

Reforming Pensions in the EU: National Policy Changes and EU Coordination

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Introduction

Two decades of reforms across the EU has consisted in some retrenchment of public protection against old-age risks. This has been coherent with the further development of supplementary non-public pension schemes (Natali, 2008).

The present paper sheds light on the recent wave of reforms in EU members and its impact on the application of different pieces of EU legislation (especially for the protection of the pension rights of migrants). The paper will provide a summary of reform's outcome and output in EU members, with a specific reference to the most recent measures introduced after the economic crisis of 2008-10. On top of that, the role of the EU in the field is summarised

Section one provides the basic glossary for the analysis of national pension institutions. By referring to some key contributions in the literature (Holzmann et, 2008; Immergut et al, 2007), we do present concepts and terms that allow to assess the innovation of the institutional design of national pension systems. Section two introduces pension models in the EU at the end of the 20th century, while Section three looks at their recent transformation and the changing role of different pension programmes (that belong to first and supplementary pillars). Section four asses the main outcomes of the reform process in terms of a changing public/private mix. Section five sheds light on the role of the EU in the field: while common challenges have pushed for policy innovation, the EU has also plaid a role. Section six concludes.

¹ Section four is largely inspired by the work of Igor Guardiancich who has carried out several projects on pension policy for the European social observatory. See Guardiancich (2010) for a more complete reading of the reform process in EU countries.

1. Basic Glossary for the Analysis of Pension Institutions

Different instruments usually coexist within a single pension system. In fact the latter consists of different programmes or schemes, each with its own rules of access, financing, benefit calculation and administration. The complex system of programmes providing protection for the elderly represents the *institutional design* of pensions. This gives information about the role of different institutional spheres: state, market, civil society and social partners (pension mix).

Many authors use the terms “pillar” and “tier” to summarise the key parts of a pension system. After the seminal works by the World Bank (1994; Holzmann and Hinz, 2005), many scholars have used similar (even if inconsistent) terminology. This helps define the main characteristics of the pre-reform and post-reform systems in different European countries. In line with some of the most recent contributions (see Bonker, 2005; Immergut *et al.*, 2007; Jochem, 2007), the present work uses the following concepts:

- the *first pillar* is represented by the basic mandatory programmes introduced through legislation. Usually financed on a PAYGO basis, these programmes are public in that they are established by law and managed by a public body.² They often have redistributive aims. In some of them, benefits are targeted or flat-rate; in others they are income-related and/or contribution-related (Figure 1);

Figure 1 Institutional Design of Pension Systems

		<i>Risk-pooling</i>	<i>Funding</i>	<i>Management</i>
Third pillar		Personal	Funded	Private
Second pillar		Occupational	Funded	Private
First pillar	3 rd tier	Personal	Funded	Public/Private
	2 nd tier	Occupational	PAYGO	Public
	1 st tier	Universal/Targeted	Means-tested/ flat-rate	Public

Source, Natali (2008)

² These are some of the criteria usually proposed for assessing the public/private nature of pensions (SPC, 2005).

- the *second pillar* consists of non-public schemes in which membership is collective and linked to employment status or occupation. These are defined occupational or professional schemes usually operating on a funded basis. Pensions can be defined-benefit or defined-contribution. Each programme covers a group of workers defined at the company and/or sectoral level. It is private in that it is not established by law (but by collective agreement) and is run by social partners. It can be mandatory, quasi-mandatory or voluntary;
- the *third pillar* is represented by voluntary savings put aside by an individual for his/her old-age. These consist of individual provisions, and this pillar is private in that it is not established by law and is based on contracts signed by insured individuals with private institutions (e.g. life insurance companies, banks, or pension funds still with individual membership). Third pillar schemes are fully-funded, with limited if any redistributive aims (Figure 1).

While these terms are widely used (even if with different meanings), the boundaries between them are not always clear and do not accurately describe the mix of public and private institutions. The famous template by the World Bank (1994), which is based on the definition of pillars, has certainly had an influence on the reform of European pension systems, but many countries have introduced new measures that have represented a kind of compromise between new ideas and old institutions (Holzmann and Hinz, 2005; Holzmann et al 2008).

Hence in countries that experienced partial privatization of mandatory programmes (i.e. Sweden and Poland), privately-managed schemes belong to all three pillars. Moreover some public programmes have been developed in parallel: some of them are means-tested, financed through general taxation and aimed at representing a basic safety net for elderly people in need; while others are employment- and income-related and financed through social contributions. To deal with those complications, a growing literature has referred to the concept of “tiers” (see Jochem, 2007; Immergut et al., 2007; Natali, 2008). In the following, this is used to describe the internal structure of the first mandatory pillar:

- the 1st tier consists of schemes providing basic protection against the risk of poverty in the old-age. These can be selective, if they provide means-tested benefits targeted at the elderly in need; or they can be universal flat-rate schemes providing homogeneous protection for the entire elderly population on the base of citizenship;
- the 2nd tier consists of traditional PAYGO income-related programmes based on employment. These provide higher protection for workers and active people in a broader

sense, and are funded through contributions paid by employees and employers, or from taxation.

