
Reforming pensions in Europe: a comparative country analysis

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David Natali and Furio Stamatì

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europaean trade union institute

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Contents

Introduction	5
1. European pension models and the crisis	7
2. Multi-dimensional crisis and its effects on pensions in the EU27	10
2.1 The Great Recession and its multidimensional effects on pensions	10
2.2 The EU and its austerity strategy: a stronger impulse	18
3. Reform patterns and outcomes in eight Member States	22
3.1 Crisis and austerity in the multi-pillar forerunners: Ireland and the UK	24
3.2 Second generation multi-pillar systems and the test of time: Poland and Slovenia	34
3.3 The long and winding road away from the social insurance model: Italy and France	43
3.4 Second generation social insurance in Finland and Sweden: the best of both worlds?	53
4. European pension austerity: preliminary comparative conclusions	61
4.1 Policy trends.....	63
4.2 Political trends	64
References	66

Introduction

The global crisis, which originated in 2008 in the US mortgage market, has severely affected the EU economy, both in the public and in the private sector. Although the effects of the crisis vary widely among the 27 Member States, aggregate figures show the scope of the challenge facing the region: economic growth stagnated in 2008 and turned negative in 2009 (the timid signs of recovery of the following years only primed a new slowdown in 2012), overall employment levels remained largely unchanged, albeit with great regional and gender inequalities, and the unemployment rate, on the other hand, increased. Budgetary strains followed the first anti-cyclical measures, while consequent austerity measures have largely contributed to meagre prospects for economic growth.¹

These structural trends have affected European pension schemes in many ways. Private pension funds have suffered losses due to direct investment losses and negative real rates of return, and have only slowly started to recover, while public schemes that were able to buffer much of the effect of the economic recession then suffered from the negative economic and social context (Social Protection Committee 2012; OECD 2012). Policymakers across Europe have thus gone through two distinct phases of reforms: in the first years after the crisis they introduced anti-cyclical measures, while once the public budget constraints became evident they started implementing austerity measures, cutting social spending.

Against this backdrop, the present report has two main goals. The first is to assess the impact of the crisis on European pension systems, updating and expanding a previous ETUI study (Natali 2011). The second aim is to provide a comparative overview of the measures imposed on European pension systems, together with their effects. The systematic collection of information for eight countries (representative of different pension models) allows for a comparative reading. This is useful to see if there has been any convergence between pension systems and similarities in the response to the crisis. Such a comparative analysis is mainly focused on policy responses (in terms of cutbacks and/or improvements in old-age protection). Yet we also focus on the political process that has led to these reforms. We refer in particular to

1. At the beginning of the crisis, EU27 market capitalisation over GDP fell to almost half its 2006 level (88%), stabilising at around 60% later on; private credit flows dried up, with a real credit crunch in 2008. Nonetheless, private indebtedness kept on increasing and the total debt of the financial sector is now close to seven times the yearly GDP of the area (European Commission 2012a; IMF 2012).

two main issues: firstly we examine the situation in the European Union (and its role in providing exogenous constraints on national policymakers), and secondly we provide some useful information on the role of the trade union movement in the reform process in the countries under scrutiny.

The report is structured as follows. Section 1 contains an essential analytical framework, based on the identification of different pension models in the EU27. Section 2 provides a number of empirical indicators of the impact of the crisis across European pension systems. This section also summarises the main facts and decisions taken at the EU level that have contributed to shaping national policy responses. Section 3 focuses on the specific issues as well as reform patterns and outcomes of eight European countries: the UK, Ireland, Sweden, Finland, France, Italy, Poland, and Slovenia. Section 4 draws some preliminary conclusions. Here we refer to the main reform trends and the politics of pension reforms (in terms of the role of trade unions in pension policymaking).

1. European pension models and the crisis

All over Europe, the last round of reforms (often included in austerity packages) have built upon a decade or more of pension reforms, enacted in order to increase financial sustainability and safeguard adequacy vis-à-vis unfavourable economic and demographic trends. These previous reforms have typically raised the standard retirement age, tightened eligibility conditions (focusing on early retirement and disability schemes), and reduced the generosity of benefits and indexation mechanisms. On the other hand, some of them have relaxed minimum seniority requirements and/or certain conditions pertaining to contribution credits for child rearing and care responsibilities. Generally speaking, wherever the scope of public protection was decreased, new norms have been enacted that were supportive of supplementary schemes, occasionally strengthening their regulatory framework and/or their tax attractiveness.

Besides these commonalities, however, the EU27 still contains a great variety of pension models and traditions. Some emerged from explicit universalistic anti-poverty ambitions, while others evolved from schemes with a strong performance-rewarding orientation. In some of these systems, supplementary pensions soon developed in either the occupational or the private pillar or both, while other pension systems centred on a predominant public 'single-pillar'. Equally importantly, long-term evolutionary paths have diverged between western and eastern European countries. Finally, one should not forget that the crisis has not hit all the EU Member States with the same severity.

Drawing on the work of Bonoli (2003) and Hinrichs (2001), we follow Natali (2008; 2011) in mapping existing European pension models, focusing on two aspects: their basic architecture (whether they are 'multi-pillar' or 'social insurance') and their development pattern (respectively 1st and 2nd generation for the 'leaders' and the 'followers' that have implemented the same pension model). The defining traits of these four models are summarised in Table 1.

In 'social insurance' systems the state provides the greatest share of individual pension income. A single public pillar pursues an 'income-maintenance' goal with generous benefits and general coverage, reducing the room for supplementary provisions. Financing is usually PAYG, so that current contributions and tax revenues are immediately disbursed to finance benefits. Continental economies such as Germany and France, as well as Mediterranean countries like Italy and Spain, opted for the social insurance model in the early days of their pension policymaking. Sweden and Finland,

Table 1 Pension models in Europe

	Multi-pillar		Social insurance (in transition)	
	1 st generation	2 nd generation	1 st generation	2 nd generation
Aim of public schemes	Basic protection (poverty prevention)	Savings on earnings	Savings on earnings (some adequacy)	Savings on earnings (some adequacy)
Private schemes' coverage	Mandatory or quasi-mandatory	Mandatory	Voluntary	Mandatory or quasi-mandatory
Earnings-related schemes	(Mainly) private	Public/private	(Mainly) public	(Mainly) public

Source: Natali 2011

on the contrary, began with a universalistic blueprint, focusing on income maintenance only later in the twentieth century. The two trajectories have produced largely similar outcomes: differences between 1st and 2nd generation systems within this cluster are limited to the strength of the adequacy concerns and the voluntary or mandatory character of private schemes.

Multi-pillar systems are based, instead, on a very different allocation of responsibilities. The state chiefly focuses on poverty prevention and the provision of basic flat-rate or means-tested entitlements. Non-public schemes, occupational and/or individual, mostly fulfil the income replacement function. Financing is therefore mixed: PAYG for public programmes and funding for supplementary funds. Denmark, the Netherlands, and the UK have been the leading countries implementing this model. In order to find multi-pillar latecomers, one has to turn to the Central Eastern economies, which completed their transition from socialism to the market economy under the guidance of the World Bank, the IMF, and their neo-liberal 'new pension orthodoxy'. As opposed to the original multi-pillar blueprint, in post-Communist systems public programmes provide contributions-based and earnings-related benefits and the state also supplies some earnings-related options.

This fourfold distinction helps us understand in a systematic way the specific issues and trade-offs that policymakers have faced in different countries. In general, 1st generation multi-pillar systems have been more strongly threatened by the financial hurricane that attacked their larger and more mature private sector. In turn, 1st generation social insurance systems were mostly affected by the sovereign debt crisis and the economic slowdown, which curtailed the resources needed to keep the public pension budget in balance while retuning the pension mix. As for 2nd generation social insurance systems, they probably withstood the crisis with the best apportioned and least vulnerable pension architecture, while also facing a less dreadful overall economic scenario. 2nd generation multi-pillar schemes, however, were the least prepared to face the global storm, on top of a daunting, ongoing, transition towards capitalism and a pension architecture yet to be settled.

In order to check for the effects of crisis-related pressures, we will examine two countries within each pension model: one severely affected by the crisis, the other less so. Accordingly, we have selected for closer scrutiny eight countries out of our original 27-country group. Slovenia is a particular case. It is in many respects an example of a country making the transition from a communist system to a social insurance model. Yet public pensions have recently been cut while supplementary schemes have been introduced (and are mandatory for public sector employees). We thus treat Slovenia as a particular post-communist country with a specific trajectory, in contrast with Poland (which is a typical example of the mass privatisation of pension policy in the 1990s). Before dealing with the specific reform patterns of these countries, however, we will provide an overview of the impact of the multi-dimensional crisis on European pension systems.

2. Multi-dimensional crisis and its effects on pensions in the EU27

This section presents a brief summary of the multi-dimensional crisis experienced by Europe over the last few years: economic slowdown, budgetary pressures, labour market difficulties and negative trends in the financial markets (see a list of indicators in Table 2). All these elements have helped put pension systems under stress.

Table 2 The crisis in the EU27

	2006	2007	2008	2009	2010	2011	2012
Real GDP growth rate	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3
Employment rate (% active pop)	69.0	69.9	70.3	69.0	68.6	68.6	...
Unemployment (% workforce)	8.3	7.2	7.1	9.0	9.7	9.7	10.5
Gen. government deficit ¹	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	...
Gen. government spending ¹	46.3	45.6	47.1	51.1	50.6	49.1	...
Social security funds spending ¹	14.4	14.1	14.8	16.6	16.4	16.2	...
Gen. government gross debt ¹	61.6	59.0	62.2	74.6	80.0	82.5	...
Market capitalisation ¹	87.94	85.81	44.35	61.62	65.97	56.68	61.06
Eurozone ECB interest rates	4.50	5.00	3.00	1.75	1.75	1.75	1.50
Private credit flow ¹	1.8	1.8	-2.6	-0.2	0.2	-0.2	...
Private debt ¹	154.6	156.3	158.9	172.4	169.8	169.2	...
Tot. financial sector liabilities ¹	590.1	610.4	632.9	660.4	669.7	696.2	...

Source: Eurostat and calculations by the authors
¹Percentage of GDP

In the following section we present the EU agenda in this area. The European institutions have intervened strongly in an attempt to shape the Member States' reform agenda. The role of the EU can be seen as a condition variable that had an influence on the way national policymakers addressed the crisis and its effects on pensions.

2.1 The Great Recession and its multidimensional effects on pensions

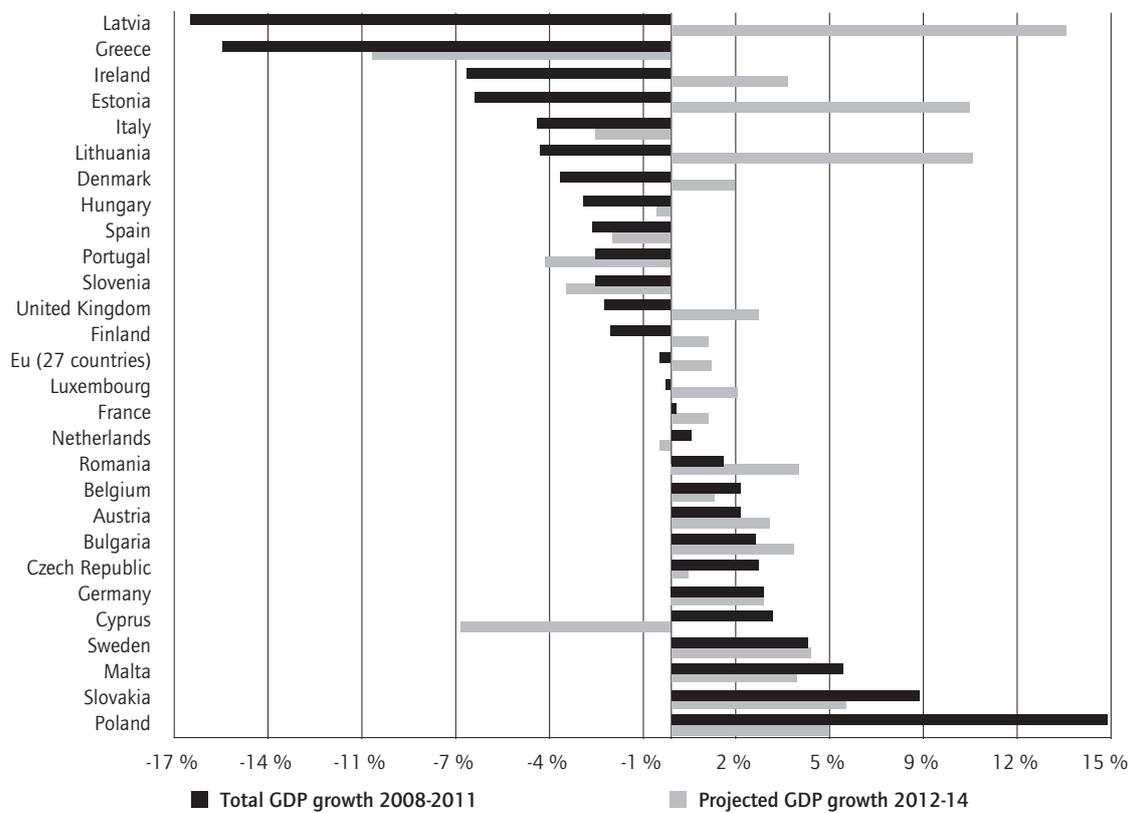
The Great Recession has had significant effects on pension systems across the EU. These effects have been multi-dimensional: economic slowdown and its

budgetary consequences, negative trends in the labour market and in the capital markets are key dimensions, on which we focus in the following text.

