Shifting responsibilities in Western European pension systems: What future for social models?

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Abstract
A liberal paradigm shift from state to private responsibility in old age income protection has been a general development across Western Europe. The financial crisis sheds new light on the question of the public–private divide in pension policy. Applying convention theory, the analysis reviews how funded pensions are governed and how states use a range of regulation to control their operations as they seek to convert market-related practices to social policy purposes. The article argues that accruing state regulation consequent on coping with the financial crisis and its aftermath has undermined easy distinctions between public and private schemes, and is generating increasingly technocratic and oligarchic forms of pension governance, to the detriment of democratic debate on pensions.

Keywords
Convention theory, Europe, funded pension, pension policy, regulation

Introduction
Recent research on pension reform has focused overwhelmingly on the liberal turn: on pension privatization and its implications, notably the risks posed for future retirees. Adopting a complementary perspective, we discuss whether and how this recent restructuring and the current crisis have reshaped the European social models of old age income protection. The shift from pay-as-you-go (PAYG) to funded systems and the impact of
the 2008 financial crisis leads us to examine recent changes in pension systems, and their governance and regulation in Western Europe. We discuss the challenges when converting market-based practices to social purposes, as financial sustainability and social adequacy of pensions are difficult to reconcile, for a range of reasons. Current trends suggest increasingly oligarchic forms of pension policy-making and governance, to the detriment of democratic debate. We argue that accruing state or collective regulation, visible before 2008 but increasingly demanded subsequently, undermines easy distinctions between public and private responsibility assumed in policy debates.

Has this paradigm shift towards ostensibly ‘private’ pensions led to major transformations in the pension landscape across Western Europe and in their internal architecture? The regime typology of Esping-Andersen (1990, 1999), partly based on indicators of pensions policy, advanced three ideal-type models of welfare ideology based on liberal, conservative and social democratic principles. Comparative analyses of European pension systems challenged this threefold typology, noting the role that funded pensions play in not only liberal but also social democratic systems (Shalev, 1996). A general paradigm shift and ‘policy drift’ (Hacker, 2004) towards funded systems, now also affecting Conservative welfare regimes, further undermines ideologically loaded public–private distinctions not only in pension policies but also in health care (Béland and Gran, 2008). Classification of pension systems has rather preferred alternative typologies based on the distinction between Bismarckian and Beveridgean schemes founded on old age social insurance or basic pensions, dominant single- or mature multi-pillar systems, privatization late-comers or early birds (Bonoli, 2003; Hinrichs, 2000; Hinrichs and Lynch, 2010; Weaver, 2010). We expand this dualistic typology to group established multi-pillar structures based on Beveridge-type basic social security with funded private pillars, and the Bismarckian insurance systems, which still have underdeveloped funded supplements. We focus our analysis on changes in the established national pension systems of Western Europe, drawing on recent comparative studies of pension reforms and their effects on pension system change (Ebbinghaus, 2011; Immergut et al., 2007).

As is widely recognized, the main driver behind recent reforms in Europe has been the pressure to contain PAYG public pension costs faced with demographic challenges, falling contributions and public debt in a context of sluggish economic growth and public expenditure constraint (Myles and Pierson, 2001). Parallel to the containment of public pensions, governments promoted private funded supplements in part to guarantee a reasonable retirement income, but also in part to foster the expansion of financial markets, notably in Central and Eastern European (CEE) states (Orenstein, 2008). State sponsorship of funded systems, through tax concessions, subsidies, auto-enrolment or mandatory obligation, has been accompanied by growing interest in how these systems operate, translated into regulations with which private providers must comply (Mabbett, 2011).

The ‘privatization’ paradigm, arguing for a shift from public PAYG towards private funded pensions, was fostered by the EU Stability and Growth Pact (see Casey, this issue) when governments, faced by the imperative to contain public budgets, were encouraged by burgeoning returns on global financial markets (Clark, 2003). Perhaps surprisingly, neither the financial crash of 2007–2008, nor subsequent euro and sovereign debt crises have caused a change of heart. On the contrary, European countries that delayed the introduction of funded schemes suffered most severely: at the time of
writing, in both Italy and Greece, emergency measures have cut state pension obligations in an attempt to forestall further speculation on international bond markets. The EU Commission’s recent White Paper retains the same solution: Europe’s citizens must work longer and save more for their old age (EU-Com., 2011). Yet over the past decade returns on investments have been the lowest in living memory, raising current liabilities of funded defined benefit (DB) pensions and prompting debate about how to protect funded pensions against future crises (Yermo, 2008).

