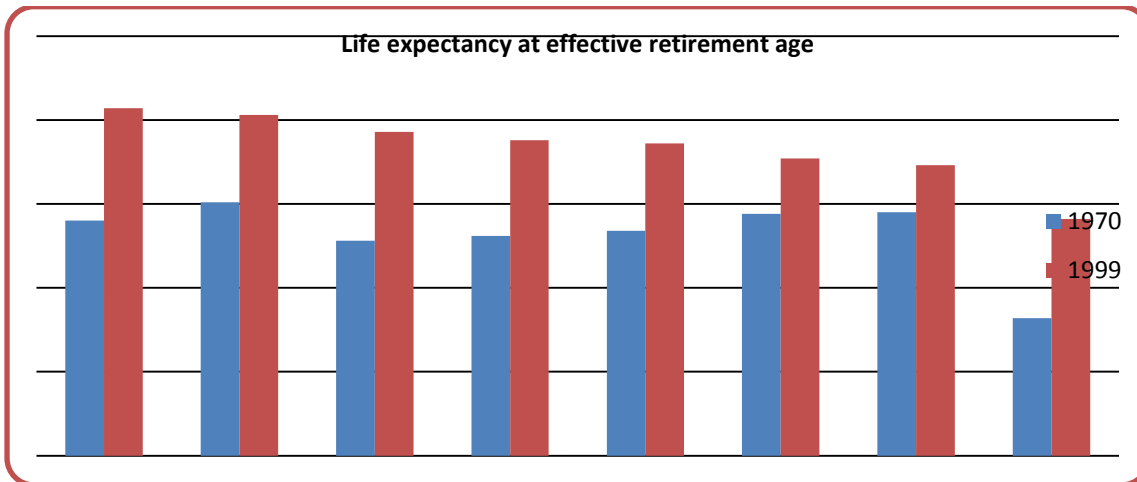
Figures

Figure 1: Total pension fund assets, Germany and Netherlands



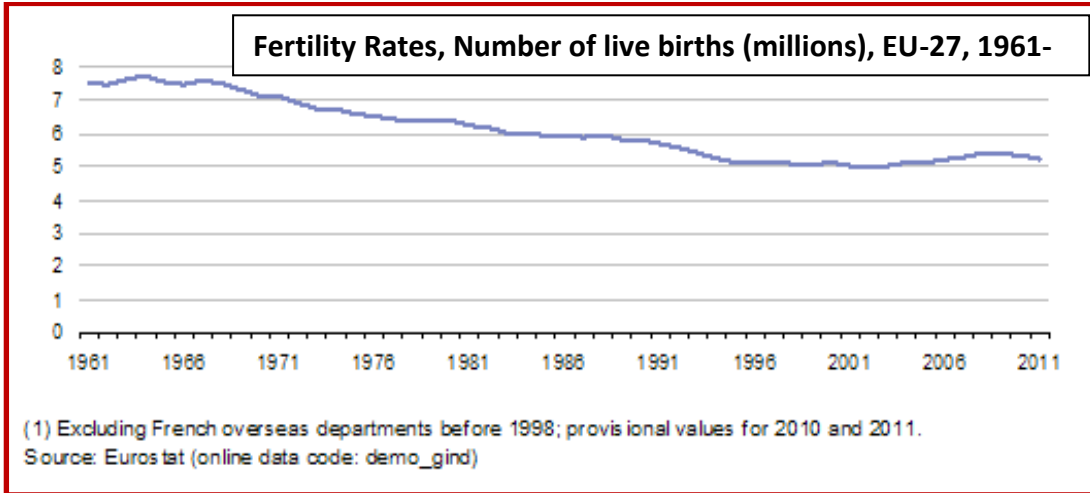
Data sourced from Funded Pensions Statistics, OECD.StatExtracts at stats.oecd.org