- the 3rd tier is represented by funded (still mandatory) schemes financed by part of total contributions. They provide individual pension rights separately from those of the first and second tiers (Figure 1).

These schemes are mixed: partly public and partly private. They are public in that they are introduced and regulated by law, and the state (or public institutions) has some administrative and regulatory tasks. But they are private in that assets are usually managed by private funds. These programmes are among the most interesting innovations of the reformed systems in Europe.³

The above-mentioned set of concepts provides some analytical advantages if compared to the “three-pillar” terminology. The term “tier” specifies the role and weight of each part of the first pillar (with its own rules) and how it influences the overall logic of pension systems. Some authors have already stressed the analytical implications of the varied interaction of 1st and 2nd tiers and its outcomes in terms of equality and redistribution (see Korpi and Palme, 1998). The term then sheds light on the more complex public/private mix in the 3rd tier of the first pillar. As Gora and Palmer (2004) put it, there are four dimensions in which the public/private mix appears: management, contracts, claims and assets (see also Rein and Turner, 2004; Natali, 2008). In the case of the partial privatization of pension systems, state functions may include the regulation and supervision of funded schemes, the funding of fiscal costs in the transition phase, the provision of some forms of guarantee, sponsorship of pension funds and the so-called *clearing-house* approach (see Chapters 3 and 4 for a more accurate description). The latter is based on allocation of managerial tasks between public and private institutions (Müller, 2007). In all these respects, partial privatization of retirement programmes is not synonymous with a residual public role.

In the case of 3rd tier schemes, for instance, public agencies may:

- collect contributions, keep accounts and register information about each saver (thus limiting the interaction between fund managers and the public);
- compete with private funds, with a state-sponsored fund;
- monitor the activity of private funds and regulate investments;
- pay out benefits to pensioners.

³ The 3rd tier was introduced in Sweden, Denmark, Poland, Latvia, Lithuania, Estonia, Slovak Republic and Hungary (SPC, 2005).

2. Pension Models in Europe: the status quo ante

Contemporary literature on pensions widely proposed two main clusters (*Bismarckian vs. Beveridgean; social insurance vs. late-comers; social insurance vs. multi-pillar systems*), to describe pension systems across Europe (see Bonoli, 2003; Green-Pedersen and Lindbom 2006).

In **social insurance** systems the state provides the greater part of pension benefits through public mandatory schemes basically earnings-related (e.g. France, Spain, Germany, Sweden). The financing method is of a pay-as-you-go (PAYGO) type. Current contributions paid by both employers and employees (or revenues coming from current taxation) are not accumulated but immediately used for financing current benefits. Then, the main goal of such pension programmes (which represent the so-called first pillar) is to grant the same level of revenues before and after retirement (*income-maintenance*). The high generosity and coverage, and the encompassing character of public pensions are expected to limit the role of private schemes (or at least the level of their benefits). As we will see in the following, the literature has distinguished two sub-groups in the cluster: the first generation of social insurance systems (continental and southern European countries that introduced their pension system between the end of the 19th and the beginning of the 20th century) where the public pillar has a monopoly of old-age protection; and the second generation (Scandinavian countries like Sweden and Finland that introduced their social insurance component in the second part of the 20th century) where public benefits are less generous.

In **multi-pillar** systems, by contrast, the state has the responsibility for basic entitlements with the aim to prevent poverty, while additional benefits are provided by supplementary occupational and/or individual schemes (e.g. Denmark, the Netherlands, and UK). The financing methods are thus mixed: on the one hand, public pension programs (first pillar) provide flat-rate or means-tested benefits, on the other hand supplementary occupational schemes and individual pension funds are mainly funded. Current revenues are saved and then used to finance future benefits.

Pension systems in countries which joined the EU on 1st May 2004 have largely followed a different institutional and historical evolution. While the Mediterranean countries (Cyprus and Malta) took their first steps in line with the Anglo-Saxon family, countries from Central, Eastern, and Baltic areas were highly influenced by the Communist ideology and by the institutions adopted in the USSR. In the so-called '**Soviet** model' the state had the monopoly of the protection against social risks, non public schemes were not admitted. Public pension benefits had the main policy goal of ensuring equal protection to pensioners (*'benefit-equality'*). That aim was implemented through highly redistributive public schemes. Equality was ensured by short eligibility periods and a truly fair distribution of resources (with higher replacement rates for lower paid groups). Pensions were financed through contributions paid by public employers, calculated on the basis of workers' income, and administered by state authorities, official trade unions, and

public enterprises. The social insurance principle (formally in action) was in fact quite limited. Benefits were related to seniority and age more than to contributions. Moreover, the lack of effective indexation contributed to two outcomes. On the one hand, pensions became homogeneous if not flat. On the other, they consisted of just a 'basic safety net' for the major part of the population (Natali, 2008).