State law and taxation have long shaped commercial insurance activities, to encourage participation by offering protection against fraud, default or bankruptcy. The uneven performance of funded pensions, particularly since 2001, has fostered political pressure for more state intervention: to contain costs, remove discrepancies, promote transparency and offer guarantees. The objective can appear less pension privatization than a regulation-based ‘colonization’ of private providers for policy purposes. Competing reform agendas have emerged. On one side, democratic accountability, state regulation and collective governance are understood as essential to pensioner protection (Ebbinghaus and Wiß, 2011); on the other, competent professional risk management is potentially undermined by constant political meddling (Pino and Yermo, 2010). As the post-crash state becomes increasingly entangled in funded scheme management, governments appear unlikely to escape liability for future failures. Pension burdens currently exacerbate sovereign debt problems confronting Greece, Italy, Spain and Portugal. Policy recommendations based on assumed divisions between ‘public’ and ‘private’ chase a chimera that cannot be pinned down.

Our analysis reassesses how the shift towards privately managed, pre-funded provision has restructured the architecture of pensions. The following section outlines a theoretical framework that analyses consequent tensions by identifying varied principles of public value and accountability that underpin pensions. While a shift from state provision towards funded supplementation is visible nearly everywhere, evidence points to continuing divisions between Beveridgean systems, where funded pensions have long been prominent, and Bismarckian ones where they remain nascent. The third section demonstrates shifting structures of Western European pensions, the fourth discusses the role of state mandates and collective bargaining in promoting private pension coverage, and the fifth addresses regulatory interventions in response to the overall shift towards individualizing risks. The concluding section discusses the problems of the current financial crisis and its impact, pointing up continuities in fundamental principles and underlying contradictions.

### Applying convention theory to pension policy

Do recent moves towards funded schemes represent a departure from established paths, or are old pension policy goals simply being served by new instruments? In a recent study of British and German occupational pensions, Lutz Leisering (2011b) argues that shifts from public provision to state regulation of private providers essentially changes what social provision entails since markets are never as social as public welfare, even though ‘the new regulatory state largely shares the goals, the instruments and the agencies familiar from policies under the provider state’ (Leisering, 2011a: 304). Thus, the
transition from state as pension provider to pension guarantor implies a fundamental change in policy orientation as well as in its instrumentation.

A theoretical framework is needed to unpack this tangled conundrum of means and ends. Convention theory offers an interdisciplinary tool to analyse dynamic forms of collective coordination under conditions of uncertainty, when rules are incomplete and definitions of quality are unknown. Societies reach solutions to coordination problems by resorting to pragmatic assumptions based on established ways of doing things, which are assumed to be collectively shared. In cases of dispute, those seeking public approval justify their actions with reference to these shared frameworks of judgement, each reflecting different foundations on how the public good should be secured (Boltanski and Thévenot, 2006). Originally focused on economic coordination (e.g. Storper and Salais, 1997), the theory addresses social engagement and policy coordination, including pensions (Whiteside, 2011). Conventional repertoires stabilize collective action and form the foundations of the confidence and trust necessary for all to attain their personal objectives.

Social conventions evolve historically to create a common knowledge about right and proper ways of doing things, coordinating action and encouraging participation. Conventions are compromises between different value structures, derived from what Boltanski and Thévenot (2006) call ‘worlds of worth’, each sustaining its own internal logic. For example, religious inspiration justifies varied forms of ethical human behaviour. A market world, by contrast, coordinates action under signals of quality and price, sustaining judgements based on ‘best value’. The civic world underpins public authority: the decisions reached through democratic processes enjoy greater legitimacy than those of the autocrat. The state, as ‘coordinator of last resort’ (Salais, 1999), mediates between competing value frameworks and, through the law, enforces conformity when required.

In analysing pensions, policy logics based on civic virtues appear in state-run PAYG schemes; rights are based on citizenship or residence and a pre-defined retirement age. Democracy establishes pension rights and justifies decision-making processes. Collective provision and compulsory membership allow pooled resources to cross-subsidize from rich to poor and male to female, to secure an adequate retirement income for elderly citizens or workers – as determined by democratic decision. Policy may extend coverage, alter contribution or benefit rates, or offer pension guarantees: such decisions change over time. Civic conventions understand citizens as participants in policy deliberation and social justice as based on the results. However, democratic decisions may generate unsustainable outcomes, being vulnerable to demographic challenges. Older voting majorities can impose impossible burdens on younger generations or create insider–outsider problems that marginalize access for minorities. Thus state-provided pension schemes frequently invoke compromise with other worlds of worth.

Market principles justify pensions shaped by individual savings and returns on investment as typified by the individual defined contribution (DC) pension. Market logics understand citizens as consumers making assessments of quality and price; just outcomes are derived from actuarial fairness. Assuming perfect competition and complete information, personal choice decides the amount saved and investment involved; provider competition offers maximum choice at optimal prices. However, while market-based pensions supposedly offer efficiency gains, they may extend labour market inequalities into old age, stimulate opportunism (inappropriate financial advice) while
generating externalities (high administrative costs), persistence problems and suboptimal decision-making, as many participants are insufficiently financially literate (Barr and Diamond, 2009). Market-based policies can reinforce market values through consumer education or professional financial advice. Behavioural economists propose ‘nudging’: from tax concessions to automatic enrolment to overcome such shortcomings (Thaler and Sunstein, 2009).