2.1.1 Economic slowdown and budgetary tensions

Figure 1 shows economic growth across the EU27 in the period 2008-11. The Baltic States and the so-called GIIPS, but also the acclaimed Danish and Slovenian models, suffered the heaviest losses. Germany and Austria, Sweden, the Visegrad countries (excluding Hungary), and Romania and Bulgaria remained, instead, on a path of economic growth. Projected GDP growth figures (2012-14) help confirm the varying impact of the crisis. Almost all the countries which performed better than the EU27 average are expected to grow further (but not Cyprus, now undergoing a major banking crisis) (IMF 2010). The worst performers can however be divided into two groups. Some economies are expected to pick up (such as Ireland, Denmark, or the Baltic countries), while others are still experiencing an ongoing slowdown (the four Mediterranean GIPS and Slovenia).

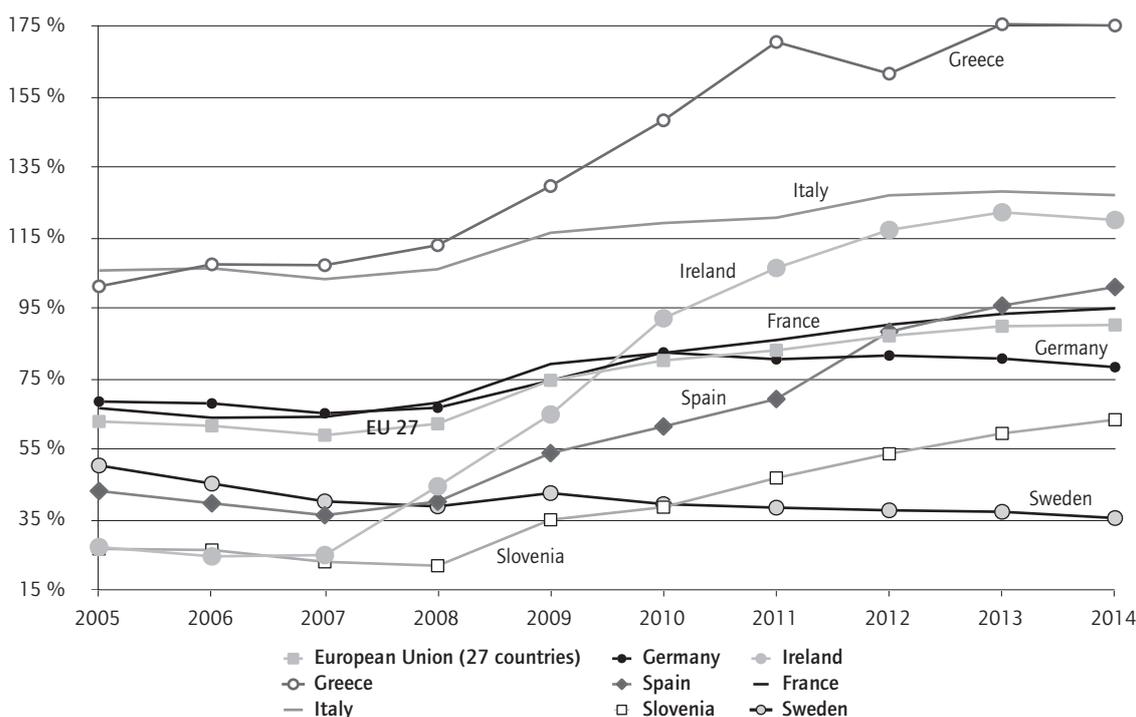
Figure 1 Actual and projected GDP growth rates



Source: DG Ecfm – Ameco Database

In most Member States, excluding perhaps Sweden and some of the Baltic States, the global crisis mainly unfolded as a sovereign debt crisis (see Figure 2).

Figure 2 Public debt/GDP in selected Member States



Source: DG Ecfm – Ameco Database

Once again, patterns varied. Some economies (France and Germany in the graph) have moved in line with the regional increase of 20 percentage points (European Commission and Economic Policy Committee; 2009; 2012). Others, such as Spain and Slovenia, have converged to much higher than usual levels, with Ireland leading the way. Sweden (as well as Bulgaria and Romania) have instead succeeded in stabilising their debt to very low absolute levels. Coupled with slow or negative GDP growth, budgetary pressures have strengthened the rationale for fiscal consolidation. Table 3 tackles this issue by looking at the current and target ‘structural balance’² – defined by the Stability and Growth Pact framework, as revised by the ‘Six Pack’ legislation of September 2010 – in selected Member States. These countries differ in their budget stance and in the medium term targets agreed with the EU. Even though most of them (excluding Hungary and Slovenia, as well as the more virtuous Germany and Sweden) managed to bring about fiscal consolidation to some extent, they are far from achieving their stated goals.

2. Structural budget balance is the actual budget balance net of the cyclical component and one-off and other temporary measures. The structural balance gives a measure of the underlying trend in the budget balance
http://ec.europa.eu/economy_finance/economic_governance/sgp/glossary_en.htm.

Table 3 Structural balance (SB) in selected Member States

	SB (2011) ¹	SB target ¹	SB change (2009-11) ¹	Necessary adjustment ¹
Belgium	-3.4	0.5	+0.4	+3.9
France	-4.5	0	+1.5	+4.5
Germany	-1.0	-0.5	-0.2	+0.5
Greece	-4.7	0	+10.1	+4.7
Hungary	-4.3	-1.5	-2.1	+2.8
Ireland	-7.7	-0.5	+2.2	+7.2
Italy	-3.7	0	+0.4	+3.7
Poland	-5.2	-1	+2.9	+4.2
Portugal	-6.5	-0.5	+2.1	+6
Slovenia	-4.5	0	-0.5	+4.5
Spain	-7.3	0	+1.2	+7.3
Sweden	0.4	-1	-2.3	None

Source: DG Ecfm, Ameco Database; IMF 2012

¹ % of potential GDP

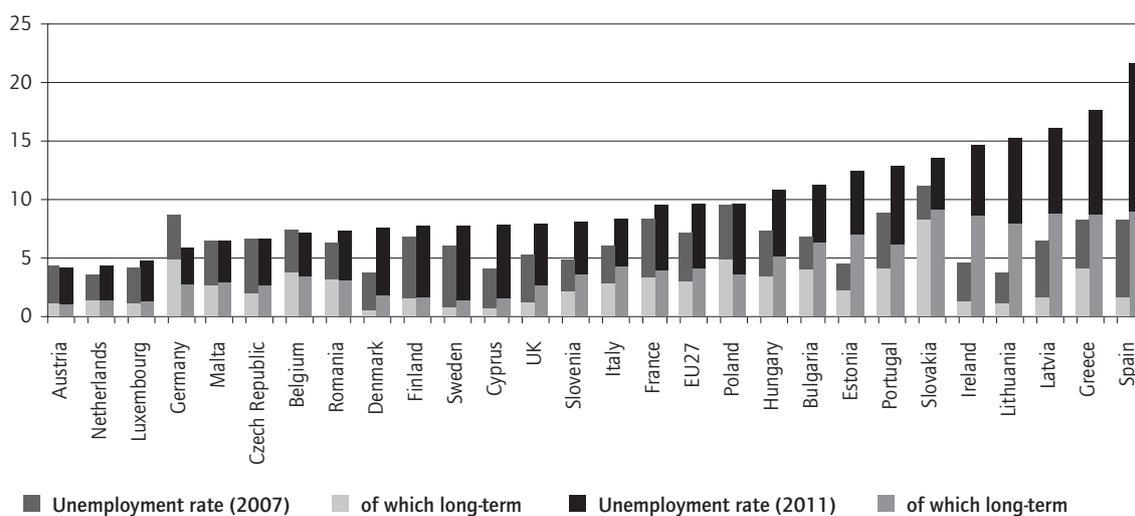
2.1.2 The effects of the crisis on employment

Key to the sustainability of pension programmes is the availability of large and stable financial inflows. Employment and productivity are crucial in providing the income workers need to contribute to public and private pension funds (Hinrichs and Jessoula 2012). The contraction of employment and the rise of unemployment have exerted detrimental effects on European pension systems, with budgetary as well as social consequences. Firstly, they shrank the contributory inflows needed by public PAYG schemes to stay on the path of fiscal sustainability. Secondly, they hindered the accumulation of individual retirement savings, limiting or preventing entitlements to higher benefits in both public and private programmes. Finally, these trends have further impaired the already unfavourable demographic prospects of the EU.

Evidence indicates that European pension systems are still facing major structural challenges, which may well require further reforms if economic sluggishness endures. Ineffectual job access and insufficient employment rates pose serious long-term threats to the sustainability of the current pension status quo, while the dire effects of the crisis on wage levels and productivity also had grim consequences on pensions. Between 2009 and 2010, real median disposable income not only fell in 15 countries of the European periphery (including Greece, -12.3%, Bulgaria, -6.6%, and Spain, -5.8%), but it also stagnated in most of Europe's economic core (Belgium, Denmark, Germany, Hungary, Slovenia, Finland, and Sweden). Falling median income reveals that wage dynamics are no longer able to counter adverse demographic trends and reduce the pension bill. Hence heavy reliance on productivity growth appears as a further vulnerability of European ageing societies. Last but not least, we need to consider the medium-term challenge posed by increasing unemployment and long term

unemployment. Figure 3 shows how the two have evolved since 2007. Excluding Germany (where rates improved markedly during the crisis), Belgium, and perhaps Poland, all the other Member States suffered an increase in both total and long-term unemployment. On average, the share of long-term unemployed in total unemployment reached 43% in 2011: 11% higher than in 2009 (Social Protection Committee 2011).

Figure 3 Unemployment and long-term unemployment trends across the EU27



Source: Eurostat. Data for the Czech Republic in 2007 refer to 2009 instead

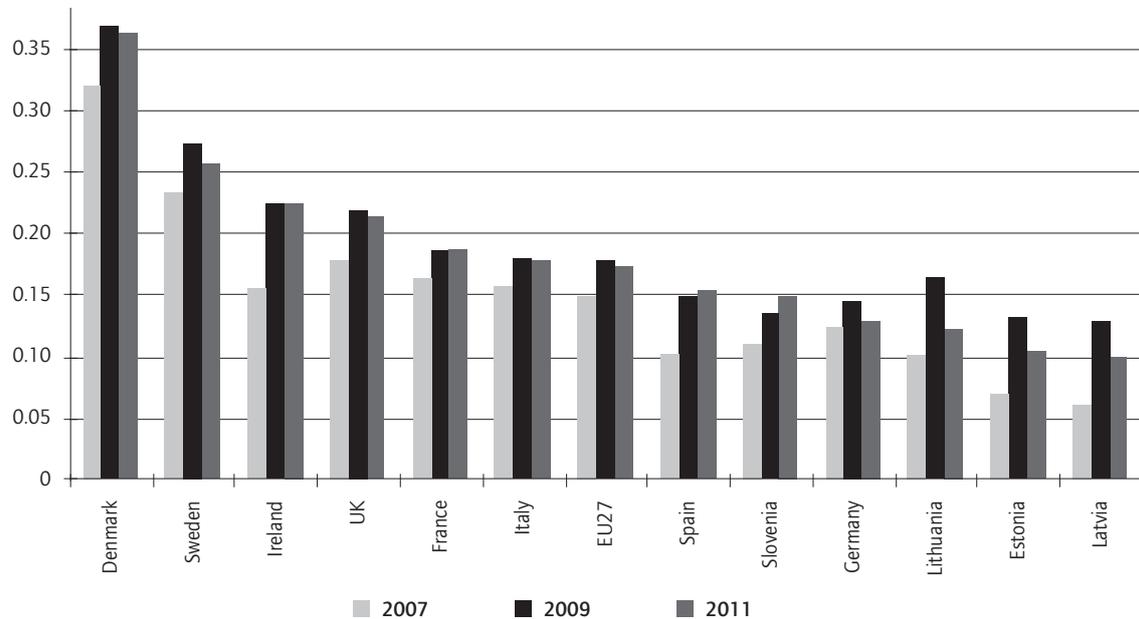
As unemployment increases, expenditure on unemployment and assistance benefits rises, fewer contributions are paid, and countries find their social expenditure harder to finance. Figure 4 provides tentative evidence of this difficulty. It shows the recent evolution in selected EU countries of the gap between social spending and contributions as a share of GDP.

In sum, pension systems during the crisis have been under crossfire. Not only have they experienced internal problems of long-term sustainability and adequacy, but they have also been competing for scarce resources with other welfare policies and with the most pressing social concerns.

2.1.3 The effects of the crisis on the capital market

Before dealing more in detail with how pension and social spending figures have reacted to the challenges, we now need to focus on how capital market shocks have influenced interest rates and financial returns during the crisis. Especially in multi-pillar systems, rates of return that pension assets earn in the financial markets are crucial. They determine not only the profitability of non-public schemes, but also the ability of reserve funds to provide unfunded pension programmes with short-term financial relief. At first sight, pension

Figure 4 Increasing gap between actual social contributions and total social spending in selected Member States (share of GDP, %)



Source: Ameco Dataset

funds have kept on increasing their total asset value and economic weight as a proportion of GDP all through the decade 2001-2011. Nonetheless, with reference to investment profitability, the latest OECD (2012) data in Table 4 show large negative effects occurring in 2008, followed by only partial recovery and by the return of market uncertainty in 2011 (see European Commission 2009).

Adverse impacts on investment returns were greatest where equities feature prominently (30% or more) in pension fund investment portfolios: Ireland experienced the worst performance (-35.7%) in 2008, followed by Belgium, Hungary and the Netherlands.