3. Pension Reform Trends in the EU

Since the early 1980s, policy-makers faced new challenges (population ageing, new labour markets, economic internationalisation, etc.) and shared new aims (first to improve the financial sustainability of public pension systems) (Palier, 2003). But, to recast pensions, governments interacted with different *policy legacies*. The present section looks first at the evolution of pension systems between the end of the 20th and the beginning of the 21st century. Then we briefly summarise the most recent reforms after the economic and financial crisis of 2008-10.

3.1 Two Decades of Institutional Transformation (1990-2007)

Some convergence can be detected as far as public policy goals, pensions institutional design and risk-pooling. In the words of Hemerijck (2006), we observe a process of 'contingent convergence' of pension policy and the adoption of similar policy initiatives. Much innovation has concerned social insurance and (post-) Communist systems. In many of these countries, public schemes are still the backbone of pension systems, but they have no more the quasi or full monopoly of the old-age benefit provision. Their policy goal is less ambitious than in the pre-reform phase and average public pensions are expected to decline in the future. Both groups of countries have thus partly revised their policy goal and the public pillar ambition.

In **social insurance** systems the generosity of the public pillar is decreasing as a consequence of recent reforms and of new features of the socio-economic context (e.g. new social risks; more flexible labour markets, etc.). EU projections show the expected future decline of gross and net replacement rates in all the countries. For future pensioners, public benefits are going to be lower than in the past and more strictly related to contribution records. This means the progressive innovation of public programmes' goal: from 'income maintenance' to 'salary savings' (Palier, 2003). At the same time, retirement age has increased everywhere: this has been the consequence of population ageing (that is particularly evident in Southern European countries) and the way the principle of activation has been implemented in old-age policy.

In **post-Communist** countries the old paradigm based on public monopoly for old-age protection (consistent with the policy goal of *benefit equality*) was abandoned too. Despite the huge variation

of policy changes within the cluster, reforms in Poland, Estonia and Slovenia have led to the opening of the market to supplementary pension funds and to the present (and/or future) lowering of public benefits. In the case of Estonia and Poland (after the first transition period with huge public spending increase), recent reforms have been consistent with the widening of supplementary schemes' coverage. In both, pension funds are mandatory for younger cohorts of workers. This is paralleled by the progressive reduction of public pensions, particularly evident in the case of Estonia. By contrast, Slovenia has followed the less radical innovation trend of Western European social insurance countries. Supplementary pension funds are not mandatory while coverage has widening. Yet in Slovenia as well as in the other post-communist countries public protection is going to lower (in terms of replacement rates).

In **multi-pillar** systems (implemented in UK, Ireland, the Netherlands and Denmark), the public mandatory pillar represents just part of the pension system and provide basic protection (poverty-prevention goal). In the cluster, total public spending is far lower than in social insurance countries. In terms of institutional design and policy instruments, the cluster has proved stable. Public and private sphere are distinguished and the private sector is regulated. Recent reforms have aimed at extending the coverage of supplementary schemes, especially for atypical workers, while increasing the adequacy of basic benefits (Anderson, 2007; Natali, 2011).

As a consequence the institutional design of many national systems is changing. Pension systems characterised by a 'single-pillar' design at the end of the 1980s are now converging to some forms of 'multi-pillar' systems. Pensioners income is, and increasingly will be in the future, the result of benefits coming from different sectors (public, occupational and individual schemes). The parallel development of these schemes will provide the broad protection against old-age risks. This is consistent with the partial privatization of pension systems and the progressive 'individualization' of old-age risks. In other words, risk-pooling and thus redistribution have been restricted in all the countries under examination. Not only in Continental and Eastern Europe and Scandinavia but in multi-pillar systems too. While in the pre-reform systems old-age risks were 'socialised' and thus individuals were covered against many unpredictable factors (economic recession, high unemployment, demographic ageing, investments risks, etc.), in the post-reform scenario some of these risks are no more socially protected. The progressive reduction of redistribution has been implemented in second pillar programmes.

Does the convergence of national systems in Europe towards some forms of 'multi-pillar' institutional design mean that pension systems are increasingly consistent with one model? It is quite evident that important differences between clusters of countries persist. The present section provides the categorization of pension systems after reforms. In the following we give the more

accurate summary of the recent evolution of the pension systems broadly introduced above. Table 1 summarises what we call the 21st century pension models.

Table 1. 21st century pension models

	1st Generation Multi-pillar	2nd Generation Multi-pillar	1st Generation Social Insurance	2nd Generation Social Insurance
Public schemes' Goal	Basic protection (poverty prevention)	Salary savings (some adequacy)	Salary savings (some adequacy)	Salary savings (some adequacy)
Private schemes' coverage	Mandatory or quasi-mandatory	Mandatory	Voluntary	Quasi-Mandatory
Earnings-related schemes	(mainly) Private	Public/private	(mainly) Public	(mainly) Public
Countries	UK, NL, IRL, DK	PL, SK, HU, EE, LT, LV	DE, FRA, ITA, SPA	SWE, FIN

Source, Natali, 2008

For the first group represented by UK, Denmark, Ireland and the Netherlands we use the label *first generation* of multi-pillar systems. In that case, the system has proved stable. Earnings-related schemes are mainly private while the key role of public programmes is to prevent poverty risks.