Sustainable compromise to secure new settlements requires professional expertise in financial instruments, demographic trends and actuarial outcomes under specific systems. Scientific objectivity endows expertise with decision-making authority. However, reliance on expert judgement entails other problems, such as tunnel vision: the professional who knows everything from one perspective makes assumptions about the rest. Hence pension models are commonly based on 40 years of standard full-time employment, even though most pensioners are female and few achieve this. Moreover, expertise promotes oligopolistic governance. The policy-making world, notably of funded schemes, becomes dominated by experts whose technocratic arguments form a barrier to external participation. Even in funded schemes managed by the social partners, professionals and their associates dominate the essential business of risk management and fund investment, creating severe principal–agent problems (Ebbinghaus and Wiß, 2011; Habbard, 2011).

Prototypes of pure market, civic or technical systems do not exist: real world pension schemes, such as second pillar defined benefit (DB) funded schemes run by the social partners, are compromises (Ebbinghaus, 2011). Market values underpin their financial investments and the pension rights offered reflect long service or career attainment, or both (Myles, 1989). However, market stratification is justified by civic virtues through member representation in corporatist negotiation and pension governance. Such arrangements have not prevented criticism from both camps as such schemes do not avoid insider–outsider problems (unions do not represent all groups equally and power relations in corporatist negotiations can change) and their finances are as vulnerable to market downturn as any DC scheme.

Pension compromises between different worlds occupy a double helix that reflects both values embedded in pensions themselves (the judgements underpinning claimants’ rights) and the legitimacy of decision-making authority (who decides how pensions operate and on what grounds). At different points, pensions evoke particular meanings: deferred salary (socialized or individual), the means to secure better service from essential employees, a necessary investment in industrial restructuring, a source of venture capital in financial markets, as well as income security in old age. Each identity is vindicated within different worlds of social value (market, civic, professional/industrial); over time, the components of these worlds (the objectives each promotes) change and policy compromises adapt accordingly. Recently, market worlds have risen in importance as financial crisis has forced these values to the top of the political agenda. Governments can no longer evade pension restructuring by means of higher contributions and taxes or public borrowing. Under vocabularies of privatization, market values and new expertise colonize policy justifications, but not invariably with identical results. The market imperative that pension burdens be transferred off state budgets has not necessarily transformed the basis on which pension rights are founded.
Politics still matters. In some cases, private providers face a forest of regulations to guarantee that new ‘private’ pensions respect established social rights. Alternatively, ideational change can accompany the promotion of market systems that introduce competition and public choice. Real world solutions represent varied compromises to reconcile democratic accountability with fiscal rectitude, financial probity and demographic projections – to promote public trust in restructured systems. Recurrent political and financial instability since 2008, however, is damaging this trust. It takes time to build a pension and constantly changing rules create pervasive uncertainty. On the one side, public outcry against ‘market dictatorship’ extols the virtues of democracy; on the other, market agents criticize policy-makers for favouring insiders and destroying the public finances. While all claim to have future pensioners’ interests at heart, the possibility of any European pension system escaping the current debacle unscathed appears increasingly unlikely.

The changing public–private pension architecture

Although privatization has been a global trend, today’s full-fledged multi-pillar pension systems pre-date the current period of welfare state restructuring in many European countries (Ebbinghaus, 2011; Immergut et al., 2007). The liberal welfare regimes, the United Kingdom and Ireland, have long sustained multi-pillar systems, though pension reforms and subterranean transformations have recently increased the scope and role of private funded schemes. In the UK, occupational and, more recently, personal pensions supplement a very low contributory flat-rate basic state pension. In Ireland, a contributory basic pension, insufficient for income maintenance, is supplemented by occupational pensions for high and medium level earners, voluntarily provided by firms.

But also two ‘conservative’ welfare regimes in Continental Europe, the Netherlands and Switzerland, developed advanced pension fund capitalism whose origins pre-date postwar Beveridgean public pensions. The roots of Dutch multi-pillar pensions are found in the postwar extension of negotiated funded occupational and company schemes as quasi-mandatory pensions that aimed to guarantee earnings-related income in old age. These were reinforced in 1957 by a generous basic state pension. Similarly, the Swiss contributory basic old age security system introduced in 1948 complemented established funded occupational pensions. These were made mandatory for nearly all employees in 1985, endorsed by a referendum.

Since the 1990s, different versions of multi-pillar pensions developed in the three Nordic countries (Kangas et al., 2010), breaking with the social democratic universalist basic pension model (which included guaranteed pension supplements). Denmark’s basic pension was raised and supplemented by negotiated occupational pensions in the 1990s. Finland changed its basic pension into an income-tested benefit in 1996, while contributory, partly funded occupational pensions had been mandatory since the 1960s. Sweden transformed its basic pension (with an income-tested supplement) and second tier public pensions into a notional defined contribution (NDC) scheme and a small mandatory but funded personal pension; pension-tested benefits fill in contributory gaps and negotiated occupational pensions supplement old age income.