The lingering effects of the crisis can be appreciated by comparing average returns between 2002 and 2007 with the total returns provided by the funds in the four-year period 2008-2011. Whereas the former are positive with minor exceptions (the figure for Ireland is for 2007), the latter are generally negative, notwithstanding two major deviations (Romania, +32% and Denmark, +27%) (OECD 2011b). Stock market capitalisation trends, calculated on the basis of World Bank data, provide a useful backdrop to contextualise the evolution of pension fund profitability. They also add further evidence of the severity and diversity of the crisis across the EU. Before the crisis, the stock market vigorously expanded in all countries. In 2007, it had grown more than eleven times larger than its 2003 level in Bulgaria and more than four in Poland. Markets had at least doubled their worth in most EU27 countries. In the following years, however, they dropped to less than half their

Table 4 Pension fund real net rates of return in selected Member States

	Average return 2002-2007	2008	2009	2010	2011	Total return 2008-2011	Stock market capitalisation trends	
							2004-07	2008-11
Austria	2.2	-14.4	7.3	3.7	-6.0	-10.0	+315	-63
Belgium	4.7	-22.3	13.4	4.4	-4.6	-12.0	+122	-40
Bulgaria	4.6	-32.3	5.6	2.5	-3.0	-28.0	+1141	-62
Czech Rep.	1.3	-1.5	-0.6	-1.2	0.5	-2.0	+315	-47
Denmark	3.9	5.1	1.2	7.1	12.1	27.0	+126	-35
Estonia	6.5	-23.1	13.2	2.5	-7.9	-17.0	+59	-73
Finland	4.3	-19.7	14.0	7.1	-4.4	-6.0	+116	-61
Germany	2.6	0.5	3.9	3.4	...	7.0 ³	+95	-43
Greece	...	2.3	0.3	-7.8	-5.6	-10.0	+147	-87
Hungary	2.1	-21.7	12.8	4.2	-0.5	-8.0	+184	-60
Ireland	-7.3 ¹	-35.7	...	...	...	..	+69	-75
Italy	...	-5.3	5.3	1.2	-2.8	-1.0	+74	-59
Latvia	...	...	...	18.6	-6.6	10.0 ⁴	+172	-65
Luxembourg	10.4 ²	-11.3	6.5	0.7	-2.2	-7.0	+344	-59
Netherlands	4.1	-17.3	11.5	8.8	8.2	8.0	+95	-37
Poland	9.4	-17.3	8.9	7.2	-9.1	-12.0	+457	-33
Portugal	4.4	-13.2	11.6	-3.0	-7.3	-12.0	+126	-53
Romania	...	10.7	10.3	8.5	-0.3	32.0	+704	-52
Slovakia	-0.1 ¹	-8.9	1.0	0.0	-3.8	-11.0	+150	-32
Slovenia	-1.0 ¹	-5.4	4.2	1.8	-1.8	-1.0	+305	-78
Spain	...	-9.9	6.9	-2.2	-2.2	-7.0	+147	-42
UK	0.3	-0.9	-0.9	-2.1	-2.5	-6.0	+56	-24

Source: OECD 2012; World Bank

¹ Data for 2007 only; ² Average 2005-07; ³ No data for 2011; ⁴ No data for 2008-09.

2007 value, ranging from -23% in Sweden (not in the Table) and -24% in the UK, to -78% in Slovenia and -87% in Greece. This serious blow to the EU financial system is still far from reabsorbed. Generally speaking, European pension funds show a distinctive preference for safer investments: government bonds consistently make up more than 50% of their asset allocation. During the crisis, pension funds in most countries (especially public pension reserve funds, see below) slightly increased the share of government bonds in their portfolios (OECD 2012). The rationale for this change was to increase the share of fixed-return assets within investment portfolios, in order to reduce their sensitivity to the uncertainties of the stock markets. In the same years, however, funds in heavily indebted countries, such as the GIIPS, began to suffer from increasing bond yield spreads (Eurostat statistics)³ and the consequent increase in nominal interest rates. As interest rates soared, driven

3. The figure shows the differentials (spreads) between the German Bund and the bonds of selected Member States. The indicators used for the calculations are 'Maastricht criterion bond yields': central government bond yields on the secondary market, gross of tax, with around 10 years' residual maturity (see the Eurostat website).

by spiralling ‘country risk’, the market value of previously issued bonds plummeted accordingly. Pension funds whose assets included bonds being devalued thus started to face serious solvency issues. Whereas bond yields were on the rise, risk-free interest rates kept going down, as a result of the accommodating monetary policies of the European Central Bank (as shown back in Table 1) and the US Federal Reserve. Protracted low interest rates have deeply affected pension funds and insurance companies, by increasing the present value of future liabilities (especially those very far in the future) and curbing future investment returns.

In sum, collapsing stock markets, increasing bond yields, and persistently low risk-free rates all jeopardised the solvency status of pension sponsors (OECD, 2010b). A major reason for concern is that whenever company insolvency decreases, benefits may be cut. Solvency problems affected in particular defined-benefit schemes (DB) and their pre-defined replacement rates or benefit levels. In 2008, funding levels in DB plans across the OECD were down by more than 10% on average.⁴

The financial crisis also affected public schemes, where funding has also taken on an important role. Following the lead of Sweden, several EU countries established public pension reserve funds (PPRFs) to provide financial relief to their traditional PAYG schemes (European Commission and Social Protection Committee 2012). Very conservative in their investment policies, these buffer funds have suffered from negative investment returns much less than private schemes (see Table 5).

Table 5 Public pension reserve funds (PPRF) nominal returns in the EU27

	2008	2009	2010
Belgium	4.4	4.5	2.0
France – ARRCO	-9.4	11.5	–
France – AGIRC	-7.8	10.5	–
France – FRR	-24.9	14.9	2.6
Ireland	-30.4	16.7	5.5
Poland	-5.9	4.9	4.0
Portugal	-3.9	7.1	-1.3
Spain	4.7	4.9	2.1
Sweden - AP1	-21.9	20.8	9.0
Sweden - AP2	-24.0	21.2	9.9
Sweden - AP3	-19.8	16.9	7.8
Sweden - AP4	-20.8	22.2	9.6
Sweden - AP6	-16.6	11.9	8.1

Source: OECD 2010a, 2011, see Natali 2011

4. Solvency is less of a concern in the world of defined contribution (DC) schemes. Here, benefit levels fluctuate with investment fortunes and investment risks are chiefly borne by scheme members, who may eventually face less than adequate pension provisions. This threatens in particular older workers close to retirement, who cannot wait for higher returns in the future and have to accept lower pensions or delay retirement (European Commission 2009).

The impact was the greatest wherever equities represented a large part of the total assets of the reserve funds. This was the case in Ireland and France.

2.2 The EU and its austerity strategy: a stronger impulse

The crisis described above was addressed by national policymakers responsible for pension systems. Yet the European Union (EU) has played a key role in shaping national responses. Here we present a brief summary of the main measures agreed on at the European level in response to the crisis. Such a strategy has influenced the content of pension reforms and the political dynamics involved.

2.2.1 Stricter budgetary control and austerity

After the emergence of the economic and financial crisis, EU leaders recognised the urgent need for a stricter application of the policy goals at the base of the EU economic governance. The broad outline (and the list of objectives) of the EU strategy was provided by the recommendations of the task force on economic governance (European Council 2010, p.1). The task force was set up by the March 2010 European Council to present the measures needed to improve the legal framework for crisis resolution and budgetary decisions, investigating all options. The new governance agenda agreed by the task force consisted of five broad elements: greater fiscal discipline; broadening economic surveillance (through a reinforced Stability and Growth Pact); deeper and broader coordination (via the European Semester, to ensure the simultaneous assessment of both budgetary measures and structural reforms); a more robust framework for crisis management (with a key role of the European Central Bank and European); stronger institutions for more effective economic governance (both at national and EU level) (Diamond and Liddle 2012: 59).

Many of these tools have proved to be consistent with austerity and downward pressures on social rights. This is the case of the Euro Plus Pact, designed to encourage adoption, on a voluntary basis, of measures to enhance the competitiveness of the euro area and the European Union. The Pact referred to its signatories agreeing, inter alia, to common economic objectives and, on an annual basis, 'national policy commitments', to meet them, 'with their own policy mix, taking into account their specific challenges'. The policy areas covered by the Pact include wage and productivity developments and competitiveness adjustment needs, sustainability of pensions, health care and social benefits, national fiscal rules and tax policy coordination (Degryse 2012). In addition, the Stability and Growth Pact (SGP) has been significantly revised and empowered by the 'Six Pack' reform of November 2011, followed by the Two Pack reform and then by the Fiscal Compact: an intergovernmental treaty ratified in March 2012 by all Member States except the Czech

Republic and the UK. Through this complex set of innovations, the EU has clearly reinforced its attempts to achieve budgetary stability and a stricter control of public spending (including social policy).

The European Semester and its persistent reference to pension reforms is a proof of this. A key document is the Annual Growth Survey (AGS). This sets out what the Commission believes should be the overall budgetary, economic and social priorities for the coming year. It also kick-starts the European Semester, the calendar for economic policy coordination, where national policies are reviewed collectively and guidance is endorsed at the EU level to ensure that Member States are moving in the same direction. The first few surveys (published in 2011, 2012 and 2013) have all focused on the need for pension reforms. The European Commission did not mince its words when drawing up the Annual Growth Survey, published in early January 2011. It would be advisable, in its opinion, to 'reduce over-protection of workers with permanent contracts', to 'increase the retirement age and link it with life expectancy', and to 'support the development of complementary private savings' (Degryse and Natali 2011).

The very last AGS puts it as follows: EU members need to pursue the reform and modernisation of pension systems, respecting national traditions of social dialogue to ensure the financial sustainability and adequacy of pensions, by aligning the retirement age with increasing life expectancy, restricting access to early retirement schemes, supporting longer working lives, equalising the pensionable age between men and women and supporting the development of complementary private savings to enhance retirement incomes (European Commission 2012b).

While the measures mentioned above are the main instruments for a more stringent coordination of national pension reforms in the context of budgetary and economic surveillance, a more exceptional set of tools have been developed for those countries facing huge financial tensions. This is the case of the memorandum of understanding that some EU countries have acceded to in the last years. The memorandum consists of various documents underlying the agreement between a single country, the EU and the International Monetary Fund (IMF). The latter provide loans as external financial assistance for the country in exchange for reforms (especially for fiscal consolidation). The memorandum of understanding sets out the conditions for the disbursement of the assistance; it sets targets for the achievement of the specified policy objectives and requires detailed reporting in respect of the achievement of these objectives. It also requires the Government to consult with the European Commission, the ECB and the IMF about the adoption of policies that are not consistent with the memorandum. Greece, Ireland and Portugal were the first three countries asking for this help and signing the memorandum. For Ireland, for instance, pension reform was a key point of the policy objectives at the core of the agreement.

2.2.2 A broader picture through the White Paper 2013: adequacy and the Internal market for pensions

If we focus on pensions and the broader EU guidelines on this area, we still see that financial sustainability is the dominant issue. It is interesting to look at the White Paper, '*An agenda for Adequate, Safe and Sustainable pensions*', published by the Commission in January 2012. The White Paper was in line with the prominent focus on the EU's economic and financial objectives and the proposed austerity paradigm for Member States. Yet the document recognised the importance of fully activating the EU's labour potential: increasing employment rates not only among older people, but also for the younger generation, women, migrants and people with a low level of education. It then stressed that active ageing should be defined in terms of more and better jobs. The quality of employment, better working conditions, lifelong learning and more effective training are taken to be preconditions for extending working careers and increasing the retirement age (Natali 2012a). While active ageing was proposed in parallel with the persistent reference to the key role of supplementary private schemes, the two things may contradict each other. As stressed by some analysts (see Jessoula 2012 for the case of Italy), increasing retirement age means, to some extent, granting higher pensions for future generations (while requiring greater effort through longer contribution records). This has the potential effect of reducing the room for supplementary private schemes (which would, by contrast, increase their importance in the case of more limited protection from the first pillar public schemes). This seems to be a potential contradiction in the EU pension strategy, that could explain the more limited focus on private pensions in some Member States (see section below).

Another key policy dimension in the EU pension debate has to do with the completion of the internal market for pensions and the revision of the EU rules on the governance of pension funds. Since the crisis, two main topics have been debated. First the introduction of a directive on solvency rules for financial institutions. This is the so-called Solvency II Directive, adopted in 2009 and involving a risk-based regulatory regime for the insurance sector. However, the crisis has highlighted the particular challenge facing insurers offering long-term guarantees (mainly life insurers), and has shown that some adaptations are needed to the Solvency II requirements. Yet before Solvency II can be applied, a package of measures for insurers issuing products with long-term guarantees (the LTG package) needs to be incorporated into the regime. This is to be done via a draft Directive known as 'Omnibus II', currently under discussion.

The Solvency II Directive has caused controversy as to whether it should apply to IORPs (institutions for occupational retirement pensions) (Macfarlain 2013). Those in favour of similar treatment argue that there are no major differences between pension schemes and life insurance undertakings. Those against argue that the differences are meaningful and that putting pension funds under the umbrella of the rules designed for insurance companies could be very harmful. The opponents of similar

treatment include the social partners, which are against any harmonisation of the regulatory regime for pensions and other insurance activities. A joint statement along these lines was issued by a number of organisations including the European Trade Union Conference (ETUC), the European Federation for Retirement Provision (EFRP), the European Venture Capital Association (EVCA), Business Europe and others representing business, including small and medium enterprises (Oudenapsen 2012).

