Comparing Occupational Pensions in Europe

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Introduction

• Aim is to empirically analyze the development of occupational pensions from a comparative perspective in a representative range of EU Member State, focusing on the historical development, distributional effects and the causal determinants
Conceptualizing Public and Private Social Policies

• **Occupational welfare provision** is said to intensify ‘**divisions of welfare**’, as has already been noted by Titmuss (1958), and empirically demonstrated in a study by Castles and Obinger (2006, p. 21).

• The starting point of our analysis is a definition of **welfare** put forward by Franz-Xaver Kaufmann, who defined welfare as a **political exercise “to establish or guarantee societal situations in which the individual benefit and the common benefit do not diverge, but reinforce each other in the sense of synergic effects”** (Kaufmann, 1994, 357 f.; authors’ translation).
Conceptualizing Public and Private Social Policies

• Based on this definition of welfare, a welfare system could be imagined as a societal arrangement, which insures against social risks in a collective, highly regulated, and/or redistributive manner with a relative high degree of certainty for future claims [Erwartungssicherheit]. Within a welfare system thus defined, social policy can ideally be provided by ‘public’ and/or ‘private’ actors without necessarily violating the boundaries of the ‘public domain’.

• Prime examples of ‘private’ provision within the public domain are the Ghent system of unemployment insurance or earnings-related occupational pension systems in a number of European countries that are neither provided by the state nor through purely profit-oriented enterprises, but are governed by complex corporatist arrangements (Whiteside 2006) and embedded in the concept of ‘industrial citizenship’ (Marshall 1950).
Comparing Pension Policies in Europe: A historic perspective

• Beveridgean and Bismarckian pension systems (Bonoli, 2003)

• Whilst the Scandinavian and Dutch basic pension systems were based on the principle of universalism and citizenship (later residence) with the main aim to avoid poverty in old age, the British system was contribution-based with public pension benefits below subsistence level. The low levels of replacement rates for pensioners in countries with Beveridgean pension schemes provided policy space for the development of earnings-related occupational pension schemes (crowding in; Ebbinghaus/Gronwald 2011)
Comparing Pension Policies in Europe: A historic perspective

• Whilst in the Nordic countries and the Netherlands coverage in occupational pension schemes was very encompassing as a result of collective bargaining and the extension of these agreements to all workers in a specific sector, the development in Britain remained rooted in voluntarism, with large differences by economic sector.

• From this perspective the arrangements established in the Netherlands and Sweden, despite the relatively high significance of occupational pensions, can be characterized as within the public domain: universal and encompassing (Andersen 2011; Lindquist/Wadnesjö 2011), based on the principles of social and industrial citizenship (T.H. Marshall 1950).
Comparing Pension Policies in Europe: A historic perspective

- The pension system that developed in the UK was characterized by social protection dualism (Seeleib-Kaiser et al. 2012), providing relatively generous benefits for those covered by occupational pensions and a very low basic pension, leading to high poverty rates among pensioners.

- Industrial citizenship played a significant role in the public sector and the nationalized sectors of the economy during the 1970s. With increasing privatization of nationalized industries in the 1980s and subsequent deindustrialization, the coverage rate among employees in the private sector began to decline dramatically, with some ‘social policy enclaves’ retained in certain sectors of the economy, such as banking and manufacturing, whilst the overwhelming majority of employees in the public sector continued to be covered by relatively generous defined-benefit schemes (Bridgen/Meyer 2011).
Comparing Pension Policies in Europe: A historic perspective

• The Bismarckian pension schemes of Austria, Belgium, Germany, Italy and Spain provided relatively generous earnings-related public pensions for average workers, largely crowding out any significant role of occupational welfare. Occupational pension coverage was rather limited and the contribution of occupational pensions to retirement income was low (Germany was somewhat exceptional in providing higher coverage rates, partly achieved by occupational coverage in public sector and large manufacturing firms) (Ebbinghaus et al. 2011).
Table 1. Pensioners’ Households with Occupational Pensions in the mid-1990s

<table>
<thead>
<tr>
<th>Country (Year)</th>
<th>Percentage of Pensioners’ Households with OP</th>
<th>OP as a Percentage of Total Household Pension Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria (1994)</td>
<td>2.9</td>
<td>..*</td>
</tr>
<tr>
<td>Belgium (1995)</td>
<td>2.4</td>
<td>..*</td>
</tr>
<tr>
<td>Germany (1994)</td>
<td>17.5</td>
<td>21.7</td>
</tr>
<tr>
<td>Italy (1995)</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Netherlands (1993)</td>
<td>56.1</td>
<td>44.5</td>
</tr>
<tr>
<td>Spain (1995)</td>
<td>1.0</td>
<td>..*</td>
</tr>
<tr>
<td>Sweden (1995)</td>
<td>57.5</td>
<td>21.1</td>
</tr>
<tr>
<td>United Kingdom (1995)</td>
<td>62.0</td>
<td>49.7</td>
</tr>
</tbody>
</table>

Source: Authors’ elaborations based on LIS data
Pension Reforms since Mid-1980s

• Most EU countries have undergone pension reforms since the mid-1980s. Many have increased the retirement age and changed the benefit formula for public pensions, making them less generous.