In contrast, other Continental European countries covered by Bismarckian contributory old age insurance have developed relatively generous earnings-related public
pensions that left only limited scope for the development of private funded supplements (Ebbinghaus, 2011). In Germany, public pensions remain dominant, though some private firms and the public sector provide supplementary benefits. Recent reforms not only reduced future public benefits, but promoted negotiated occupational schemes and a new voluntary Riester pension. In Belgium, policy drift forced a decline in public benefits, while reforms sought to foster negotiated occupational and voluntary personal pensions. Austria and Italy show a different dynamic: both had generous public pensions and reform aimed to transform severance pay (corporate book reserves) into funded occupational pensions. In France and Southern European countries, private funded schemes, whether occupational or personal, have only been very recently introduced and remain limited in scope, thanks to rather generous statutory pensions. However, recent reforms and current trends will slowly transform these pension systems, particularly following ongoing retrenchment of public benefits.

In response to demographic and financial pressures, pension reforms in all European countries have created change: parametric, gradual transformative or systemic (Ebbinghaus, 2009; Pierson, 2000). Pension architecture is altered: the foundations have diminished, the building is enlarged and the balance has shifted from public to private pillars. Sweden offers the most dramatic systemic reform: in 1994, a generous universal basic pension and a mandatory earnings-related supplement were replaced by an NDC public pension and a mandatory personal pension; there is an income guarantee for those with insufficient public pension income. From 1995, Italy followed the NDC example, thereby reducing future pension benefits in line with demographic and economic development. In most Bismarckian systems, modifications such as less favourable indexation rules and increased contributory years are designed to limit pension costs in fast ageing societies. To date, the most visible and controversial changes have entailed the prevention of early retirement and the raising of retirement ages, to enforce more contribution years and fewer years of payout. Phased-in later retirement, however, moves at a snail’s pace.

The effects of these pension reforms lie far in the future: for the public accounts, current pension costs have not diminished, thanks to continuing demographic pressures and the slow pace of change. Public pension systems dominate current overall public expenditure (see Table 1), substantially exceeding private pension expenditure in 2007 (Adema et al., 2011; OECD, 2011). Bismarckian public schemes in particular provide the lion’s share of current pensions: funded pensions still assume a minor role (less than 10%) in all countries but Belgium (where public pensions have declined in value and private pension expenditure is about 30%). In contrast, funded pensions assume a large overall share (45–55%) in the Netherlands, Switzerland and UK, followed (with more than 20%) by Denmark, Sweden and Ireland but also Finland (with a mixed system).2

Privatization has advanced furthest in established multi-pillar pension systems (see Table 2). The maturity of these private pensions can be shown not only by current expenditure but also by current benefits (OECD data from 2010). The Finnish (partly funded) occupational pensions paid some 11% of GDP in 2010, while all others pay more than 3% of GDP, though no data are available for Ireland and Sweden. Only Belgian private pensions come close to a multi-pillar system (3% of GDP), while all other Bismarckian pension systems have to date provided much less in private benefits (below 1% of GDP). Future distributions can be anticipated by data on current contributions: multi-pillar
Table 1. Expenditure (2007) and type of pension systems in Western Europe.

<table>
<thead>
<tr>
<th>Model</th>
<th>Public %GDP</th>
<th>I State</th>
<th>II/III Private %GDP</th>
<th>%Total</th>
<th>II Occupational pensions</th>
<th>III Personal pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country</strong></td>
<td><strong>%GDP</strong></td>
<td><strong>Pensions</strong></td>
<td><strong>%GDP</strong></td>
<td><strong>Total</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Beveridgean</strong></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>5.6</td>
<td>basic+III</td>
<td>2.2</td>
<td>28.1</td>
<td>collective</td>
<td>(part of I)</td>
</tr>
<tr>
<td>Finland</td>
<td>8.3</td>
<td>tested+II</td>
<td>0.2</td>
<td>2.7</td>
<td>(part of I)</td>
<td>voluntary</td>
</tr>
<tr>
<td>Ireland</td>
<td>3.6</td>
<td>basic</td>
<td>0.9</td>
<td>20.1</td>
<td>voluntary</td>
<td>voluntary</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.7</td>
<td>basic</td>
<td>5.2</td>
<td>52.6</td>
<td>collective</td>
<td>voluntary</td>
</tr>
<tr>
<td>Sweden</td>
<td>7.2</td>
<td>tested+III</td>
<td>2.1</td>
<td>22.7</td>
<td>collective</td>
<td>(part of I)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>6.5</td>
<td>basic</td>
<td>6.0</td>
<td>47.9</td>
<td>mandatory</td>
<td>voluntary</td>
</tr>
<tr>
<td>UK</td>
<td>5.4</td>
<td>basic+(S2P)a</td>
<td>4.5</td>
<td>45.9</td>
<td>opt-ina</td>
<td>opt-ina</td>
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<tr>
<td><strong>Bismarckian</strong></td>
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<tr>
<td>Austria</td>
<td>12.3</td>
<td>earnings</td>
<td>0.5</td>
<td>4.1</td>
<td>severance</td>
<td>voluntary</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.9</td>
<td>earnings</td>
<td>3.7</td>
<td>29.5</td>
<td>collective</td>
<td>voluntary</td>
</tr>
<tr>
<td>France</td>
<td>12.6</td>
<td>earnings+II</td>
<td>0.3</td>
<td>2.6</td>
<td>(part of I)</td>
<td>voluntary</td>
</tr>
<tr>
<td>Germany</td>
<td>10.7</td>
<td>earnings</td>
<td>0.8</td>
<td>6.9</td>
<td>voluntary</td>
<td>voluntary</td>
</tr>
<tr>
<td>Greece</td>
<td>11.9</td>
<td>earnings</td>
<td>0.4</td>
<td>3.2</td>
<td>voluntary</td>
<td>voluntary</td>
</tr>
<tr>
<td>Italy</td>
<td>14.5</td>
<td>earnings</td>
<td>1.4</td>
<td>9.1</td>
<td>severanceb</td>
<td>severance</td>
</tr>
<tr>
<td>Portugal</td>
<td>10.8</td>
<td>earnings</td>
<td>0.5</td>
<td>4.4</td>
<td>voluntary</td>
<td>voluntary</td>
</tr>
<tr>
<td>Spain</td>
<td>8.0</td>
<td>earnings</td>
<td>n.a.</td>
<td>–</td>
<td>voluntary</td>
<td>voluntary</td>
</tr>
</tbody>
</table>