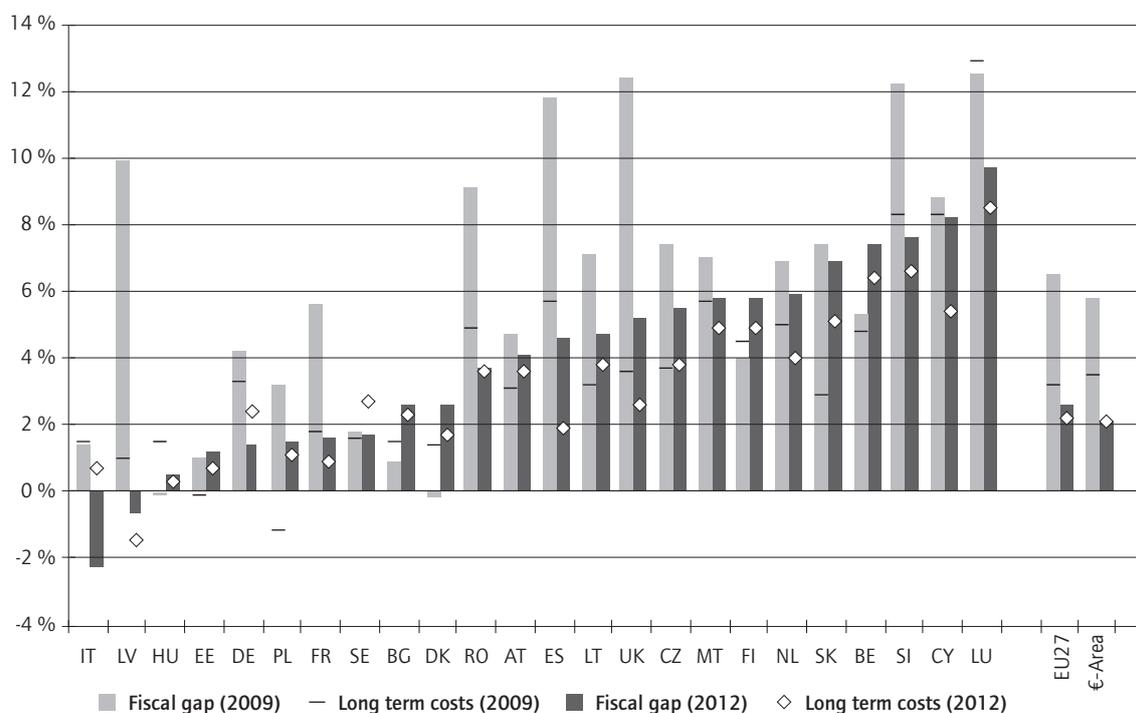
The same debate took place with reference to the revision of the IORPs directive. In 2011 the European Commission chose to propose a revision of the IORP Directive, seeking to impose on funded pension schemes a regulatory regime based on that applicable to insurance companies-Solvency II. Concerns were also expressed about the implications of increased funding levels for employers and businesses at a time when Europe was struggling for investment and growth, as well as to the impact on investment markets and equity capital. Much debate centered on EIOPA (European Insurance and Occupational Pensions Authority)'s proposals for a holistic balance sheet: a formula enabling different kinds of benefit adjustment and security mechanisms to be included, so that the value of IORP resources and obligations can be compared on a consistent basis. Since then, consultation on the technical specifications of a quantitative impact study (QIS) has been conducted by EIOPA. Most comments were critical. As a consequence the Commission has relaunched the debate on a revision of the IORPs directive, not covering the issue of pension fund solvency, but, rather, the provisions on governance and transparency (European Commission 2013).

The EU has thus developed a broad strategy involving cost-containment for public schemes, active ageing (mainly through increased retirement age) and more effective regulation of supplementary pension funds.

3. Reform patterns and outcomes in eight Member States

With some degree of cross-country variation, the multi-dimensional crisis illustrated above has affected European public and social expenditure in two distinct phases. In the first of these, both national and EU-level policymakers reacted with fiscal expansion and timid economic stimulus packages (less than 2% of EU27 GDP, mostly concentrated in Spain, Germany, and Sweden; see Watts 2009). As a result of increased spending and lower growth, the EU reached record average levels of structural deficit and debt equal to 5.25% and 74% of GDP. Only Estonia, Bulgaria, Luxembourg and the Nordic countries complied with European macroeconomic requirements, while the Netherlands, Ireland, the UK, Malta, Portugal, France, Belgium, Greece, and Italy overshoot both the debt and deficit limits. In 2009, estimates predicted an average increase in social expenditure (from 2007 to 2060) equal to 4.25% of GDP by 2060.

Figure 5 Fiscal gap in EU Member States, 2009-2012

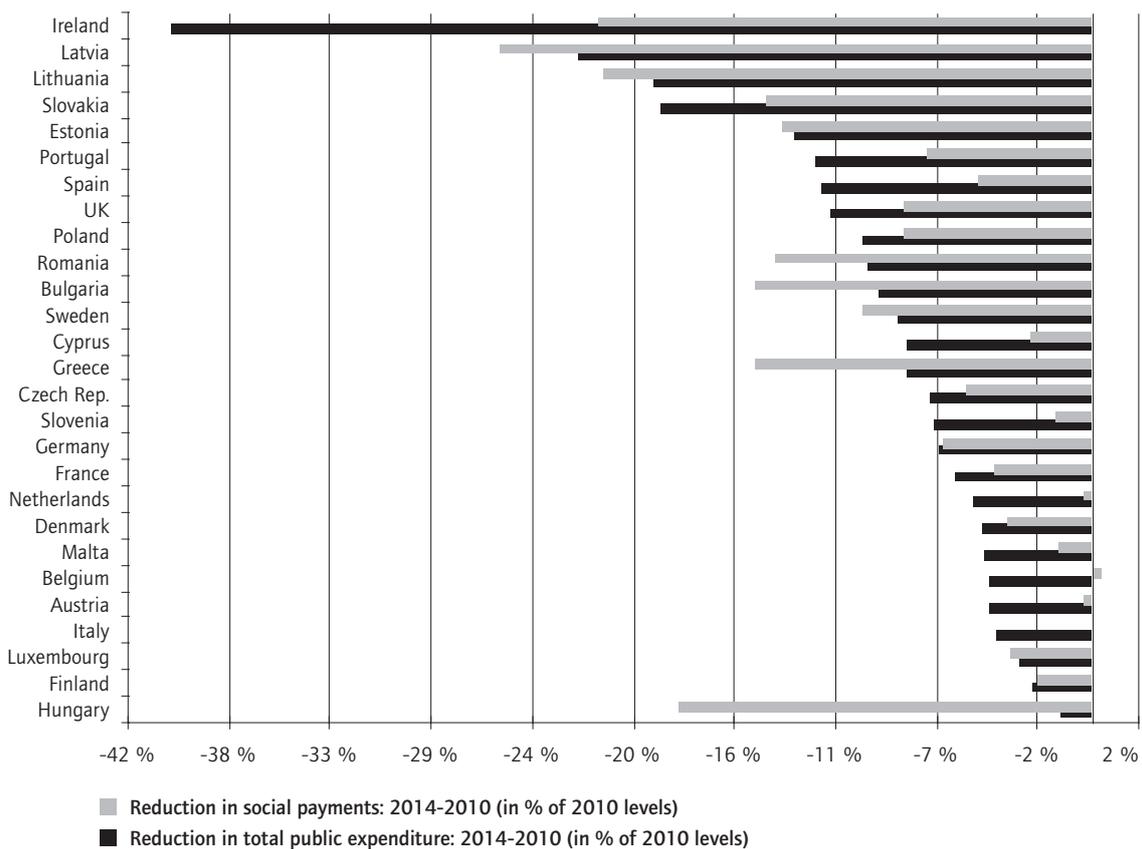


Source: Eurostat

In the second phase, starting in 2011, countries reacted to the deterioration of public finances by turning to fiscal consolidation and austerity. Figure 5 shows the main effects of fiscal consolidation in the EU27 and the Euro Area (Greece, Portugal, and Ireland, currently under IMF conditionality, are however excluded). In 2012, the fiscal sustainability gap was reduced from 6.5% to 2.6% on average and from 5.6% to 2.1% in the Euro Area.

Figure 6 shows instead the overall consolidation effort announced by Member States in their 2011 National Reports. More than half of EU27 countries plan to reduce their public expenditure by more than 7%, the toughest cuts being concentrated in Ireland and the Baltic countries. Planned cuts to overall social payments are in line with the general reduction of public expenditure, and much higher in Hungary, Greece, Romania, and Bulgaria.

Figure 6 Planned reduction in social payments in selected EU countries, 2010-2014



Source:Eurostat

Against this backdrop, we can now turn in more detail to the cases of the UK, Ireland, Sweden, Finland, France, Italy, Poland, and Slovenia. In order to reduce the complex variation between the most recent interventions and to trace them back to their national policy legacies, we now adopt a pension

model perspective. Therefore, we will study two countries for each of the four pension models outlined in Section 1, one more and one less affected by the coupling of crisis and austerity. Ireland and the UK provide this comparison among 1st generation multi-pillar systems, while Slovenia and Poland do the same for the 2nd generation. For Social insurance systems, Italy and France represent the 1st and Finland and Sweden the 2nd generation.

3.1 Crisis and austerity in the multi-pillar forerunners: Ireland and the UK

3.1.1 Ireland

Pension legacies

At the turn of the 20th Century Ireland was a fast-growing IT-based economy and one of the most capital-friendly countries in Europe. Eventually, it was among those most heavily punished by the global crisis of 2008. Ireland's pension legislation closely mirrored the peculiar pace of its economic development. The introduction of a contributory flat-rate public pension was relatively belated (1961) and the regulation of occupational funds almost non-existent until 1990. As a result of economic expansion, the early 2000s saw timid expenditure increases, the introduction of a funded National Pensions Reserve Fund (NPRF), and the development of third pillar Personal Retirement Savings Accounts (PRSAs). In conformity with the multi-pillar nature of the Irish system, tax-subsidised occupational schemes, with voluntary funding for private employees and compulsory PAYG for most civil servants, cover about half of the workforce. In the private sector, they may be DB or DC or take the form of employer-sponsored PRSAs. PRSAs, available since 2003 for individual subscription with an authorised provider, are DC plans with a 10% (assumed) contribution rate.

Following the reform of September 2006, the pre-crisis public system featured three PAYG public flat-rate State Pensions (Contributory, Non-Contributory, and Retirement), several voluntary second funds, and the third pillar PRSAs, plus about €950 worth of in-kind benefits entitlements. The State Pension (Non-Contributory) was a means-tested pension for low-income elderly, payable from age 66 and worth about 27% of average (pre-crisis) earnings. The State Pension (Contributory) was a flat rate statutory scheme paying about 30% of average pre-crisis earnings to people 66 or older with at least 260 weeks of effective contributions and an overall yearly average of 10. The State Pension (Transition) had similar requirements, but was paid to retirees aged 65. Full entitlement required a yearly average of 53 weeks contributions or credits; benefits were reduced for incomplete careers. Public employees received statutory benefits - an earnings-related superannuation - almost entirely tax financed. At retirement, public employees could receive a monthly pension up to 50% of final income and indexed to public-sector wages, plus a tax-free lump sum (about 150% of final salary). For employees hired before April 2004, full entitlement occurred at 37.5 years' contribution, while the

standard retirement age was 60; the corresponding values for new entrants were 40 and 65. Benefits were not indexed, but discretionarily increased on an annual basis. Participation in the Homemaker's scheme allowed the crediting of caring activities for pension purposes. Early retirement was possible at 50 or 55 with actuarially reduced superannuation benefits. Special requirements applied to policemen, military personnel, and fire-fighters.

The problematic legacies of the Irish pension system were the combination of inadequacy in public provisions with the limited coverage of private pensions. Before the crisis, old-age poverty was cushioned by keeping discretionary benefit increases above wage growth. As regards the low level of private protection, in 2006 the government set the following policy target: 70% of workers over age 30 had to be in a position to save enough to obtain a 50% replacement rate from their non-public pensions. Even before the crisis struck, however, inequalities in the provision of tax relief, the absence of any sort of matching contributions, and the lack of consensus among the policy stakeholders prevented the adoption of any effective tool for achieving that goal.

Pressures from the crisis

Ireland was deeply affected by both the financial and the sovereign debt crisis. In the years of the Celtic Tiger, lax banking regulation tolerated high levels of international debt. With the freezing-up of the global interbank market in 2008, however, the usual degree of leverage became unsustainable. A liquidity shortage followed, halting investments and destroying the value of banks' collateral assets. System-level insolvency required the state to intervene and recapitalise the banking system. In September 2008 the centre-right/green government led by Brian Cowen (Fianna Fáil) issued a 2-year state guarantee on bank liabilities. In January 2009, following the outbreak of a mismanagement scandal, Allied Irish Bank, the largest in the country, was nationalised. In February, it was recapitalised together with the Bank of Ireland with a €7 billion bailout, partly financed with NPRF reserves.

In November, the government obtained a loan from the EU and issued a more limited guarantee for one more year. Market operators, however, anticipated the expiry date of the guarantee, causing a massive bond repayment in the last quarter of 2010. In a new critical turn, Irish sovereign bond yields skyrocketed and the government was forced to negotiate a €85 billion loan from the EU, the EFSF, and the IMF. €10 billion worth of NPRF assets were contributed by the government to the 'rescue programme'. The country moved from spectacular (and seemingly robust) economic growth with very favourable long term financial prospects - including very high fertility, good participation levels, below average life expectancy - to a scenario of short term stress and high uncertainty about medium term developments. Irish public debt doubled, leaping from about 40% to 80% of GDP, and deficits surpassed the 30% threshold.

This perfect storm hit the Irish pension system during a process of modernisation and cautious expansion. Still, the long-term prospects for the

system are good, provided the economic damage is quickly reversed in the medium term. Gross public pension expenditure is expected to increase from 7.5% to 11.7% of GDP between 2010 and 2060, well below EU27 average levels. Projections of the Irish old-age dependency ratio show that it is projected to remain 10 percentage points below the EU average in the next decades, increasing from 18.8% in 2010 to 44.4% in 2050 (European Commission and Economic Policy Committee, 2012). The share of working-age over total population is projected to drop from 67% to 60.1% by 2060: a much lower drop (6.9 points) than the 10.7 points fall projected for the EU27. While the overall employment rate in 2010 was below the EU average, the figure for older workers (55-64) was above average. Furthermore, careers normally last 64.9 years in Ireland, which is 2.8 years longer than in the EU as a whole. Labour market participation, including participation of the elderly, is however expected to remain lower than in the EU27 (*ibidem*).

The impact of the crisis magnified the traditional shortcomings of Ireland's pension policy: low anti-poverty protection and inadequate regulation of private pensions. Previously legislated benefit increases and falling work income have lowered the share of the elderly at risk of poverty and social exclusion in recent years. Still, the ratio between median pension income and median work income remains 78%, ten points lower than the EU average and with a larger gender gap. Projected replacement rates indicate a severe deterioration of living standards for older people 20 years from now. Moreover, as a result of the higher age requisites imposed by the austerity packages, Irish workers are expected to be much more exposed to the risk of career breaks (due to care activities and unemployment) in 2050 than they are today.