Figure 2: Life expectancy



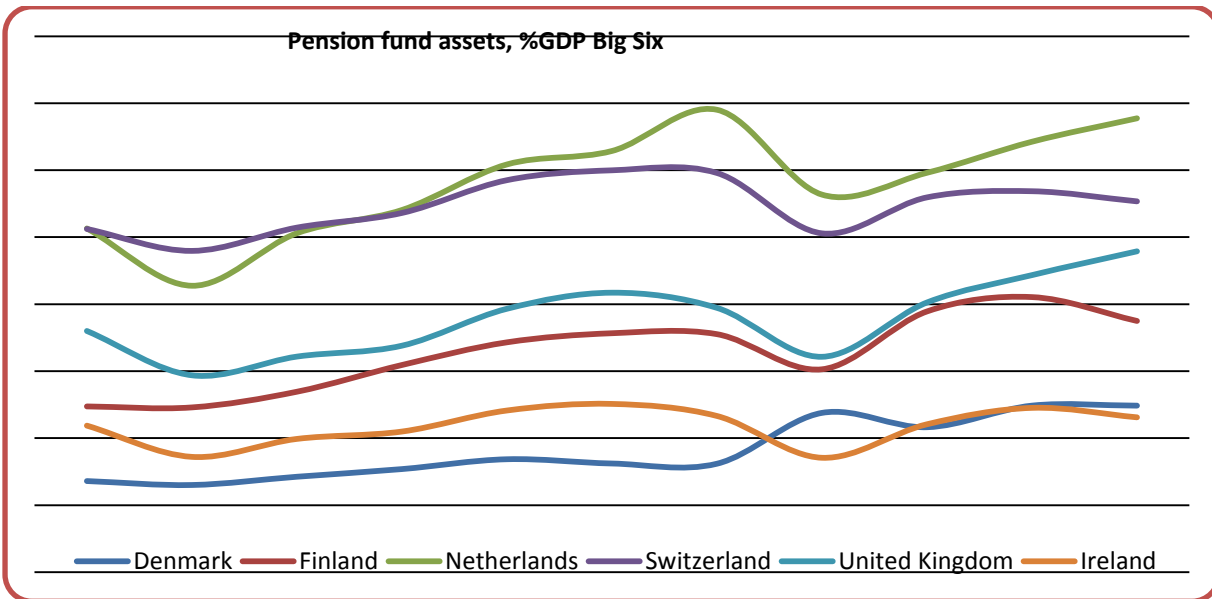
Data adapted from OECD Economic Outlook, 2000

Figure 3: Fertility Rates



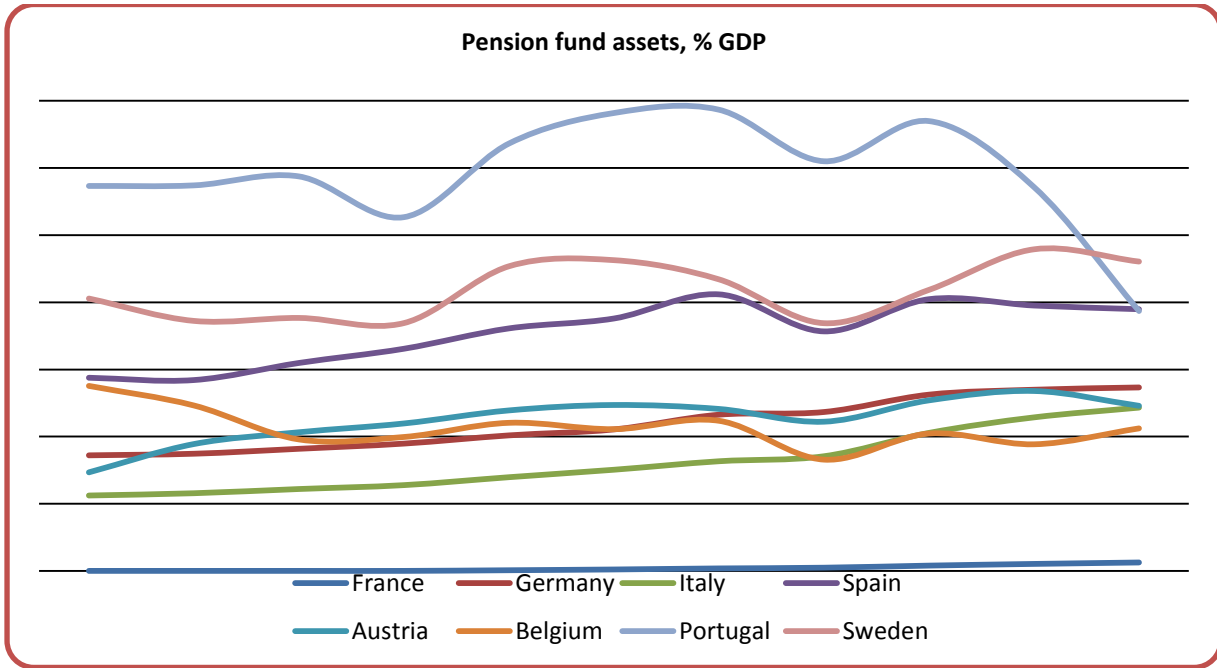
Taken from Eurostat (epp.eurostat.ec.europa.eu/statistics_explained)