S2P: state second pension.
aContracting out of S2P possible.
bItaly: automatic enrolment in occupational pensions if no decision.


Pensions collect contributions from 3% of GDP (UK) to up to 9% (Switzerland, 10% in the Finnish partly funded system), while funded pensions still only collect minor contributions (less than 1%, except Belgium with 1.7%). Clearly, private savings in Bismarckian systems are not only delayed but will remain less important for future income than in the established multi-pillar systems.

Pension fund capitalism follows the same divide between established multi-pillar and dominantly PAYG systems (Ebbinghaus, 2011). Measured in respect of assets held by pension funds or insurance schemes (see Table 2), pension assets are very high in Denmark, followed by the Netherlands, Switzerland, Finland, UK, Sweden and Ireland. Whereas the Danish and Swedish occupational pensions are invested through insurance institutes, it is mainly the Dutch, Swiss, Finnish but also British and Irish occupational pensions that are managed by autonomous pension funds. By contrast in Bismarckian countries, pension fund capitalism is still in its infancy (less than 15% of GDP), although on-the-book-reserves (Germany, Spain) and some personal life insurance contracts (Belgium) are not included in the OECD statistics. Despite privatization efforts over decades, the main divide between established multi-pillar and dominantly public systems has not changed much, though some countries have shown more growth in funded schemes.
When considering alternatives to state provision, the most important question in respect of social equity has been the coverage of private schemes: whether this is inclusive or concentrated solely on higher income groups. State intervention, collective agreements or employer policies are important in ensuring widespread coverage of occupational and personal pensions (Ebbinghaus, 2011; Immergut et al., 2007). As an alternative to state insurance, collectively administered, partially funded occupational pensions became compulsory in Finland in the 1960s, negotiated supplementary (but unfunded) pensions were made mandatory for private employees in France in 1972, as were Swiss established occupational pensions in 1985. The Swedish Premium Pension (introduced in 1998) is also mandatory: taken from state contributions with individual choice of provider.

Collective agreements promote (quasi-) mandatory coverage for occupational pensions in the Netherlands (extendable by the state since 1947), in Sweden for all employees since the 1970s and in Denmark for both public and private sectors since the 1990s. Pockets of negotiated occupational pensions have provided broader coverage in recent years in Austria, Belgium, Germany and Italy. In the UK, partial reimbursement of national insurance contributions offered incentives for employers to provide

### Table 2. Private pension assets, contributions and benefits (%GDP) in Western Europe, 2010.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Funds</td>
<td>(% total)</td>
<td>Contributions</td>
<td>Benefits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Insurance</td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Mature pension fund capitalism</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Denmark</td>
<td>177.8</td>
<td>104.8</td>
<td>49.7</td>
<td>28%</td>
<td>6.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Finland</td>
<td>91.0</td>
<td>8.9</td>
<td>82.1</td>
<td>90%</td>
<td>10.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Ireland</td>
<td>49.0</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>128.5</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>4.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>56.9</td>
<td>45.0</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>113.7</td>
<td>.</td>
<td>113.7</td>
<td>100%</td>
<td>8.6</td>
<td>5.1</td>
</tr>
<tr>
<td>UK</td>
<td>88.7</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Late or low pension fund capitalism</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>5.4</td>
<td>0.2</td>
<td>.</td>
<td>.</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.8</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>1.7</td>
<td>2.9</td>
</tr>
<tr>
<td>France</td>
<td>8.5</td>
<td>8.3</td>
<td>0.2</td>
<td>2%</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Germany</td>
<td>5.2</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Greece</td>
<td>0.0</td>
<td>.</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Italy</td>
<td>5.3</td>
<td>0.7</td>
<td>4.2</td>
<td>79%</td>
<td>0.7</td>
<td>.</td>
</tr>
<tr>
<td>Portugal</td>
<td>12.3</td>
<td>.</td>
<td>11.2</td>
<td>91%</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Spain</td>
<td>9.3</td>
<td>.</td>
<td>2.9</td>
<td>32%</td>
<td>0.8</td>
<td>0.6</td>
</tr>
</tbody>
</table>