Central-Eastern European countries represent the *second generation* of multi-pillar systems. The role of supplementary schemes is increasing (through mandatory coverage) but the provision of future earnings-related benefits will be based on both public and non public programmes. While in the first generation of multi-pillar systems public programmes provide basic and homogenous protection (with flat rate and/or means-tested benefits), in these post-Communist systems the public programme provides contributions-based and earnings-related benefits. This is consistent with the actuarial (insurance) principle. Further voluntary pension funds are of limited importance. The level of public protection varies between countries. In Estonia average replacement rate is particularly low (much lower than in Poland). The interaction between public earnings-related schemes and minimum (means-tested) pensions is decisive to define the future role of public programmes. If minimum benefits are set at high level, major part of earnings-related benefits could be under such threshold and then pensioners be included in the group receiving means-tested benefits. this should lead to a pension system much similar to the first generation of multi-pillar systems.

Continental and Southern European countries (Germany, France, Belgium, Spain, etc.) represent the third group: *first generation of social insurance* systems. Recent innovations have aimed at putting public spending under control. Average old-age benefit is projected to decline. And non-public schemes are going to have greater role in the future. If compared to the pre-reform scenario, the goal of maintaining similar living standards before and after retirement is shared

between public and non public programmes. As well as in the *second generation* of multi-pillar systems, public pensions are earnings-related and based on the actuarial logic. But public benefits are more generous and expected to play the major role in providing incomes for the elderly. Moreover, supplementary schemes are not mandatory. This has led to the much slower widening of their coverage. These systems are still in transition and some alternative scenarios can be advanced for their future evolution (Natali, 2008).

Nordic countries (Sweden and Finland) are part of the *second generation of social insurance systems*. Both introduced public earnings-related schemes in the second part of the 20th century. Most recent innovations have been consistent with the projected decrease of earnings-related public pensions, while supplementary schemes are playing a much bigger role (more than in the first generation of social insurance countries). Supplementary schemes are quasi-mandatory (see Ebbinghaus, 2011). These systems have advanced the most towards a multi-pillar architecture.

3.2 Aftershocks and Pension Policy (2008-2010)

The recent crisis has consisted of three major steps: the financial crisis (worsened following the collapse of Lehman Brothers in 2008); the broad economic recession that hit Europe in 2009; and the Greek crisis and the consequent budgetary tensions in the EU in 2010 (Natali, 2010). In the literature on pension policy, there is a large consensus on the fact that pension programmes (be them public or private) are not immune from the consequences of economic recession and financial crisis (OECD 2009; 2010a; CEC, 2010b). Yet, the impact differs a lot if we consider first, second and third pillar schemes. In the following, we thus analyse the challenges on supplementary schemes and then to public first pillar programmes (with a specific focus on the four countries under scrutiny).

Supplementary pension schemes with a fully-funded logic of financing are the most affected by negative economic and financial trends. Recent data from OECD (2010a) clearly shows huge negative effects in 2008 and the limited recovery of 2009. In 2008, supplementary pension funds - both defined benefit (DB) and defined contribution (DC) plans - have been hit hard by the crisis (see also CEC, 2009a). The impact of the crisis on investment returns has been greatest among pension funds in countries where equities represent over a third of total assets invested, with Ireland the worst hit at -30% in nominal terms followed by Belgium, Hungary and United Kingdom. Irish pension funds were the most exposed to equities, at 66% of total assets on average (*ibidem*, 3-5). During the first half of 2009, pension funds have regained a fraction of the investment losses made in 2008. In June 2009 pension fund assets were 14% below their December 2007 levels. The

recovery in pension fund performance has continued through the whole year on the back of strong equity returns, but it will need some time before the 2008 losses are fully recouped. A further issue related to the crisis has to do with the expected low interest rates (OECD, 2010b). Protracted low interest rates could impact pension funds and insurance companies on both the asset and the liability side of their balance sheet. It could to a certain degree increase liabilities of pension funds and insurance companies and it could reduce the returns on future portfolio investment. As a result, the solvency status of insurers and pension funds could show deterioration. In particular, low interest rates affect the level of benefits that annuity providers and DB pension funds can offer and that beneficiaries can receive. In a context of increasingly long periods of retirement due to longer life expectancy, this can have serious consequences on retirement income.

But the crisis has affected public schemes too. First of all, through the most recent round of reforms, funding has become increasingly important within publicly managed pension systems. Even if at a much lesser extent than private pension schemes, public buffer funds have been touched by negative investment returns. The impact of the crisis on investment returns varies greatly between countries. It has been greatest among public pension reserve funds where equities represent a large part of total assets invested.