• Nevertheless, the prospective replacement rates of the public schemes in Austria, Italy and Spain (base year 2012) not only continue to be quite generous, but are higher than they were in the 1980s. Clearly from this perspective we cannot identify an outright move towards privatization or an increase in the policy space for crowding in of occupational pensions.
<table>
<thead>
<tr>
<th>Country</th>
<th>RR Public Pensions</th>
<th>RR Voluntary and Mandatory Private Pensions</th>
<th>Total RR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>90.2</td>
<td>0.0</td>
<td>90.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>50.1</td>
<td>18.5</td>
<td>68.6</td>
</tr>
<tr>
<td>Germany</td>
<td>55.3</td>
<td>21.1</td>
<td>76.4</td>
</tr>
<tr>
<td>Italy</td>
<td>78.2</td>
<td>0.0</td>
<td>78.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>33.0</td>
<td>68.2</td>
<td>101.1</td>
</tr>
<tr>
<td>Poland</td>
<td>24.5</td>
<td>24.3</td>
<td>48.8</td>
</tr>
<tr>
<td>Spain</td>
<td>80.1</td>
<td>0.0</td>
<td>80.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>33.7</td>
<td>21.5</td>
<td>55.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>38.0</td>
<td>40.2</td>
<td>78.1</td>
</tr>
</tbody>
</table>

Source: OECD: Pensions at a Glance 2013
Reforms in the NL and SWE

- In the Netherlands and Sweden the importance of occupational pensions will further increase. Whilst for Sweden we can identify a clear tendency towards DC benefits, in Holland we also seem to be witnessing a move away from DB towards DC, but this move seems to be governed within a more collective arrangement, mitigating some of the risk shift towards individuals within sectors.

- In addition, Sweden introduced a minor privatization/individualization of the public pension arrangements. In both countries the basic state pension remains robust, leading to very low poverty rates among the elderly.
Reforms in Britain

- Occupational pension coverage has significantly declined among the British workforce employed in the private sector. Furthermore, many pension schemes have been transformed from DB schemes into DC schemes. The decline in pension coverage has led to a change of the statutory environment. From 2012 onwards employers in Britain have to auto-enroll all qualifying employees into occupational pension schemes. Nevertheless, the minimum contribution rate is 8 percent when fully rolled out in 2019 (employers 3 percent and employees 5 percent).

- Only once the coverage of OP in the private sector had declined to a very low level, which would have had a significant impact on future means-tested pension payments, did the government act by legislating auto-enrolment as well as the introduction of a more generous basic state pension. Nevertheless, the full basic state pension would still require 35 years of contributions.
Reforms in Bismarckian Countries

• **Belgium and Germany** are the only two Bismarckian welfare states that significantly expanded their OP in relation to the statutory arrangements.

• In **Belgium** the so-called “Vandenbrouckke” law on complementary pensions explicitly aimed at strengthening the second pillar and at providing a unified framework for all supplementary pension schemes.

• **Increase of coverage**: in 1999, 30% of workers were members of a group insurance or a pension fund, whereas by 2014 this percentage had risen to 75% of employees and 45% of self-employed (Ghailani and Peña-Casas, 2016). OP are moving away from DB schemes; the majority of sectoral pension schemes are DC schemes.

• **Prospective replacement rate low**, especially for employees with low-medium income (ibid., 2016).
Reforms in Bismarckian Countries

- **Germany**: significantly reformed its statutory pension scheme in the early 2000s by partially privatizing the public pension. The net replacement rate for an average worker will decline from about 70% at the time of the enactment of the reform (2001) to about 55% by 2030.

- We see relatively **broad coverage** in the private sector within **certain industries**, such as financial services industries and manufacturing (Seeleib-Kaiser et al. 2012; Blank 2016); in the public sector coverage is 100%, due to OPs having been made mandatory in the 1960s (Ebbinghaus et al. 2011).

- **Other Bismarckian countries** implemented reforms to foster greater occupational pension coverage, but as highlighted above these **changes have not been systemic nor did they have a significant effect.**
Distributional Outcomes

• In countries with **occupational pension** schemes based on the principle of **voluntarism**, occupational pensions significantly contribute to **social protection dualism** (Seeleib-Kaiser et al. 2012), as coverage and benefit levels can vary significantly depending on the economic sector and company size.