2010 or earlier, excludes on-the-book reserves; insurance: insurance-based schemes; funds: autonomous pension funds; Finland: including public occupational pensions; Sweden includes mandatory Premium Pension; Germany: only Pensionskassen/fonds.

occupational pensions from 1959 and for individuals to buy personal pension cover from 1986. Hence, state intervention has extended occupational cover or introduced mandatory personal pensions in several European countries, while the social partners also play a substantial role, dependent on their bargaining coverage and strategy.

The shift from public to private provision does not remove a public burden; tax support for market-based pensions is a frequently ignored part of welfare states, particularly in the USA (Howard, 1997). Tax concessions also boost private pensions in Europe; covert tax expenditures (as % GDP in 2007) are considerable in the Netherlands (2.1%), Ireland (1.4%), the UK (n.a.) and Germany (0.9%) (Adema et al., 2011). Occupational pension cover is thus very high (above 75%) in the (quasi-) mandatory systems of Denmark, Finland, France, the Netherlands, Sweden and Switzerland, while coverage is moderate (above 40%) in Austria, Belgium, Germany and Italy as well as in Britain and Ireland. Voluntary personal pensions as additions or alternatives to occupational pensions have still relative low coverage (below 30%) in both Britain and Germany, despite tax incentives and direct subsidies for lower income groups in both countries and for parents in Germany. The tax code can be the leverage for regulation, for instance Riester pensions have to fulfil particular requirements (such as a unisex annuity) for policy holders to receive public subsidies. Yet, tax codes are largely written by finance ministries that seem less inclined to use regulation for social purposes.

The risk shift and its regulation

Mirroring ‘privatizing risk without privatizing the welfare state’ in the United States (Hacker, 2004), there is a trend from DB to DC schemes in Europe (Ebbinghaus, 2011). Most prominently in Britain, following the 1986 Thatcher government’s reform, subsidies for DC personal pensions were available for anyone electing to contract-out of occupational cover, including the second state pension. Following the dot.com bubble collapse and the introduction of IAS 19 (requiring the publication of pension deficits in corporate annual accounts, thereby damaging shareholder value), British companies transformed DB occupational pensions into DC schemes (Bridgen and Meyer, 2005). Surviving public sector DB schemes are currently a target for the British government’s retrenchment plans. A similar shift is detectable in Ireland; however, DB schemes still dominate both private and public sectors and only one-third of all insured fall under DC schemes, even though many Irish funds are currently underfunded. In Sweden, most of the four main occupational pensions run by the social partners have been turned into DC schemes.

DB schemes still dominate Dutch occupational pensions in the 2000s, though underfunding consequent on the last two financial crises is met by relaxed funding conditions, while many pensions switched from final salary to career-average earnings and contributions increased considerably in recent years. Similarly, the Swiss pension funds, although DC schemes, have faced underfunding during the crisis. The government lowered the guaranteed notional interest rate to the detriment of employees and retirees, even though employers had profited in boom years from contribution holidays. In Denmark, the dominant mutual insurance plan protects members from the worst risks of profit taking.

In Bismarckian systems, the rise of DC schemes was mainly due to new voluntary funded pensions introduced over the last decade (Ebbinghaus, 2011). The Riester
pension reform in 2001 created voluntary DC plans in Germany, guaranteeing the sum of contributions against investment risks. While most corporate book-reserves remain DB schemes, DC plans (from individual contracts to new pension funds) became more common in both public and private sectors during the 2000s. DC schemes are also the new French voluntary funded pensions, nearly all of the Belgian private pensions and the Italian closed and open pension funds transferred from severance pay. Thus we find a marked trend towards DC in the United Kingdom, and to a lesser degree in countries with established DB occupational pensions facing underfunding, whereas newly created voluntary funded pensions are DC schemes from the start. In Anglo-Saxon pension fund capitalism, but increasingly across Europe, we see the overall shift to individualizing risks as a consequence of market forces and policy drift.