Moreover, public social protection schemes have been largely used to face the first social consequences of recession. EU countries have thus increased public social spending to limit the consequences of the financial crisis on individuals and families. According to the Commission (2010a), as a result of automatic stabilisers and of discretionary measures to reinforce social benefits, social expenditure in the EU are expected to increase by 3.3 percentage points of GDP between 2007 and 2010. In a broader perspective, economic recession (followed by a more timid growth) provides long-term challenges to public pension schemes. The first challenge is consequent of the fiscal stimulus many countries implemented to reduce the impact of the crisis. This has led to a rapid deterioration of public finances. The IMF (2009) projects an increase in the average debt-to-GDP ratio in the euro area of 30%, to reach 90% of GDP by 2014. This average disguises substantial increases for some member states. Part of the budgetary deterioration is cyclical, but part is permanent.

Some common trends can be detected. On the one hand, many EU countries have introduced short-term measures to grant additional protection for the elderly at risk of poverty: more

generous indexation, and *ad hoc* benefits are the most evident attempt to improve old age protection. On the other, measures have attempted to reduce mid- and long-term financial tensions on public pension schemes while improving the regulation of pension markets. All the countries under scrutiny have proposed and implemented the increase of legal retirement age and incentives for active ageing. This is a major difference compared to the usual reaction of national governments to previous economic crisis. Early retirement has not been systematically used to reduce unemployment (Angelaki and Natali, 2011).

The role of private pension funds has been at the core of an renewed intense debate with opposite strategies pursued in Western and Eastern EU countries. The former countries have pursued the attempt to reinforce the public/private mix. The measures undertaken after the crisis have not altered the system design but have been primarily focused on strengthening further the systems' sustainability. Supplementary schemes have been reformed through new regulation and the attempt to increase members' protection. By contrast, Central Eastern countries (Hungary, Poland, Bulgaria, etc.) have debated on the opportunity to reduce the role of private pension funds. Some countries (Baltic states) have reduced statutory contributions to be used for financing private pensions and have in parallel increased the portion to be used for public pension schemes. Some others (e.g. Hungary) have recently re-nationalised private pension schemes (Natali, 2011). While it is too early to provide an in-depth explanation of this 'u-turn' in CEE pension policy, some first insights may be proposed. First of all, the economic crisis has had two main consequences in these countries: on the one hand, it has contributed to the strains on public budgets; and on the other, the crisis has made negative trends in the pension market more evident. All this has led to a more critical reading of the role of private pensions.