Figure 4: Pension fund assets, Big Six



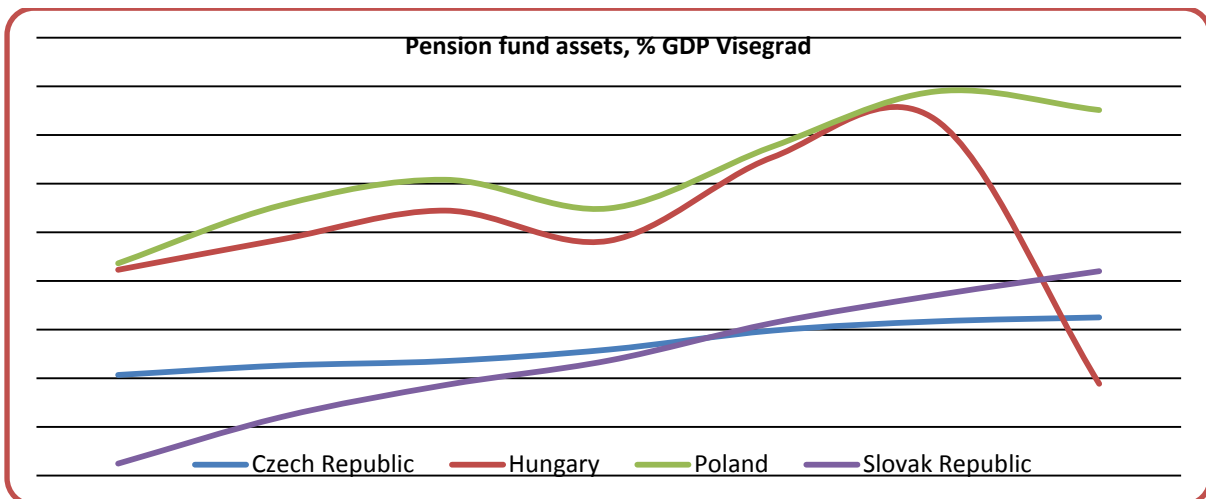
Data sourced from Funded Pensions Indicators, OECD. *StatExtracts* at stats.oecd.org

Figure 5: Pension fund assets, European core



Data from Funded Pensions Indicators, OECD.StatExtracts at stats.oecd.org

Figure 6: Pension fund assets, Visegrad countries



Data from Funded Pensions Indicators, OECD.StatExtracts at stats.oecd.org

Tables

Table 1: Rates of Growth (% per year)

Table taken directly from Craft (2004). His figures were drawn from the Groningen Growth and Development Centre (2004).