Either state intervention or collective self-regulation of private pension provision is crucial to safeguard benefits from financial risks such as bankruptcy, or to guarantee social rights such as gender equality. In the case of corporate bankruptcy, solvency protection for pension funds is important (Ebbinghaus and Wiß, 2011). The Maxwell scandal in 1991 exposed the risks of fraudulent corporate behaviour, stimulating stricter regulation under the UK Pension Act of 1995. In 2004, the government introduced compulsory reinsurance under the Pension Protection Fund, but this only offers partial reimbursement. In Germany, a solvency protection fund for book-reserve occupational pensions was set up in 1974 and newly introduced pension funds came under the same protection from 2002, while the other insurance-based private pensions are reinsured by the insurers. Following the recent financial crisis, contributions to all these protection funds have increased substantially (Ebbinghaus and Wiß, 2011). Swiss occupational pensions are protected by similar funds under federal and cantonal supervision, whereas in the Netherlands underfunding regulations are strict and reinsurance can be imposed by the Dutch Central Bank. Supervision is common in all Nordic countries, with strong reliance on mutual insurance for occupational pensions in Denmark, Finland and Sweden (the Swedish white-collar DB plan is an exception).

To meet social objectives, regulation of private pensions may stipulate gender equality, minimal vesting periods, indexation rules or interest guarantees (Ebbinghaus and Wiß, 2011). Applying the EU anti-discrimination principle, the European Court of Justice (case C–236/09) in March 2011 banned gender-based risk calculations, thus unisex insurance contracts, including annuity rates, must be applied to private pensions by the end of 2012. Given women’s greater longevity, they could profit from this rule, while men will on average receive lower payouts than before. Although the German transposition of the EU anti-discrimination directive exempted gender-based calculations from insurance, the Riester pension law (2001) already required unisex tariffs, while the ECJ ruling now makes this compulsory for all other insurance contracts (Temming, 2012).

Few DC schemes have state-regulated minimum returns: German Riester pensions must guarantee at least the value of paid contributions, and Swiss occupational pensions’ minimum increases are regulated by the government. Indexation is particularly a concern in DB schemes in order to maintain pensions in line with inflation and wage growth, but this is expensive. Tax requirements stipulate indexation in German earnings-conversion plans and mandatory Finnish DC pensions, while in several countries collective bargaining has established similar rules (Ebbinghaus, 2011). Whereas for most DC pensions
vesting periods and portability are less of a problem, employers tend to resist transfers from DB plans. Although the EU Commission would like to foster inter-firm mobility, this is blocked by cross-national variation across Europe in respect of vesting rules, as well as funding and taxation regimes (Mabbett, 2009). German occupational pensions have the longest period (up to five years), while Britain, Belgium and Denmark have shorter periods. In most European countries with DC schemes, vesting is immediate (Ebbinghaus and Wiß, 2011).

**Conclusion: After the financial crisis**

Throughout our analysis, we have battled with variable and changing differentiations between public and private, between state-sponsored and market-based pension provision. Commonly used distinctions are nearly unworkable. State social security reserve funds are invested on commercial markets. Dutch occupational schemes are included in old age income replacement statistics by the EC and OECD due to their quasi-mandatory coverage but regarded as private in reports on pension governance. Finnish insurance companies manage and invest the state’s mandatory occupational scheme, but retain an uncertain status under EU law. Tax subsidies promote private pension cover as in the case of voluntary Riester pensions for which high subsidies by the German state are available for low income groups and families with children. Following the financial crisis, governments all over Europe have suspended solvency regulations and protected benefits to promote public confidence in funded schemes: a few have raided fund balances to shore up the public accounts. State-sponsored pensions are increasingly run on market principles, while state regulations shape non-state provision. Under a range of regulations, governments promote social objectives or address financial issues to identify the fiduciary duties imposed on governing agencies to secure the interests of future beneficiaries. Systemic study must address the total pension product, not examine selected parts by assuming insulated spheres.

In place of public and private, our analysis focuses on policy logics dominant in Western European countries and the compromises secured between them. For the more market-oriented, the solution to pension sustainability lies in personal savings, commercially invested on financial markets under professional business management. Claimed advantages include flexibility, actuarial fairness, portability, potentially high returns and the freedom of personal choice. Under this logic, the 2008 crisis and its consequences represent an unfortunate blip in a historical trajectory of high returns on financial markets. Regulations promoting market solutions respond to issues such as low coverage and suboptimal decision-making with tax incentives and the provision of financial education, advice or information, to enhance market mechanisms by empowering citizens as consumers. Market provision can be reinforced by auto-enrolment and by controlling costs (rules on disclosure, provider registration or imposed ceilings). The prime examples are the UK and Ireland, where regulation has focused less on equating social outcomes than on marketing, encouraging competition and preventing fraud.

In reappraising mature pension fund capitalisms, three subcategories emerge (see Table 2). In Nordic countries, commercial competition is less significant; democratic representation and technical expertise shape strategies to safeguard DC pensions from
the worst excesses of profit taking. In Swiss and Dutch collectively negotiated schemes, pension benefits reflect labour market status, as justified by the civic governance of the social partners. Both contrast with the Anglo-Saxon model, grounded in commercial mechanisms and greater individualization of risk. While all remain reliant on market-based investments to secure pension returns, different compromises between policy logics create variance in the meanings of ‘private’ provision.