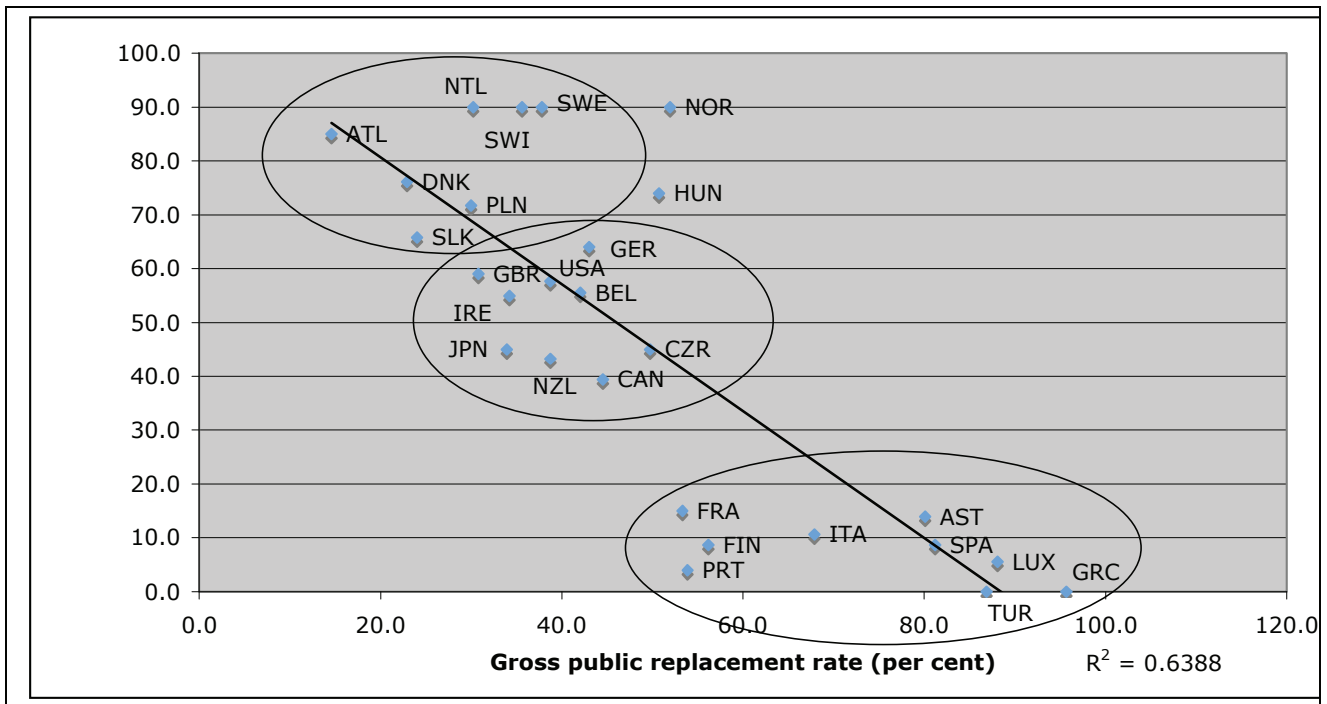
4. Changing Public/Private Mix

As stressed above, new pension models are 'on the move'. It is still too early to fully assess reforms' outcome, and some alternative paths could be followed in the next decade. Beyond the institutional design, the present public-private mix depends on a number of factors. And countries sharing the same design can show different advancements in the coverage and generosity of each pension pillar.

Figure 2 shows that three clusters are emerging among OECD countries, which neatly position themselves on the two-dimensional grid consisting of private occupational pension coverage (mandatory, quasi-mandatory or voluntary) and gross replacement rates provided by public schemes only. A clear negative relationship between the two emerges.

The first one (low and right) comprises traditional Bismarckian countries (first generation of social insurance systems), which did not reform sufficiently (or have extremely long transitional periods), and have only limitedly introduced private arrangements to compensate for the future replacement slumps – for example France, Austria, Greece, Spain and Italy (Guardiancich, 2010).

Figure 2 Private (occupational) pensions and public replacement rates



Source: OECD (2009).

Notes: ^aOECD data are being used instead of either those provided by EPC (2009) or ISG (2009), because the latter omit both occupational and individual private scheme coverage.

^bNot all countries include only occupational private pension coverage. The Anglo-Saxon ones count the combined coverage of occupational/personal plans (because data exist), whether mandated or voluntary. The East European ones have World-Bank-inspired personal mandated plans. In Denmark, I counted quasi-mandatory DC occupational schemes and not the ATP. The OECD does not record coverage rates above 90%.

The second one (up and left) mainly consists of first generation of multi-pillar countries, which mandated occupational pension coverage (the Netherlands, Denmark), Sweden), but also starts incorporating those EU states that heavily retrenched their public schemes and followed the World Bank’s advice to make private, personal pensions compulsory (e.g. Poland and the Slovak Republic). Most recent reforms are reversing these trends and may lead to further innovations (see Hungary).

The third (roughly in the middle), and most surprising one, is a mix of first generation multi-pillar countries that opted for a voluntaristic approach to expand their private retirement provision (keeping the usual state-market dualism), such as the United Kingdom and Ireland, and of an

increasing number of Bismarckian countries, with new entries such as Germany, Belgium and the Czech Republic, that equally have not mandated occupational private schemes.

What has to be stressed about the third cluster is that some countries are here undergoing a transition. It is possible that formerly Bismarckian countries may slowly migrate towards the Beveridgean cluster and develop low, but universal public benefits topped up with high-coverage private schemes. However, this transition is far from complete and is reflected in these countries' pension gaps. The pension gap is defined as the difference between the base-scenario gross replacement rate of all the mandatory (and quasi-mandatory) pillars of a pension system with respect to the EU-15 average. This should be filled in through voluntary arrangements and is hence a useful indicator of the extent to which voluntary pension insurance could be encouraged in an individual country that ranks below the average. By providing both current and prospective replacement data, the paper can extrapolate some general trends introduced by the recent pension system reforms that were implemented in the EU. The decision to use ISG data on gross replacement rates stems from two considerations: i) it covers all EU-15 countries, whereas the 2009 Ageing Report (EPC, 2009) does not; ii) it differentiates between public and private benefits only in gross terms. Hence, the data are very sensitive to assumptions and the picture for some countries significantly improves by netting out the results

Most of the countries retrenched their pension systems, which will yield in the future substantially lower benefits (exceptions are Denmark and the Netherlands, whose quasi-mandatory occupational schemes more than offset any public retrenchment). The EU-15 average decreases by 5.5 percentage points. Second, the differences in the systems' generosity increase, as more countries will record a pension gap. France and Portugal fall under the average and Denmark rises above. Third, pension gaps vary widely, i.e. from 29.3% (2006) and 26.6% (2046) in the UK to 0.7% (2006) in Sweden and 5.0% in Portugal (2046). This means that the extent to which these gaps have to be filled in by voluntary private arrangements (with respect to the contribution rate in particular) varies vastly as well.