<i>1950-73</i>		<i>1973-95</i>		<i>1995-2003</i>	
Switzerland	3.3	Netherlands	2.0	Norway	2.1
Netherlands	4.4	Switzerland	1.0	France	1.3
UK	2.9	Denmark	1.7	Netherlands	0.6
Denmark	4.1	France	2.7	Belgium	1.6
Sweden	4.1	Sweden	1.5	Italy	0.5
Norway	4.2	Germany	2.7	Denmark	1.7
Belgium	4.5	Belgium	2.8	Germany	1.9
France	5.1	Norway	3.2	Austria	2.3
Italy	5.1	Italy	2.5	UK	1.8
Finland	5.2	Austria	2.3	Sweden	2.1
Germany ¹	6.0	UK	2.4	Switzerland	1.1
Austria	5.9	Finland	2.2	Finland	2.7
Ireland	4.3	Spain	3.6	Spain	-0.3
Spain	6.2	Greece	1.7	Ireland	4.9
Greece	6.4	Portugal	2.0	Greece	3.1
Portugal	6.7	Ireland	4.1	Portugal	1.6

¹Levels in 1950, 1973 and growth rates for 1950-73 and 1973-95 refer to West Germany.

West German level in 1995 = 29.86.

Table 2: Pension Reforms CEE

Table adapted from Schwarz, 2011

Country	Public Pensions	Private Pensions
Bulgaria	Conventional Defined Benefit	Date: January 2002 Mandated for: <42 Contribution Rate: 5% of wage
Croatia	Point System	Date: January 2002 Mandated for: <40, Voluntary 40-50 Contribution Rate: 5% of wage
Czech Republic	Conventional Defined Benefit	Draft law to introduce mandatory second pillar
Estonia	Conventional Defined Benefit	Date: July 2002 Voluntary election but requires additional 2% contribution Contribution rate: 4% from social contribution plus additional 2% <i>During and post-crisis: 2nd pillar contribution rate suspended in 2009; individual contribution of 2% (additional amount) allowed in 2010; 2% +2% in 2011, with a return to the previous 4% + 2% in 2012; catch-up period planned for 2014-17 with rate at 6% + 2%</i>
Hungary	Conventional Defined Benefit	Date: January 1998 Mandatory for new entrants; voluntary election for others; Contribution rate: 8% of wage <i>Nationalized in 2011</i>
Latvia	Notional Account	Date: July 2001 Mandatory for: <30, voluntary choice for 30-50 Contribution Rate: started at 4%, grew to 8% pre-crisis <i>During and post-crisis: rate fell to 2% and has been maintained at this level</i>
Lithuania	Conventional Defined Benefit	Date: January 2004 Voluntary choice for all workers Contribution Rate: 5.5% pre crisis <i>During and post-crisis: rate fell to 2% and has been maintained at this level</i>
Poland	Notional Account	Date: January 1999 Mandatory for: <30; voluntary choice for 30-50 Contribution Rate: 7.3% of wage <i>Post-crisis (2011): rate falls to 2.3% of wage with the option of rising to 3.5% again in 2017</i>
Romania	Point System	Date: January 2008 Mandatory for: <35; voluntary choice for 36-45 Contribution Rate: 2% of wage growing to 6% at rate of 0.5% increase per year <i>During crisis: 2009 rate increase postponed for 1 year, but now continuing increase in rate</i>



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Slovak Republic	Point System	Date: January 2005 Voluntary choice for existing workers and new entrants Contribution Rate: 9% of wage
Slovenia	Conventional Defined Benefit	-----

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- Nest www.nestpensions.org.uk
- Pension Protection Fund www.pensionprotectionfund.org.uk
- Scottish Government <http://www.scotland.gov.uk/Topics/Health/Support-Social-Care/Support/Older-People/Free-Personal-Nursing-Care>
- Swedish Government www.government.se; <http://www.government.se/sb/d/15473/a/183496>
- UK Government <https://www.gov.uk/state-pension/overview>



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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?

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1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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