Turning to private pensions, strict solvency regulations negatively affected DB pension funds, given the combination of low investment returns and low interest rates to discount future liabilities. Since 2008, deadlines for submitting funding proposals have been systematically extended to deal with possible funding deficits. More than 75% of Irish DB schemes were unable to meet minimum funding requirements in 2011, with accumulated deficits estimated at around €25 billion. In such a situation of distress, the coverage of occupational schemes and supplementary pensions declined sharply. In 2010, the number of occupational DB schemes declined from 1,307 to 1,108, while the DC funds fell from 82,939 to 75,183 (NPB 2011). Overall, coverage among workers aged 20-69 fell from 54% (early 2008) to 51% (end of 2009); over the same period, coverage fell from 47% to 36% among the self-employed and from 32% to 24% among part time workers. High charges and opaque fee structures also contributed to such a poor performance.

The reform pattern

Ireland's pension austerity was negotiated and implemented in the shadow of the bailout programme agreed with the EU and the IMF. This peculiar scenario fostered a great number of subtractive pension interventions. Pensions have not increased since the Budget law of 2009 and, as seen above, the NPRF was used for bank re-capitalisation and as a guarantee for the

EU/IMF loan agreement. In addition, the government introduced greater flexibility in restructuring defaulting DB schemes and strengthened the role of the Pensions Board in case of employers' noncompliance. It also established, on a 3-year pilot basis, the Pensions Insolvency Payment Scheme (PIPS), assisting current and former employees in the case of firm default. Finally, a new pension levy was imposed on civil servants, reducing benefits by 7% on average.

In March 2010, when the National Pensions Framework (NPF) was negotiated as a part of the EU rescue programme, it set out various measures concerning sustainability as well as adequacy. Among them was expanding coverage among low and middle income groups, the reform of public sector pensions, higher retirement ages, and the reform of tax subsidies. In December, in order to comply with the bailout conditions, the government lifted its obligation to contribute to the NPRF (1.5% of GDP a year) and centralised the management of NPRF investments (€24.4 billion) with the Ministry of Finance. Contextually, current public service pensions above €12,000 were further reduced by an average of 4%. With the Financial Act of February 2011, the government reduced the maximum earnings limit for tax relief on pension contributions (to €115,000 a year), the Standard Fund Threshold (to €2.3 million) and the limit on the 'tax-free' lump sum (to €200,000) (Considine and Burke 2012). Employer pension contributions were henceforth to be treated as taxable income for the employee. In addition, tax incentives for voluntary retirement savings were shrunk, being gradually reduced from 41 to 34% in 2012, 27% in 2013, and 20% from 2014.

In February 2011, Irish voters inflicted on Fianna Fáil a historic electoral defeat. Although the opposition campaigned on a strong anti-bailout and anti-austerity platform, the resulting Fine Gael - Labour coalition government behaved responsibly and in continuity with the previous policy trajectory. The new coalition committed itself 'to progressively achieve universal coverage with particular focus on lower-paid workers, to achieve better risk sharing, and to provide for greater flexibility for those who wish to retire on a phased basis' (Fine Gael and Labour 2011). Still, it carried on implementing the austerity programme and even extended the public guarantee on the liability of banks (December 2012).

The 'Social Welfare and Pensions Act' of June 2011 discontinued the State Pension (Transition), increasing the standard retirement age to 66 years for all in 2014 and further raising it to 67 (2021) and 68 (2028) years. Decrements for early retirement were introduced for public sector workers, and exemptions from contributions for very low-income workers were abolished. Newly hired civil servants were assigned to a Public Service Pension (Single Scheme), paying a single price-indexed pension, calculated on career average wages. The age requisites of the new scheme mirrored the new higher levels for private employees. Still in June, a second Finance Act 2011 introduced a temporary levy on private pensions (0.6% for four years) to fund a new Jobs Initiative providing young people with 20,000 new posts and providing additional financial assistance and skills training. PRSI (Pay

Related Social Insurance) and USC (Universal Social Charge) were to be applied to all employee contributions. The government pursued further economic stimulus by lowering the employer contribution rate from 8.5 to 4.25% from July 2011 (a norm later abolished in the 2012 Budget). Moreover, previously legislated changes to the State Pension (Contributory) requirements also came into effect for new applicants in 2012, doubling the contributory minimum for qualification. Further changes are currently being studied to replace the current wage averaging system with a 'total contributions approach' by 2020 and to introduce actuarially neutral arrangements for deferred benefit drawing. According to policymakers' goals, the contributory state pension should remain at the core of the pension system and provide a replacement rate close to 35 per cent of average earnings (Considine and Burke 2012).

As regards supplementary benefits, the NPF proposed a new auto-enrolment system, to be implemented from 2014. Employees over the age of 22, above a certain income threshold, will be automatically enrolled and pay a further 4% PRSI contribution to a supplementary fund. Matching contributions will be equal to 3% (2% from the employer and 1% from the government), while the government will offer a bonus for contributing periods longer than 5 years. Opt out will be possible after 3 months, but automatic re-enrolment will periodically occur. In 2012, the funding standards to be applied to DB pensions within the next 3 to 10 years have also been reviewed. Periodical monitoring and information obligations were strengthened; moreover, DB plans will be required from 2016 to hold additional reserve assets in order to absorb shocks, with an estimated 10% increase in overall funding requirements.

As stressed by Regan (2013), the policy constraints of European Monetary Union (EMU) and the focus on public sector austerity, in the context of an unprecedented economic crisis, have undermined social partnership. Internal devaluation has reinforced the liberal market orientation of Ireland's public policy regime and this has contributed to the ending of social dialogue. All major reform measures (not just on pensions) have been designed by the Prime Minister, while the National Economic and Social Council has lost much of its role. Social partnership has been identified as part of the problem not the solution (*ibidem*, 23).

Concluding notes

Ireland is a major example of the transformative power of the economic crisis in a country with few veto players and an evolving party system. The crisis brought to an end the timid process of pension modernisation that economic growth had favoured in the early 2000s, exposing the limits of private pension regulation and anti-poverty protection.

Whereas the government response in 2009 was quick but hardly solved the problem, the National Pensions Framework proved a formidable engine of rapid and transformative policy change. With an impressive degree of continuity after one of the most important elections in its history, Ireland

introduced impressive short-term pension and tax incentive cuts, as well as a tentative job stimulus scheme. Policy-makers reengineered and harmonised civil servants' pensions, and changed the governance of the large national reserve fund. Early retirement options were severely restricted and the State Pension (Retirement) discontinued. Last but not least, the government announced a new auto-enrolment system for supplementary benefits and re-regulated DB plans. Further examinations, addressing a total contributions approach with deferred benefit drawing, could lead Ireland to adopt, implicitly or explicitly, some of the NDC features already adopted by many other Member States. As a result, workers under this much less generous system will need to work more to receive less.

Irish pensions have already paid heavily for the rescue programme, and pension austerity has probably reached its limits. As disadvantaged career profiles might find the auto-enrolment system of little help for their retirement prospects, pension inequality is likely to increase along with existing gender gaps in retirement income and old age poverty. Most notably, the suspension of public NPRF contributions, and the disbursement of the remaining reserve funds for general interest interventions, may seriously affect future pension budgets. Therefore, in order to give a definite judgement on the reformed system's ability to reconcile the imperatives of sustainability and adequacy it is imperative that the economic system returns to the path of economic growth.

3.1.2 United Kingdom

Pension legacies

UK pensions are a typical example of a multi-pillar system. They are based on three key principles: low public protection, private sector voluntarism and the contributory logic of (public and private) retirement schemes (benefits were strictly related to labour activity). In the 1970s, the public pension pillar consisted of a flat-rate basic pension and a supplementary state earnings-related scheme (SERPS). Workers had the option of contracting out of the public earnings-related scheme and choosing private cover instead. Since the 1980s, the Conservative reforms greatly reduced the generosity of benefits from SERPS. Public protection was less generous than that of countries with pension schemes based on social insurance, and 'contracting-out' - especially in favour of personal pensions - was encouraged through tax incentives. Second and, in particular, third pillar programmes gained an increased role in providing higher protection for the active part of the population, especially the middle class (Natali 2012b).

Back in government between 1997 and 2010, the Labour party enacted several reforms to keep pension spending under control, while improving the overall adequacy and coverage of the British multi-pillar system. Labour pension initiatives focused in particular on improving equality and adequacy in retirement. The main building blocks of this strategy have been: improved access to pensions, measures to increase elder and disabled workers'

employability and effective retirement age, and the automatic enrolment of workers in supplementary pension schemes. In addition, pension sponsors' informative obligations concerning the presumable value of future benefits have been increased. In the early 2000s, the pension debate intensified following the appointment of three commissions tasked with considering how coverage and adequacy could be further expanded: a Pension Commission led by Lord Turner, the Employer Task Force on Pensions, or ETFP, and an Independent Public Services Pensions Commission chaired by Lord Hutton. Inspired by these proposals, the government issued two White Papers in May and December 2006, which prepared the enactment of the 2007 and 2008 Pensions Acts.

The former of these reduced from 39 (women) and 44 (men) to 30 (for both) the years required for a full Basic State Pension (from 2010), expanded the credits available for care activities, and re-established wage indexation for basic pensions. To make up for the increasing costs, the reform gradually increased the standard pension age to 68 years by 2046. Finally, the option of 'contracting out' was limited to DB schemes. As regards the latter piece of legislation, it revised radically the traditional voluntarism and light-touch regulation of supplementary pensions in the UK. The Act set up a number of multi-employer schemes - called Personal Accounts (PA) - in which all workers would be automatically enrolled, while being given the possibility to opt-out. A so-called National Employment Savings Trust (NEST) was also introduced as a low-fee public pension provider for workers with no access to firm-sponsored funds. Due to its large-scale effects and general coverage, PA should reduce administrative, marketing, and transaction costs for both employers and employees, especially in sectors where firms are small and job mobility is high.

In sum, as a result of this intense reform process, UK pensions were organised in three pillars: the unfunded Basic State Pension, the additional SERPS/S2P system, and voluntary and quasi-mandatory funded occupational and personal schemes. There were also still significant unfunded schemes for civil servants.

Workers received a flat-rate BSP proportional to their years of actual or effective contribution, up to GBP 102.15 per week (in 2011), possibly supplemented by a 'guarantee credit' (up to GBP 137.35 per week for single pensioners and GBP 209.70 for couples). SERPS/S2P benefits were price-indexed and available for workers earning at least GBP 5,305 per year (in 2011) or qualified by a record of eligible care activities. Neither BSP nor SERPS/S2P provided early retirement options. In 2008, about 35% of employees were 'contracted-out' of SERPS/S2P into a firm-sponsored fund, a personal pension, or a stakeholder plan, compared to 55% in the mid-1970s. Occupational schemes were mostly of a DB type, although a major shift towards DC plans occurred between the late 1970s and the early 2000s. Contributions paid to the public system for contracted-out employees are rebated in different ways, according to the pension scheme type.

Pressures from the crisis

Due to its comparatively large financial sector, the UK was severely affected by the financial crisis of 2007. In September 2007, the Northern Rock Bank was bailed out by the Bank of England and subsequently taken into public ownership in February, after the outbreak of the subprime mortgage crisis. As the British banking sector started to show signs of instability in 2008, the Brown government responded with a GBP 500 million rescue package as well as stimulus measures and loan guarantees for several billions of GBP. The cost of these interventions, combined with missed tax revenues from the financial and banking sector, pushed the UK towards two-digit deficits in 2009-10 and doubled the country's public debt, inflaming political confrontations over Labour's wisdom in handling the national economy.

While no direct effect was exerted on public benefits, the crisis significantly affected the UK's private pension market. Real pension fund returns hit -17% in 2008 and remained null or negative throughout 2011. Between 2008 and 2009, the funding position of DB plans deteriorated from a surplus of GBP 12.3 billion and a funding level of 101.5%, to a deficit of GBP 200.6 billion and a funding level of 79.5%. In addition, the PPF registered a deficit of GBP 500 million in 2009. More than 70% of existing DB funds stopped acquiring new members.

According to the European Commission, the UK is currently not at immediate fiscal risk, but faces worrisome medium term prospects due to its unfavourable budgetary position and the rising costs of population ageing. Its long-term fiscal gap (5.2% of GDP) is currently double the EU27 average. Nonetheless, the 2012 fiscal gap is less than half of its 2009 value, thanks to the austerity packages adopted by the Cameron government, including a 1-point reduction in projected pension spending over GDP. Moreover, structural trends for the UK are comparatively favourable. The old-age dependency ratio (27.7%) was slightly lower than in the EU27 in 2010 and is expected to be 11 points lower in 2060 (46.7% against 57.7%), while the share of working-age population is projected to fall by 7.7 points by 2060 as opposed to 10.7 points for the EU27. Participation rates for older workers (59.9%) as well as for the whole population (76.7%) are both above the EU27 2010 levels (71.1% and 73.8%) and expected to remain several points higher in 2060 (66.5% and 73.8%). Employment rates are expected to follow a similar pattern, while the average effective exit age was 63.5 years in 2010 (with a 1.3 year gender gap), 1.4 years above the EU average (European Commission and Economic Policy Committee 2012). Public pension spending is also projected to remain 2 to 3 points lower than in the EU27 as a whole.

Indications are far less encouraging when looking at adequacy: 21% of British pensioners were at risk of poverty in 2010, notwithstanding substantial improvements over the last decade. However, the flat-rate character of the British statutory pillar performs much better when severe deprivation is considered: 1.3% of the elderly population, as opposed to 6.5% in the EU as a whole. Aggregate measures of adequacy have converged to EU average levels over the last years: the aggregate replacement rate was 48% (vs. 53% in the

EU27) and the relative median income ratio of older people was 81%, compared to 88% in the EU. Future projections also indicate that basic protection for the lowest incomes and people with care responsibilities should improve, while replacement rates for the highest incomes should decline or become more dependent on private provisions. Yet foreseen drops in gross replacement rates after a full career are in the vicinity of 2 or 3 percentage points, and thus lower than in most EU countries. Nonetheless, the strong reliance on private pension income and the increasing reliance on means-testing in the statutory pillar should be seen as endogenous sources of uncertainty for the UK's pension system: aspects that still have to face the test of time in the aftermath of the global crisis.