At the other end of the scale, the search for pension security remains rooted in state systems of democratic accountability and, where funded schemes are introduced, regulation refashions commercial provision to target the same social objectives as the state scheme. The German Riester pension is a case in point (Berner, 2011). From the outset, regulation of voluntary personal pensions focused on equity issues such as gender equality (unisex annuities) and guaranteed benefits (at least the sum of total contributions) through the certification of compliant products. Here, the 2008 crash illustrates the dangers of market instabilities. In place of market-driven outcomes, a democratic accountability of market actors can secure social justice. While other Bismarckian countries’ DC schemes carry fewer safeguards, the dominant role played by state and social partners demonstrates the strength of the convention that pension provision should be subject to civic controls.

While we have identified dominant logics of societal pension contract, all current settlements remain compromises that combine democratic accountability, technical competence and market-based finance. The significance of the last two has grown in recent years. To serve their constituencies, social representatives need training in fund management if they are to fulfil the fiduciary duties imposed on them. The paradigmatic risk shift from state to private funded systems has been hit amidships by the 2007–2008 crash, creating a return to civic values and hence more regulation, including the possibility that EU Solvency II Directive be extended from banks to pension funds. The current stream of pension legislation is unlikely to run dry. Even assuming a restoration of market stability, no measures taken to date are capable of sustaining future pensions into the 2050s without substantially longer working lives, much higher savings or mass immigration – solutions that are currently unacceptable. It takes over 40 years to build a pension, yet many expert analysts assume a steady state when offering prognoses.

Accruing regulation and associated complexity alienates voters unable to understand or affect policy discussion, while constant technical modification creates oligarchic governance, raises administrative expenses and undermines accountability. Confidence and trust in funded systems, already low in Bismarckian countries (Bonoli and Palier, 2007), is now fast disappearing everywhere, and willing public participation in funded systems is going with it. As creator of complexity and its costs, states stand vulnerable to accusations of betrayal and demands for compensation. Thus we face not only the challenge of squaring the circle of financial sustainability and social adequacy, but also of retaining the political viability of current settlements if promised outcomes are not achieved. Far from protecting public authorities and the public finances from pension burdens, in the long run current policy trends promise to add to them.

Funding

This paper was partly funded by the EU-FP7 project GUSTO, based at the University of Warwick (PI Colin Crouch).
Notes
1. While drawing on the detailed information of the country studies, we only refer to the edited volumes and not individual chapters due to space limitations.
2. Finland’s mandatory occupational pension is counted as public expenditure by the OECD (see Table 2), though about a third of contributions are privately invested via insurance companies.

References


Résumé

Transfert des responsabilités dans les systèmes de pension de l’Europe de l’Ouest: Quel avenir pour les modèles sociaux?

Un changement de paradigme libéral de l’État vers la responsabilité privée en matière de protection des revenus des personnes âgées a connu une évolution générale en Europe de l’Ouest. La crise financière jette un nouvel éclairage sur la question de la fracture entre public et privé dans la politique des retraites. Basée sur la théorie des conventions, l’analyse passe en revue la manière dont les retraites par capitalisation sont régies et comment les États utilisent une gamme de règlements visant à contrôler leurs pratiques étant donné qu’ils cherchent à convertir les pratiques liées au marché à des objectifs de politique sociale. Le document fait valoir que la réglementation étatique croissante faisant suite à la gestion de la crise financière et de ses effets a ébranlé les distinctions faciles entre régimes public et privé, et est en train de générer des formes de gouvernance des régimes de plus en plus technocratiques et oligarchiques, au détriment du débat démocratique sur les retraites.

Mots-clés
Europe, politique de retraite, réglementation, retraite par capitalisation, théorie des conventions

Resumen

Cambio de responsabilidades en los sistemas de pensiones de Europa Occidental: ¿Cuál será el futuro de los modelos sociales?

En Europa Occidental se ha producido un cambio en las políticas de protección de los ingresos de la población de adultos mayores, desde un paradigma que enfatiza la responsabilidad estatal hacia el paradigma liberal que privilegia la responsabilidad privada. La crisis financiera ha arrojado nueva luz sobre la cuestión de la división público-privado en la política de pensiones. Aplicando la teoría de la convención, el análisis examina la gestión del sistema de pensiones y cómo los estados utilizan un conjunto de regulaciones para controlar sus prácticas, mientras buscando utilizar las prácticas de mercado para los fines de política social. El documento sostiene que a partir de la acumulación de regulaciones estatales implementadas por los gobiernos para hacer frente a la crisis financiera y sus secuelas ya no es posible distinguir fácilmente entre regímenes públicos y privados; al tiempo que estas regulaciones están generando formas de gobernanza de pensiones cada vez más tecnocráticas y oligárquicas, en detrimento de un debate democrático sobre las pensiones.

Palabras clave
Europa, fondos de pensiones, política de pensiones, regulaciones, teoría de la convención
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