• From a socio-demographic perspective occupational pensions tend to be more spread (and generous) among full-time than part-time ones, among workers with permanent contracts than temporary ones, among men than women (often as the result of relative differences by gender in full-time or part-time work and/or the sector of employment)

• **Insider/outsider/gender divide.**
Table 4. Occupational pension dualization

<table>
<thead>
<tr>
<th>Country</th>
<th>Public vs private sector</th>
<th>Economic sectors</th>
<th>Size of enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Belgium</strong></td>
<td>Private sector (++)</td>
<td>Banking and Insurance (86%), Chemical/Pharmaceutical industry (84%), Energy (70%), Electronic/technological ind. (67%), Food Industry (67%), Construction (58%) vs. Trade (46%), Textile industry (28%), Hotel and restaurant (15.1%)</td>
<td>Small enterprises (1-9 emp.): 28%</td>
</tr>
<tr>
<td></td>
<td>&gt; Public sector (26%)</td>
<td></td>
<td>10-49% emp.: 42%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt;499 emp.: around 55%</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>*</td>
<td>Banking and insurance (84%), manufacturing (63%), energy and public utilities (61%), information and communication (56%) vs Trade (48%), Construction (43%), Hotel and Restaurant (26%)</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Public sector around 100%</td>
<td></td>
<td>Small enterprises (1-9 emp.): ca. 30%</td>
</tr>
<tr>
<td></td>
<td>&gt; Private sector (--)</td>
<td></td>
<td>10-49% emp.: 39%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt;499 emp.: ca 78%</td>
</tr>
</tbody>
</table>

*Bismarckian countries with an increasing and relatively high coverage of occupational pensions*
### Table 4. Occupational pension dualization

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<th>Size of enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beveridgean countries with a pension system based on voluntarism</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| UK | Public sector (87%) > Private sector (49%) | Banking and insurance (84%), manufacturing (60%), energy and public utilities (76%), transportation (76%), information and communication (62%) vs Trade (46%), Construction (38%), Hotel and Restaurant (30%) | * Small enterprises (1-12 emp.): ca. 10%  
13-99% emp. (private sector): 22%  
<499 emp. (private sector): ca 72% |
| **Beveridgean countries based on encompassing sector-level collective bargaining** | | | |
| The Netherlands | | Limited differentiation | |
| Sweden | | Limited differentiation | |

* Data refer only to employees subject to social insurance  
Source: authors’ elaboration, based on PROWELFARE 2014-16 country reports
Figure 1. Development of Earnings-related Pensions: 1980--2030

- Netherlands
- Sweden
- Austria, Italy, Spain
- Belgium
- Germany
- Poland
- Austria, Italy, Spain
- Belgium
- Germany
- Poland
- The UK

Occupational provision vs. Public provision/mandated

Collective risk vs. Individual risk
Explaining Policy Change

• Trade union strength is associated with high replacement rates and high coverage of earnings-related pensions, irrespective of them being public or occupational schemes.

• OP schemes agreed through collective bargaining, such as in Holland and Sweden, as well as the schemes currently developing in Belgium, are based on the notion of ‘industrial citizenship’ and definitely should be categorized as belonging to the public domain.

• Strong trade unions seem to constitute a necessary, if not always sufficient, condition for adequate pensions. Power resources theory (Korpi 1982) continues to be important in explaining differences in pension schemes.
Explaining Policy Change

• In countries that have developed occupational schemes within a more *voluntaristic* framework, such as historically Britain and more recently Germany, *skills seem to be an important predictor of coverage.*

• OP coverage is generally high among workers with high general skills (in financial services) and workers with specific skills in manufacturing. Coverage is usually extremely low in occupations requiring low general skills, such as in the hospitality sector. In both countries unions are strong in the public sector, where we also see universal coverage in Germany and very high coverage (more than 80 percent) in Britain. Although with much lower coverage rates, a similar picture emerges for Italy (Wiß 2015).
Explaining Policy Change

- **Crowding out** through a comprehensive Bismarckian pension system with high replacement rates has been the main explanation for the historically low significance of OPs in Austria, Belgium, Germany, Italy and Spain. Of these countries only Belgium and Germany seem to have undergone paradigmatic reforms since the 1990s, leading to a significantly increasing importance of OPs.

- Assuming that ‘global capital’ had a similar interest to increase the role of funded pension systems in all countries under scrutiny, the lack of reform in some countries clearly shows that the trend towards financialization may **not** be **sufficient to explain pension reforms across Europe**. This is even more surprising as the public expenditure for pensions in Austria, Italy and Spain is projected to increase to about 15% of GDP by 2030 (Pensions at a Glance 2013).
Explaining Policy Change

• Remaining puzzle: what are the drivers of policy change?

• The main driver of the German pension reform was the perceived need to control the level of social security contributions, which had significantly increased in the wake of unification (Seeleib-Kaiser 2016). Once unions had realized that they could not stop the future reduction in benefits and partial privatization, did they pro-actively engage and develop new occupational pension plans (Naczyk/Seeleib-Kaiser 2015).

• How can we explain the Belgian reform?

• Why didn’t we see any systemic reforms towards a significantly greater role of occupational pensions in Austria, Italy, Poland or Spain?