The reform pattern

Two phases can be distinguished when analysing the policy reactions of British governments: measures connected with Gordon Brown's economic stimulus and, since 2010, the austerity packages of David Cameron's Liberal-Conservative government. In 2009, the Brown government ordered a special one-off payment of GBP 60 and increased winter fuel payments to help 15 million destitute people throughout the winter. The Christmas bonus increase was received by 12.5 million pensioners. The BSP has increased by 5% since April 2009, and the Pension Credit brought to GBP 130 per week. Finally, confronting the financial crisis of DB pensions, the Pension Regulator decided to relax funding requirements in order to favour recovery over the medium term (Natali 2011).

After the 2010 general election, the new Liberal-Conservative coalition defined a new pension agenda, announcing a more generous indexation for BSP (earnings or price inflation or 2.5%, whichever is the higher) and a revision in the schedule for increasing the statutory retirement age. In 2010, an independent commission was tasked with reviewing the long-term affordability of public pensions, leading to the March 2011 Green Paper 'A State Pension for the 21st Century'. Proposals to cut civil servants' pension costs were considered: shifting to career-average pensions, increasing the standard retirement age as in the private sector, or increasing contributions. The document further proposed either to quicken the transition to the flat-rate S2P or to merge BSP and S2P in a single-tier public scheme. The most recent pension debate also tackled the issue of reforming the regulation of early withdrawals from private pensions. No prevailing wisdom has yet emerged on this point.

The Pension Act 2011 has quickened the increase of the standard retirement age to 66 (fully implemented by 2020, but with a slower schedule for small firms) and lowered the indexation of SERPS/S2P as well as public service pensions, by adopting the CPI in place of the higher RPI index. Since April 2011, the annual allowance for pension savings dropped from GBP 255,000 to GBP 50,000, while the lifetime allowance fell from GBP 1.8 million to GBP 1.5 million. Moreover, in 2012 the NEST started to be implemented. Full implementation is foreseen by 2018. In addition, the new law allows DB plans to adopt the CPI for benefit indexation. However, many pension plans were

unable to switch to the CPI due to their internal regulations. In January 2013, a draft bill was published, announcing a flat-rate single-tier pension (STP) in place of the existing multi-tier public pension system, from 2017 with a pro rata approach. The government intends to enact this reform by 2014. The STP would be slightly higher than the current SBP but is expected to substantially reduce the proportion of retirees eligible for means-testing. A full pension would require 35 years of contributions; workers with at least 7-10 years of contributions would receive a reduced benefit (Seeleib-Kaiser 2012).

As regards the reactions of civil society and the social partners, several initiatives are worth mentioning. In November 2010, large student protests took place in London and in various areas of the UK, in opposition to planned spending cuts in education. Rallies and occupations went on until December. In early 2011, organisations including a number of trade unions staged a number of anti-austerity protests. On 26 March 2011 the Trades Union Congress brought 500,000 workers to London's streets, in the March for the Alternative against the government's unilateral cuts on welfare and work. Further smaller protest activities gave rise to the J30 event, on 30 June in some major British cities, alongside significant strikes by teachers and public sector workers. Still in March 2011, after the publication of the Green Paper, the government and the majority of the unions entered a negotiation on the proposals and agreed to a compromise. However, the British Medical Association, the Fire Brigades Union, the National Union of Teachers, the Public and Commercial Services Union and Unite threatened further strikes. In July 2011, the Public and Commercial Services (PCS) union protested and issued a strike against plans to move a number of civil servants out of the central government pension scheme and into a privately-owned fund. In November 2011, a coordinated 24-hour strike involving members of 30 trade unions took place across the UK to protest against proposed changes to public sector occupational pension schemes. More in general, however, the trade unions have had a limited impact on the pension reform process. They have been involved in talks on pension reforms for some months, but without major results (see Sarfati and Ghellab 2012).

Concluding notes

Summing up, pension reforms in UK have followed a two-step pattern that is common to many European countries. The first reply to the crisis was consistent with an anti-cyclical logic: public spending increased to buffer the main negative social consequences of the crisis. The second step, by contrast, has consisted in the reduction of public benefits (through a revision of indexation), and the increase in retirement age. In the case of the UK, a key measure affected civil servants and public sector employees. Their benefit calculation has been brought into line with that of other dependent workers. As for the institutional revision of the pension model, British pensions (in line with the 2011 reform) are now a typical multi-pillar system: with a more homogenous and simple first pillar (with the new 'single tier' pension replacing the old BSP and S2P).

3.2 Second generation multi-pillar systems and the test of time: Poland and Slovenia

3.2.1 Poland

Pension legacies

Under the Communist rule, the Polish pension system (ZUS) became highly fragmented. Large normative and institutional differences between different occupational groups included the presence of tax-financed schemes for farmers (KRUS), uniformed personnel, judges and prosecutors. Since the 1970s, schemes have generally used a best-year defined benefit formula with income brackets, and offered generous early retirement and disability options. The effective retirement age as of 1992 was 59 for men and 55 for women; about 80% of new pensioners were under the legal retirement age (Guardiancich 2012a). Continuous fiscal expansion and recourse to early retirement were pursued until the deterioration of the socialist economic system, when the beginning of the transition ultimately bankrupted an ever more opaque, costly, and unpopular system.

After a first phase of parametric subtractive interventions in the early 1990s, reforms stalled. Following increasing political and judicial opposition, the process took a technocratic turn as the Security through Diversity reform plan was drafted in 1997 by national and international experts in the Plenipotentiary's Office. The final result of the 1997-98 reform was nonetheless ground-breaking, with the inclusion of all private non-agricultural workers aged below 30 (farmers excluded) in a multi-pillar system from 1999. Workers between 30 and 50 could choose whether to also participate in the new funded schemes, while those above 50 remained in the old system. Pre-retirement benefits for some unemployed workers were available to women at 50 and to men at 55 (55 and 60 since 2004). Benefits were meant to decrease substantially, solving the sustainability problem at the expense of adequacy. Guardiancich (2012a; 2012b) shows future replacement rates declining from 50% to 30% for workers exiting the labour market at 60, and from 65% to 40% for those retiring at 65.

The reformed first pillar hosted three tiers (a minimum benefit equal to about 25% of average earnings, an earnings-related NDC pension, and a number of mandatory funded schemes) and a reserve fund. A 25-year (20 for women) minimum insurance period, including figurative contribution intervals, was only required for the minimum pension. The third tier was a mandatory public/private mix: employees could opt for one of many privately managed (but publicly supervised) funds (OFE), eventually using their accruals to buy annuities in a lightly regulated private market. Voluntary supplementary schemes, occupational (PPE) as well as private (IKE), were instead limited to a very small minority of workers. Contributions (19.52%, equally shared between employers and employees) were collected by the central pension administration to finance both the earnings-related (12.22%) and the funded (7.3%) tiers.

With the phasing out of early retirement, retirement ages were gradually increased to 65 (60 for women) by 2014, and benefits were calculated on the basis of actual contributions, age, and life expectancy at retirement. Minimum and earnings-related benefits enjoyed a periodical minimum indexation to price dynamics and a mixed wage-price indexation negotiated by a Tripartite Committee. Contributions for maternity (up to 37 weeks, depending on the number of children) were paid by the state based on the average net wage over the past 6 months (12 since 2004). Credits for unemployment were similarly granted on the basis of unemployment benefits. During parental leave (up to 36 months per child) pension contributions were paid by the worker's pension scheme at 40% of the average wage.

Although never at risk of being reversed, the 1998 reform bill was partly watered down and still left many unsolved distributional, regulatory, and implementation issues, which weakened public confidence in the new system. When the major attempt to make further savings on pensions and complete the reform, the Hausner Plan, failed in 2004, the opportunity to harmonise retirement ages across genders and to reform disability pensions and the KRUS was missed. The phasing out of early retirement by 2006 was hard to implement and provoked the reaction of powerful interests, such as farmers and teachers, who managed to win new concessions and privileges. Private fund supervision went through continuous organisational changes and took almost ten years to develop, but remained riddled with inefficiency and excessive politicisation. Inadequate consulting and marketing practices, early withdrawal penalties and low tax incentives, as well as crowding out by the first pillar, prevented voluntary pensions from expanding, even after the introduction of more liberal rules and more generous tax incentives for PPEs in 2004.

Pressures from the crisis

After the economic slowdown of the early 2000s and the recent economic crisis, Polish financial pension prospects stood close to original expectations, whereas projections regarding future benefit levels were revealed as way too optimistic. Atypical employees (whose number has grown in the ill-regulated Polish labour market) and women both suffer cumulative disadvantages, in a system where the breadwinner model has been reinforced and pension rules favour long uninterrupted careers. Minor expansive revisions were enacted in response, including ad hoc benefit hikes. In 2004-2005, wage valorisation was introduced and full assessment bases started to be used for older pensions. In 2007, disability contributions were halved in order to provide supply-side stimulus. The attempt failed: the defined benefit nature of the scheme forced a newly elected centre-right government to pay a subsidy of 1.6% of GDP in the following year. Since 2009, childrearing women have their bases calculated on minimum wages instead of the lower social allowance; since 2012, figurative pension contributions during parental leave are paid at 60% of the average wage.

Overall, Poland's economy was not dramatically hit by the global crisis. The European Commission only detected a 'medium sustainability risk in a

medium-term perspective' (European Commission 2012a), conditional on the country's ability to maintain its public debt, currently at 56% of GDP, below the 60% Treaty threshold. Although healthcare and long term care costs are expected to grow faster than the EU average in the quickly ageing Polish society, pension expenditure is expected to decrease by 2060 (from 11.8% of GDP in 2010 to 9% in 2050, against the EU27 average of 11%) as the reformed system fully kicks in. Precisely as a consequence of the slow transition between the old and the reformed system, most currently paid benefits still conform to the old rules, resulting in high aggregate replacement (57%) and median relative income ratios (93%), as well as in comparatively high adequacy levels (European Commission and Economic Policy Committee 2012).

Nonetheless, the gender gap and the intensity of absolute levels of material deprivation as a legacy of the transition to the market economy are worrying. Furthermore, adequacy will dramatically drop in the future: for an average income earner with 40 years' contribution, the net replacement rate will fall from 75.5% in 2010 to 43.3% in 2050. Among the various spending stabilisers, it is alarming that decreasing coverage is expected to produce a 5-point reduction in pension expenditure. Finally, in the mixed NDC-DC system pension income will not only be lower, but also riskier. Replacement rates will fall by 23.3 points (from 58.4% in 2010 to 35.1% in 2050) for workers with a 10-year break and by 35.3 (from 67.7% to 32.4%) after 3 years of childcare. Low earners with 42 years' contributions will experience a replacement rate reduction of 40.4 points, from 89.7% in 2010 to 49.3% in 2050. Partial and uncertain wage indexation also implies a faster deterioration in the relative economic status of new pensioners in 2060, whose net replacement rate 10 years after retirement would be 23.3 points lower than the figure projected in 2020 for 2010 retirees (35.1% instead of 58.4%) (European Commission and Economic Policy Committee 2012).

As regards private pensions, after achieving spectacular growth rates in their assets (+32.6% a year on average between 2001 and 2011), Polish funds recorded major losses (-14.15% in 2008) and the second-worst investment return performance in the OECD (-9.1%) between December 2010 and December 2011. Still, the immaturity of the funds and the very limited number of current beneficiaries greatly minimised the social consequences of the downturn. Victorious in the 2007 elections, Civic Platform (PO) and the Polish People's Party (PSL) participated in Donald Tusk's conservative government, which tried to tackle both adequacy and pension regulation concerns.

The reform pattern

PO and PSL were not in tune on retirement issues and only gradually reached a consensual agenda (Naczyck 2010). Between June 2008 and August 2008, the government enacted measures on active ageing and against old-age poverty, while bringing forward two bills for the regulation of the annuity market from 2014. In 2009, early retirement was abolished for more than 1 million workers. After the unions threatened a joint strike, the government conceded, on a temporary basis, a so-called 'bridging pension' to about

270,000 workers employed under heavy and unhealthy conditions. Subsequently, policymakers focused on the revision of mandatory funded pensions. NSZZ Solidarity suggested reducing pension charges to 3.5%, leading to an open consultation and to the government proposing the introduction of life-cycle investment lines. The union's proposal was passed by the Parliament in June 2009 with effect from 2010.

From 2009, the Tripartite Committee reached no agreement on benefit indexation, so that only the minimum rate was applied. As the crisis unfolded, hitting both PAYG finances and fund returns, the Minister of Social Affairs Jolanta Fedak (PSL) and the Minister of Finance Jacek Rostowski (close to PO) proposed decreasing the share of contributions going to the mandatory pension funds from 7.3% to 3%, not least in order to reduce the demand for government bonds and to apply an indirect constraint on deficit spending. The proposal was contested as a threat to the funds, but nonetheless found some support among the social partners: while NSZZ Solidarity and the Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan) gave a negative assessment, the All-Poland Alliance of Trade Unions (OPZZ) and the Trade Unions Forum (FZZ) manifested interest in the proposal (Kuzmicz 2010).