5. The Role of the EU in the field: A brief introduction

While the national level is still the main locus for pension policy (both redistributive and regulatory tasks), the EU level is characterized by expanding competence and influence. The process of European integration has eroded Member States' sovereignty and led to a multi-tiered polity. EU's welfare dimension has emerged as an 'unplanned collage'. Evolving EU pension competence has been mainly centred on two instruments: regulation and post-regulation (consistent with the coordination rather than the harmonization of national policy). Coordination modes of governance

are mainly (or exclusively) based on non-legislative instruments (e.g. common guidelines, national action plans, peer reviews, joint evaluation reports, recommendations, and eventually sanctions). Two main forms of post-regulation are referred here. The requirements for budgetary discipline through the Stability and Growth Pact (SGP) – within the broader Economic and Monetary Union (EMU) – represent a source of indirect (and hard) pressure on pension institutions. The coordination of pension reforms through the Open Method of Coordination (OMC) is a direct (and soft) version of integration.

5.1 The Stability and Growth Pact in the Context of the EU Economic Governance

The European fiscal framework was designed in 1991 and then included in the Maastricht Treaty, which entered into force two years later. It was then revised in 1997 with the creation of the Stability and Growth Pact (SGP) (in force since 1999), and eventually reformed in 2005 and 2010. The Maastricht Treaty consisted of a ‘preventive arm’ focusing on multilateral surveillance and the avoidance of excessive deficits, and a ‘dissuasive arm’ tackling excessive deficits once they arise (Natali, 2008). The Treaty aimed at increasing convergence of the European national economies, eliminating currency fluctuations and unfair competition in monetary policy. Since the beginning of the third stage of EMU, the countries involved have had to comply with the convergence criteria under the Maastricht Treaty of 1991. The Treaty defined automatic procedures for reviewing the qualification for joining the EMU in 1999.

To safeguard the sustainability of public finances following the introduction of the euro, the European Council of Amsterdam of 1997 adopted the Stability and Growth Pact (SGP). As well as the Maastricht criteria, the coordination of fiscal policy thus consisted of two components. The preventive part consisted of requirements for a balanced budget or one that was in surplus in the medium term. While the Pact agreed on at Amsterdam did not concern pensions policy, the Ecofin Council and related technical committees have explicitly monitored the long-term sustainability of retirement programmes.

The first version of the SGP was widely criticized (Begg, 2001). Some of the criticism focused on its implications for the sustainability of welfare programmes. For some, the lack of any reference to structural reforms, especially those related to social policies (those more affected by negative demographic trends), represented a crucial limitation. In 2003, when some countries in the euro-zone (and in particular France and Germany) did not respect the criteria laid down in the Pact, the Commission started to make proposals for revision of the SGP. In March 2005 the European Council agreed on fundamental changes to the SGP that were consistent with a more flexible approach to sound fiscal policy. European policymakers looked at the main areas for improvement

in the working of the Pact and its economic logic. The medium-term objective for the public budget was no longer to be 'close to balance or in surplus' for all countries. Greater account had to be taken of national specificities (especially debt, potential growth and investment expenditure), consistent with differentiated targets for each country.

The Great Recession of 2008-09 and the subsequent debate on the need to reinforce EU economic governance have led to the formulation of proposals that have not left untouched pension schemes. The basic components of the new approach were initially presented in two Commission Communications, while a policy package of legislative proposals was adopted by the Commission in late September 2010.

Proposals cover, in particular, the following three themes: reinforcing Member State compliance with the SGP and deepening fiscal consolidation, broadening economic surveillance and strengthening of enforcement mechanisms. First, the preventive arm of the SGP is strengthened through the introduction of the new principle of 'prudent fiscal policy making', aimed at ensuring that prudent fiscal policies in good times allow the building up of a buffer for bad times. This approach is expected to guarantee convergence towards the medium-term objectives. The corrective arm is also amended, so that debt developments are put on an equal footing with deficit developments. Second, the establishment of the 'European Semester' for economic policy coordination – beginning in January 2011 - should allow Member States to benefit from early coordination at European level, by synchronizing assessment of their fiscal and structural policies. Third, new voting procedures have been proposed: proposals have been made to use qualified majority only to block penalties from being applied, while at present a minority of Member States is enough to block sanctions (Natali, forthcoming).

The evaluation of the influence of non-legislative modes of coordination is particularly difficult. It is a complex process based on the interaction of a number of variables and dynamics. In the case of EU coordination as a source of adaptive pressure for national retirement programmes, its influence may affect policies, political structures, discourse, and identities.

While the privatization of pension systems has not been explicitly proposed in the first version of the Stability and Growth Pact, later on more emphasis has been put on the issue. Its implementation has in any case led to increased tensions between the Commission and those countries facing the short-term costs of the reform. Some analysts have stressed the 'unintended consequence' of these tensions in the recent 'U-turn' of Central Eastern Member States and the re-nationalization of private pension funds.

5.2 The Social OMC

The OMC on pensions has represented the most innovative instrument set up at the EU level. The Stockholm Council in 2001 officially launched the ‘soft’ governance on pensions on a three-year basis. The process involved defining some major policy guideline, then adopting a more precise set of policy objectives, adopting National Strategy Reports by the Member States, and the Joint Report on safe and sustainable pensions by the Commission and the Council. After the first years of implementation, in May 2003 the Commission proposed ‘streamlining’ the work on social inclusion and pensions together with the planned work on health and long-term care to form an integrated process. The aim was twofold: creating a stronger process; and integrating better with the Lisbon process, in particular the Broad Economic Policy Guidelines (BEPGs) and the European Employment Strategy. The adoption of new common objectives for the three strands was implemented from 2006 onwards. The Council’s Conclusions of October 2003 agreed to *streamline* the coordination of social inclusion and social protection.

Further steps in the actual implementation of the OMC did characterize the period between 2008 and 2010 (with the end of the Lisbon Strategy). First, the toolkit for monitoring and assessing national pensions policy was improved: with the launch of specific peer review sessions on single themes of interest (e.g. the one on the public information on pension systems and their change in Poland in 2008; and the recent one on balancing security and affordability of funded pension schemes in The Hague in 2011). Second, the technical bodies (the EPC and SPC) did work on the assessment of the crisis and its effects on pension systems and pensioners’ conditions.

In the context of the new Europe 2020 Strategy, the precise role of the OMC is to be defined. It is not clear how the new governance arrangements under the Europe 2020 Strategy will connect with the broader EU coordination/ cooperation and monitoring capacities in the social field developed through the Social OMC over the past decade (Frazer et al, 2010). It thus remains unclear how the EU’s common social objectives – beyond combating poverty and social exclusion – will be monitored, reviewed, evaluated, and followed up within the governance architecture of Europe 2020, what will happen to national reporting of performance against the common indicators developed within the Social OMC⁴, and what will be the mutual interactions between policy fields and the social dimensions of other guidelines of the new encompassing Strategy.

As far as the OMC on pensions is concerned, much of the recent literature has thus suggested a very limited impact on national reforms. Yet in terms of mutual learning, recent progress (definition of common indicators and a spread of the exchange of practices and knowledge) represents a promising step forward.

⁴ J. ZEITLIN, ‘Towards a Stronger Social OMC in a More Social Europe 2020: A New Governance Architecture for EU Policy Coordination’ in E. MARLIER and D. NATALI (eds.) with R. VAN DAM, *Europe 2020: Towards a more social EU?*, P.I.E. Peter Lang, Brussels 2010.

Conclusion

The present paper has aimed at shedding light on one of the three factors influencing the application of EU legal framework on pensions (and notably legislation for migrant workers and their pension rights). We have focused on the most recent wave of national pension reforms and the way they are going to alter the application of EU legislation. The analysis of both the long-term trend and new measures in the four countries under scrutiny has provided the map of pensions in the enlarged EU and interesting insights on their evolution.

Two decades of reform (1990-2007) have led to a certain degree of convergence of both the institutional design and overarching goals of pension systems. The former is increasingly fragmented. Protection for the elderly is shifting towards a mix of public and private provisions. For some countries (social insurance systems), the generosity of the public pillar is expected to decline and to open more room for private institutions. The apparent paradox of the projected decline of benefits and the parallel increase of public spending is due to the impact of population ageing.

As to the overarching goals of public programmes, they tend to converge as well. In countries with more generous public protection, the state has abandoned the aim to grant the same level of revenues before and after retirement. Recent innovation is leading to less ambitious public programmes which tend to provide more limited resources to the elderly.

Yet, common trends do not lead to the diffusion of a single 'global' paradigm across Europe. Differences between countries still persist. The reduced generosity of the first pillar in reformed social insurance systems do not lead to the convergence towards the 'poverty-prevention' aim of multi-pillar systems. In line with data and projections on public spending the former are expected to spend much more than the latter.

As to the design of pensions, the new balance between public and private forces is differently articulated in the countries under scrutiny. Common trends towards a more prominent role of private protection has been then combined with (and partly contradicted by) efforts for stronger public regulation and a new mix of public/private administrative tasks. Cutbacks to public pensions have not led to the huge limitation of public responsibilities, but to the inter-play between public and private institutions. The introduction of a more complex set of concepts (pillars and tiers) has helped to describe that inter-play. We have identified four different pension models across the EU (first and second generations of social insurance and multi-pillar models), while three clusters show specific public/private mix (in terms of public pillar generosity and supplementary schemes'

coverage). All this proves pension systems are 'on the move' and their transformation may alter future interplay between pillars and tiers.

Most recent reforms (in the period 2008-10) have been the consequence of economic and financial crisis. All EU countries have introduced measures to improve the long-term sustainability of public pension schemes, while eastern European countries seem to have started a 'u-turn' on supplementary funds. Some countries are debating the re-nationalisation of private schemes, while others have reduced statutory contributions to supplementary funds (following the Hungarian example).

In such a context of reforms, the EU has played a role: through legislation and coordination processes. The latter have consisted of the Stability and Growth Pact and the OMC on pensions (then streamlined into the Social OMCs). Both have allowed the EU to have a say in the reform process: the Stability and Growth pact has had a much larger role shaping policymakers agenda.

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