However, the majority was split on the issue. Members of PSL were rather inclined to renegotiate the fiscal pact with the EU. PO, supported by actors like PKPP Lewiatan and the Polish Chamber of Pension Funds, supported instead a new reform, which was eventually adopted in March 2011. Total contributions to open pension funds were decreased from 7.3% to 2.3% of salary, the difference being transferred to the ZUS in order to cover existing liabilities and lower pressure on the state budget. As in other Central Eastern European economies, the pension mix has been readdressed by strengthening the public component. The reform is projected to save the state about 15% of GDP in 2011-2020 (Euractiv, 2011). A new sort of voluntary scheme was enacted, with effect from 2012, contributions to which should be tax-exempted. Debate on the role of mandatory pension funds continued and led to a new reform proposal launched by the Government in September 2013 (Zukovski 2012). The announced changes imply private pension funds operating within the obligatory pension system would have to transfer their government bond holdings – some 55% of their assets – to a state account. Polish workers will have then to opt for staying in the mandatory private funds or come back to public pension schemes (thus going back to a fully public system). Similarly, future entrants to the labour market will need to explicitly opt for insurance in the funds (which previously was compulsory) (Lehmann et al, 2013).

The major issue in the last year has been (again) the increase of the legal retirement age. Raising the retirement age to 67 for both men and women was one of the most important reforms that the Civic Platform (PO) government planned to introduce as a way of safeguarding public finances. The government proposal of 13 February 2012 to make changes in the Act on pensions and benefits from the Social Insurance Fund was debated within the

Tripartite Commission for Social and Economic Affairs in March 2012. Employers supported the plan to raise the retirement age to 67. However, they also proposed a range of supplementary policies, such as pro-family measures and the reduction of 'pension privileges' for some categories. Trade unions expressed their opposition to raising the retirement age and proposed alternative policies aimed at increasing contributions to the general pension system. On 13 April 2012, the presidency of the TK met again without reaching agreement on the proposed reforms. Yet the government declared the consultation process over. Between December 2011 and April 2012, the Independent and Self-Governing Trade Union Solidarity (NSZZ Solidarność) collected more than two million signatures calling for a national referendum on whether to keep the retirement age at 60 for women and 65 for men. According to Polish law, a proposal to hold a referendum must be considered by the parliament if it is supported by more than 500,000 citizens. By 16 February 2012, NSZZ Solidarność had submitted around 1.4 million signatures. However, on 2 April 2012, members of parliament (MPs) voted against holding a referendum and the proposal was turned down (Mrozowicki 2012). Starting in 2013, the pensionable age should be raised by three months a year, reaching 67 years for both men (by 2020) and women (by 2040). The KRUS was partly rationalised, but not yet reformed.

Concluding notes

The Polish experience can therefore be characterised as a case of a fiscally virtuous but politically vicious reform pattern. The financial sustainability of the pension system has been achieved by compromising future adequacy and transferring risks from the public budget to individual pensioners. Notwithstanding the radical change undergone by Poland's pension system, workers and pensioners still face a consistent degree of political risk. Evidence for this is offered by the 'sequestering' of private pension contributions to cover up deficits in the public system. This is a partial step away from the long-term pattern of privatisation and multi-pillarisation taken by Polish pension policy. Most notably, those deficits could have been closed, or at least reduced, had policymakers pursued a quicker transition and a real reform of the KRUS. In contrast with the neo-liberal approach of the Tusk governments, vested interests and powerful interest groups were not prepared to pay a fair share of the adjustment costs. Steps forward were taken on providing insurance for childrearing and parental leaves, but the overall consolidation of the breadwinner model in Polish society does not facilitate closing gender gaps, in either the pension system or the labour market. Given the turn to the right taken by Polish politics in the last decade, major reforms addressing adequacy, equality, and gender equality concerns are hard to foresee in the near future.

3.2.2 Slovenia⁵

Pension legacies

The recent evolution of the Slovenian pension system was deeply affected by the country's smooth transition from socialism to a market economy model.

Economic readjustment occurred in a very short time and paved the way for 15 years of sustained growth, membership of the EU, and the adoption of the Euro. The political transition was incremental and characterised by grand coalition governments as well as minimal turnover within the national elites. The polity established by the Constitution of 1991 was riddled with veto points and featured a fragmented and scarcely institutionalised party system. Union density remained high throughout the 1990s and the unions – especially the Association of Free Trade Unions of Slovenia (ZSSS) – played a major role in socio-economic policymaking, which took on marked neo-corporatist traits.

At the apex of the transitional recession (1990-1992), early and disability pensions were widely used as a safety net for redundant workers, further jeopardising the old policy's economic sustainability. In response, indexation was frozen for two years and parametric reforms followed in 1992 and 1996. The 1992 reform imposed more stringent benefit limits and eligibility criteria, introducing also a number of structural changes. Even though the pension budget ran deficits close to 4% of GDP, the Slovenian economy stabilised and public deficits and debt were reined in. With the help of the World Bank and the IMF, the government drafted an ambitious reform agenda in 1995, envisaging a fully-fledged multi-pillar system. However, fractures had begun to emerge within the grand coalition: the Democrats (SDS) left the majority in 1994 and the Social-democratic ZLSD did so in 1996. The new grand coalition government formed after the 1996 elections was particularly weak and ill positioned to introduce further structural transformations. Massive union strikes in March 1998 imposed an extensive negotiation process. Nonetheless, making several concessions to the unions, the pension bureaucracy, and to the influential Pension Party (DeSUS), in 1999 the government enacted a fundamental reform of public and private pensions, as well as (since 2003) of disability benefits.

The pre-crisis pension system was thus configured as follows. The public PAYG pillar covered all employees and self-employed workers. Employees paid 15.5% of gross wages into the system, while employers paid 8.85%. Earnings-related benefits offered replacement rates equal to 35% for men and 38% for women after 15 years of contribution, increasing by 1.5% a year up to 72.5% after 40 (men) or 38 (women) years. From 2008, pensionable income was assessed against net income over the best 18 continuous years of contribution, within a top and a bottom value (from €517.40 to €2,069.60 per month in 2008, on average). The retirement age was determined by years of contributions. All benefits were indexed to wage growth minus a horizontal equalisation parameter, which was meant to reduce inequalities among workers who had retired in different years.

5. Considering the prominence of its 1st pillar and the late and incomplete introduction of statutory supplementary pensions, Slovenia is hardly a typical case of 2nd generation multi-pillar systems. Until at least the early 2000s, it was configured along the lines of 1st generation Bismarckian systems of the West. Nonetheless, we include this case within the Eastern multi-pillar variant in order to elucidate two notable features of this family of countries: the peculiar pressures they underwent during the transition to capitalism as well as the great variance in the outcomes and timing of the reform process.

While the reform introduced very favourable tax incentives for contributing to the voluntary funds, private pensions could not be made mandatory as the government had planned, due to the ZSSS's opposition and to concerns on financing costs. However, pressing economic constraints on the path to EU membership made a strong case for completing the new system. A 2001 law reorganised the private pension market in individual and collective funds, rationalising the regulatory and taxation framework for the latter. In 2003, civil servants were enrolled in a mandatory single-end mutual fund (ZVPSJU), which absorbed part of their salary increases as tax-exempted pension premia, helping to keep inflation within the Maastricht threshold. Workers employed in arduous jobs were compulsorily included in a dedicated occupational fund (SODPZ) from 1999. The Pension Fund Management Company (KAD), formerly one of the ZPIZ's funds, became the manager of the new schemes, which counted 180,000 members at the end of 2007 (about 40% of the Slovenian pension market).

In 2004, Janez Janša's SDS won the elections and he was appointed leader of the first centre-right government of Slovenia. Janša adopted a markedly neoliberal agenda and an adversarial stance towards the unions and the bureaucracy but had to include the DeSUS in his majority. The government scheduled a new intervention to strengthen the financial position of the ZPIZ in 2005, but introduced in fact two more marginal measures: a minor organisational reform of the ZPIZ and yet another new expansive revision of the indexation mechanism. As a result, the ZPIZ budget further deteriorated and the KAD remained unreformed.

Pressures from the crisis

Slovenia was severely affected by the crisis and entered an Excessive Debt Procedure in 2009. As reported by Guardiancich (2012a): 'Slovenian banks became illiquid in late 2008, and since Slovenia is a small open economy, the fall in international orders triggered an economic collapse.' Real GDP fell by 7.8% in 2009 and a new contraction in 2012 (-2.3%) stopped the timid recovery of the previous two years. Short-term economic prospects are now considered stable, provided that the banking sector needs no major financial support. Nonetheless, the economic slowdown caused the public deficit to soar (6.4% in 2011) and expanded the country's public debt from 22% to 54.1% of GDP between 2008 and 2012. The financial viability of public and welfare expenditure was therefore compromised: Slovenian debt is now expected to breach the Treaty threshold of 60% in 2014 and grow larger than national GDP by 2030. In addition, unemployment increased to 8.1% and the population at risk of poverty to 13.6%, with a large gender gap.

In turn, Slovenian society is ageing relatively fast. Gross public pension spending, 11.2% of GDP in 2010, is expected to rise to 18.3% in 2060. Age-related public expenditure over GDP in the 2010-60 period is expected to increase by 10.3 points (more than three times the EU27 figure), driven by the third-highest increase in pension spending in the EU (+7.1% of GDP) (European Commission and Social Protection Committee 2012). This projected rise in pension spending almost equals the entire long-term fiscal

gap forecasted for the country (7.6% of GDP, against 2.6% for the EU as a whole). Reasons for this anomaly are the low effective retirement age (61.4 for men and 59.2 for women in 2010) and the comparatively generous benefit indexation mechanism. Options to give workers straightforward incentives to postpone retirement – such as active labour market policies or the adoption of a pension formula based on a points system – were never seriously considered. The old age dependency ratio was 25.6% in 2010, and will likely reach 63.2% in 2060, 5.5 points above the EU27 figure. The working age population is projected to decrease by more than 14 points by 2060, 4 points more than the EU as a whole. Still, the Slovenian participation rate for older workers (55-64) will remain higher than in the EU or converge to EU levels (European Commission and Economic Policy Committee).

Against this backdrop, the shortcomings of the reform process became manifest. The ZPIZ budget has been in deficit since the 1996 cut in employers' contributions and, also because of DeSUS's constant presence in the various governing coalitions since 1997, the long-term fiscal viability of the public system was never ensured. Nevertheless, public pensions have decreased in relative terms since 2000, and so has the minimum assessment base, posing a substantial challenge to pension adequacy (Guardianic 2012b; 2012c). Recent indexation freezes have further worsened the situation. In turn, private pensions in the country suffered no large shocks and registered returns in the vicinity of 4% in 2009 and 2010 and moderate losses in 2011 (-1.8%). Nonetheless, the supplementary pension market has remained ill-regulated and fragmented, falling far short of its expected results on pension adequacy. Before the crisis, only 50% of potential members were insured and contributions were on average 3.6% of the average gross wage.

In 2010, 20.2% of the elderly were at risk of poverty – 9 points more than the rest of the Slovenians – while the corresponding figure among women was 27%. A considerable gender gap was also recorded in this respect with 27% of women and 9.5% of men over the age of 65 at-risk-of poverty. Women's pensions, often reverse benefits, are 20% lower than men's on average, making them particularly vulnerable to the poverty risk. Among the elderly, 5.4% of men and 6.9% of women were in a state of severe material deprivation. Unfortunately, replacement rates are expected to fall substantially in the future. At retirement, a 'typical' worker (aged 65 with 40 years of continuous career at the average wage) would receive a net replacement rate of 53.7% in 2050, compared to 59.2% in 2010. The first disbursement of SODPZ benefits confirmed longstanding concerns that occupational pensions will not manage to close this gap.

The reform pattern

After the crisis, Slovenian pensions have been again at the top of the policy agenda, but no major reforms passed. More marginal intervention has led to some cutbacks in order to avoid a major degradation of public finances. The system is thus still anchored to the social insurance system with some role for private pensions, but no explicit move towards a multi-pillar system (with a much broader coverage for supplementary schemes) has been implemented.

The severity of the Slovenian crisis hastily forced on the centre-left agenda a number of unpopular welfare and regulatory reforms. At first, two austerity packages for the period 2010-2012 partially froze the indexation of several social provisions, including pensions (Stanovnik et al 2012). Tripartite negotiations on a new reform took place between March 2009 and September 2010. DeSUS opposed the bill from within the government, and the unions increasingly took an uncompromising attitude. Disagreements on whether to increase age/contribution requirements and reduce benefit indexation poisoned social dialogue. Moreover, both the unions and the employers were sceptical that the Slovenian labour market could absorb many more elderly workers.

The final bill proposed the adoption of a mixed wage-price index (70:30 until 2015, 60:40 afterwards) with no horizontal equalisation, to assess earnings over a longer period (the best 27 out of the best 30 contiguous years), and to increase the statutory retirement age to 65 for all. However, the reform also guaranteed a 60% replacement rate after 40 years of work (38 for women) and a full early pension at 60 with 43 years (at 58 with 41 years for women). As regards private pensions, the proposal issued new limits and disincentives for early withdrawals, while updating the regulation of investment practices in line with EU standards. A thorough reorganisation of the SODPZ was also envisaged. The reform's estimated savings were close to 2% of GDP, ensuring fiscal sustainability for the following decade.

Contrary to what happened in the 1990s, however, broad social pacts could not be negotiated and Pahor had to quit his attempts to revitalise Slovenian neo-corporatism (Guardiancich 2012b). Unilaterally submitted to the Assembly in September 2010, his bill was vetoed by the National Council and only passed with the vote of the People's Party (SLS) three months later. However, in April 2011, DeSUS left the centre-left coalition and the reform (already labelled 'insufficient' by the IMF) was rejected in June in a popular referendum called by ZSSS: 72.2 % of the voters were against the bill, with a turnout of 40%. As a result, Pahor refrained from further structural pension reforms, while his government soon fell on a failed confidence vote in September. Still, a law on the reorganisation of KAD separated out the ZVPSJU fund and entrusted it to a new state owned insurance company (Modra zavarovalnica).

Positive Slovenia (PS) – the new centre-left party of the mayor of Ljubljana Zoran Janković – won Slovenia's first early election. In December, the new Assembly unanimously prolonged the indexation freeze for the first 6 months of 2012. Janković, however, was unable to form a centre-left majority and Janša was appointed head of a new centre-right government, which once again included the DeSUS. Party manifestoes and the coalition platform did not express support for any particular reform measure. Although a shift to a NDC system was debated for some time, the reform process proceeded incrementally (Stanovnik et al 2012).

Between March and June 2012, trilateral negotiations took off again. The new government immediately presented a draft of the Public Finance Balance Act. The draft introduced a broad set of further austerity measures, including a major cut in child-related pension credits. The unions reacted by threatening to withdraw from the ongoing consultations, strikes, and a new referendum. On April 18, 21 public sector unions launched a major strike. Although no agreement was reached by the deadline of May 5, a compromise was eventually hammered out with most of the unions. Concessions summed up to €130 million; the bill was passed on May 30, reducing the previous budget by €1.1 billion. It prolonged the pension indexation freeze for the rest of 2012 and introduced one-off cuts of non-contributory pensions. However – among many other concessions – the government decided against retrenchment on figurative credits (*ibidem*).

In April, the social partners signed the ‘Guidelines for the Social Contract 2012-2016’. The guidelines were a preliminary document for a new social pact to be signed in June and dealing with economic competitiveness, public finances, wages and welfare, and – most notably – the institutionalisation of tripartite consultations. In June, however, all the major unions refused to sign the Social Contract, in protest against the new austerity measures. In December 2012, the Assembly passed an amended version of the 2010 reform bill, with effect from January 2013. The revised legislation allowed retirement at 65 with 15 years of effective contribution or at 60 with 40, extended the assessment period to the best 24 years, and adopted new tools to let future pensioners know the presumed value of their benefits. Official estimates indicate that savings should add up to €150 million in the first year. For the moment, no referendum has been called on the new law. On the contrary, the Assembly is currently discussing a constitutional amendment to change the referendum rules.

Concluding note

Slovenia has proved to be a country where reforming pensions is a highly risky political game. Vetoes are numerous and the probability of an opposing (political and/or social) view winning is limited. Despite the huge impact of the crisis on the Slovenian economy, pension cutbacks have been limited and the division between political forces and social partners is still evident. Reforms have thus been gradual with no impact on the pension model inherited from the post-socialist years.

3.3 The long and winding road away from the social insurance model: Italy and France

3.3.1 France

Pension legacies

The public pillar of the French pension system has three parts: a targeted minimum non-contributory pension (*minimum vieillesse*), an earnings-

related basic pension including a non-means-tested minimum (*minimum contributif*, equal to 23% of average earnings), and a system of point-based mandatory occupational schemes. Roughly 60% of insured persons pay contributions for their basic pension to the 'general regime' and are covered by the ARRCO (private employees) or the AGIRC (private professionals or managers) mandatory occupational regimes. The standard pension age is from 60, while the *minimum contributif* is paid at 65 or when the full contribution condition is met. Since 2003, a full basic pension (with a replacement rate of 50%) requires 40 years of contributions, originally planned to rise to 41 by 2012. Pensionable earnings are averaged over a number of best-paid years up to a ceiling, increased in line with inflation. Until 2005, the number was 20 years, gradually increased to 25 since 2008. The *minimum vieillesse*, roughly equivalent in amount to the *minimum contributif*, is price-indexed and payable at 65. Since 2008, the lowest paid workers with a full career are guaranteed a pension equal to at least 85% of the net national minimum wage. Benefits in payment are currently indexed to prices.

Early retirement (before 60) is allowed by the public pension scheme, subject to various combinations of age, age of entry into the workforce, seniority, and seniority of effective contribution, or under certain circumstances related to working conditions. For each quarter of early retirement, the pension is reduced by a percentage dependent on birth cohort (*décote*); individuals aged at least 60 who work beyond their 41st year of contributions receive an equivalent benefit increase (*surcote*). In the case of occupational pensions, retirement, without reductions, is possible at age 60 with 40 years' coverage. Pension credits are awarded for childcare (at least 9 years before the child turns 16) and involuntary unemployment. There is no credit for periods in receipt of social assistance. Under the mandatory occupational plans, workers can keep on accumulating pension points in their accounts after becoming unemployed. Parents with three or more children are eligible for a final benefit increase.

Since the 1980s, French pensions have been criticised for the burden placed on job creation by their high level of social contributions, for the emergence of new forms of social exclusion, for their excessive fragmentation, and the inequalities they create between private and public sector workers (Natali 2008). The Balladur reform of 1993 and the Raffarin reform of 2003 have addressed these problems. The Balladur reform charged non-contributory benefits to the general revenues and downgraded benefit indexation from wages to prices, while increasing the requirement for a full pension (from 37.5 to 40 years) and the number of years over which private employees' pensionable earnings are assessed (from the best 10 to the best 25). The Raffarin reform harmonised pension input periods (increased to 40 years in 2008 and to 41.9 years in 2020) and indexation rules for most workers. It introduced incentives to postpone exit from the labour market and disincentives to early retirement, while improving coverage for atypical workers. The reform guaranteed a higher minimum replacement rate to the lowest paid employees.

The extensive role of PAYG schemes in France left little room for developing funded supplements, tax incentives notwithstanding. The transition towards a more balanced pension mix started instead in 1990, when profit-sharing schemes became mandatory for firms with 50 or more employees. In 1997, the Loi Thomas introduced voluntary retirement salary savings schemes for private employees, covering about 45,000 people in 2007 (Natali 2011). The 2003 reform also introduced two new voluntary DC regimes for wage earners (the PERCO occupational schemes and the PERP personal schemes) and a new compulsory supplementary scheme for civil servants (RAFP), including the social partners in the management.

Pressures from the crisis

In comparison with other European countries, the French pension system has proved relatively successful in maintaining low levels of poverty among pensioners. The elderly have a relative median income in line with that of the rest of the population and, at least in the first ten years of retirement, are much less at risk of poverty and social exclusion (although the gender gap is substantial). The aggregate replacement rate is 67% in France, compared to 53% across the EU.

According to EU reports, France is not particularly exposed to short or long term fiscal risks, but it is expected to face some stress over the medium term if it will not decrease its government debt (86.0% of GDP in 2011) and improve its primary balance. The old-age dependency ratio in 2060 will be 6 points lower than in the EU27 (51.7% against 57.7%). The share of the working-age population is projected to drop by 7.7% by 2060 (10.7% in the EU as a whole), whereas the participation rate is expected to be above the European average in the same year (European Commission and Economic Policy Committee 2012). Still, the average effective exit age from the labour force in 2010 was two years below the EU-27 average of 62.1 years. Moreover, the projected participation rate of older workers (55-64) in 2060 is 63.3%, slightly below the 66.5% of the EU27. Also, the French employment rate is likely to be worse than in the rest of the EU. Extending work careers is therefore still a prominent concern in the French pension agenda (European Commission and Social Protection Committee 2012).

The projected rise in total age-related public expenditure is currently lower in France than in the EU27 on average (+0.8% of GDP by 2060 against the EU average of +2.9%) and pension expenditure is projected to stabilise at about 15% of GDP over the next decades. The estimated deficit of the French state pension system will be, in 2010, 1.7% of GDP (COR, 2010). The financing required for the public pension system will amount to 1.8% of GDP (€40 billion) in 2015 and between 1.7% and 2.1% of GDP by 2020, when 3.8% and 4.7% of total government revenues will be needed annually to fund the financial requirements related to pensions (COR, 2010; Jean, 2010). This comparatively low rise in pension expenditure is, however, due to a potential deterioration of future pension adequacy. The gross theoretical replacement rate after a 40-year career is projected to fall from 62% in 2010 to 46.5% in 2050. Moreover, late entry into the labour market, high unemployment rates,

and frequent career breaks may easily prevent future cohorts from achieving the ever higher seniority requirements for a full pension.

The reform pattern

During the first phase of the crisis, the French government tried to cushion its direct social consequences. It raised minimum benefits and took ad hoc measures to gradually increase disability and old-age minimum benefits by 25% by 2012 (Social Protection Committee 2009). Given its impact on the financing of the pension system, increasing labour market participation among older workers has become a government priority. Most public early retirement schemes and disincentives to work longer have been gradually phased out. Workers who entered the labour force in their teens, or who suffer from disability and work-related sickness can retire at the age of 60 on a full pension, but eligibility rules for early retirement will gradually become stricter (43 years in 2012). To promote the employment of older workers, new incentives were given to employers to hire job applicants aged over 55 and to introduce tutoring opportunities. Taxation of supplementary pensions was also reformed and maternity allowances included in the final benefit calculation (Morel et al 2012).

The reform pattern changed course in July 2010, when the right-wing Fillon Government introduced a new bill. The reform stemmed from an intense debate on the unification of the different PAYG schemes in the system and, possibly, on the introduction of an NDC formula. In fact, a new round of discussions on a 'systemic reform' was contemplated for 2013. The new law increased the statutory retirement age from 60 to 62 years by 2018 (at a rate of four months per year, from July 2011) and harmonised the contribution rates and the age and seniority requirements for civil servants. From 2012, 50% of workers' profit-sharing income will be transferred by default to their PERCO. This should boost the level of active participation in these plans, to which about 75% of subscribers fail to contribute regularly.

After months of demonstrations in the streets and determined trade union opposition, the bill was passed at the end of October 2010. As a result, by 2023 the age of entitlement to a full pension would increase from 65 to 67. In 2012, the minimum contributory period to receive a full pension was increased to 41 for the 1952 cohort and to 41.25 for those of 1953 and 1954, as well as being set to increase in line with life expectancy after this (likely reaching 43.5 in 2050). The 2010 reform was marked by opposition from the trade union movement and the limited role of social concertation. The interplay between the government and social partners was largely in the form of bilateral meetings between the Labour Minister and each social partner separately: there was no tripartite consultation. Another key aspect was the limited time given to social partners to react to the first governmental proposals. As stressed by Sarfati and Ghellab (2012: 86), this rush was attributed to pressure from the financial markets, which were carefully watching the pension debate in France in a context of increasing deficits and debt.

In March 2011, the social partners bilaterally agreed to a revision of mandatory supplementary pension schemes (AGIRC ARRCO), to harmonise rates of return and parenthood pension bonuses and to align retirement ages with those of the statutory public scheme. A further intervention in December 2011 accelerated the reform process by increasing the retirement ages to 62 and 67 one year in advance (that is, in 2017 and in 2022 respectively) (Morel et al 2012).

On May 15th 2012, the socialist Francois Hollande won the French presidential elections, marking a significant turn away from austerity. In June, the government issued a decree, to take effect in November, allowing a limited number of eligible workers who began working at an early age to retire at 60 rather than 62. The expected costs of the new decree amount to €1 billion in 2013, reaching €3 billion in 2017. To offset the higher costs, contributions will increase by 0.2% in 2013 (up to 0.5% in 2017), divided equally between employees and employers.⁶ The decree also allowed recipients to count two additional quarters of credited motherhood or unemployment against the seniority requirements for early retirement.

Concluding notes

In summary, France is in a comparatively good position with respect to both its current budget and future ageing prospects. The biggest challenge is expected to come in the medium term. In order to meet it, policy-makers have acted in advance, opening up room for future fiscal manoeuvre. Whereas France's previous pension reform efforts have been comparatively slight, the austerity packages of 2010 and 2011 have reduced its reform gap, bringing the new requirements for age and seniority into line with comparable figures in the major European countries. The partial policy reverse occurring after the election of President Hollande, however, enriches the picture by showing that internal political developments can still matter. In more general terms, and given the good performances of the French pension system against poverty in old age, policy-makers have focused on increasing the effective retirement age and on pursuing further harmonisation. While it is too early to evaluate progress on the former goal, on the latter much is still to be done. The new reform round announced for 2013 might be a compelling chance to overcome the institutional fragmentation of the system.

3.3.2 Italy

Pension legacies

By the early 1990s, Italy had developed a comparatively generous and highly fragmented retirement policy. Its pension system was based almost exclusively on a large public pillar, where the original Bismarckian setup had been redeployed to satisfy 'Beveridgean goals' of protection against poverty

6. [http://www.issa.int/Observatory/Country-Profiles/Regions/Europe/France/Reforms2/\(id\)/4238](http://www.issa.int/Observatory/Country-Profiles/Regions/Europe/France/Reforms2/(id)/4238)

and of universal coverage (Jessoula and Pavolini 2012). A number of means-tested allowances and indemnities offered the elderly a basic safety net, while final wage DB 'work pensions' allowed pensioners to maintain their status while being protected against poverty, by keeping their income above social assistance levels. The result was a complex and fiscally unsustainable set-up, in which supplementary pensions were severely underdeveloped. Formidable demographic pressures, due to low fertility rates combined with high life expectancy at retirement, were soon felt. Slow GDP growth and stagnant productivity, combined with unfavourable unemployment, activity and employment rates, undermined the profitability of PAYG financing, paving the way for two decades of pension restructuring.

With the ground-breaking Amato reform of 1992-93 and the NDC reform of 1995, the system moved towards a three-pillar structure, where voluntary tax-subsidised schemes sat side by side with less generous public benefits and an even more complex and general safety net. The new NDC system covered private and public employees, farmers, artisans, shopkeepers, and atypical 'project workers' in the same scheme. Benefits were paid in an actuarially neutral way across a 57-65 flexible retirement window and were calculated on the basis of actual contributions as well macroeconomic and demographic variables. The latter were captured by age specific coefficients, revised in 2007 and set to be automatically revised from 2010. Contribution rates varied from 33% (private employees) to about 20% for the self-employed. The new rules entered into force extremely gradually: they were applied fully only to labour market entrants, and workers with at least 18 years' contribution in 1995 were fully exempted. One of the most controversial issues has been how to phase out early retirement based on seniority, through a complex system of increasing age+seniority quotas. An abrupt increase in the age requisites for early retirement, enacted in 2004 and revised in 2007, also compressed the NDC age bracket to 65 years for men and 60-65 for women, eventually depriving the NDC system of its flexibility. Contextually, short-term savings were made by reducing the number of yearly 'exit windows' available for quiescence.

Supplementary pensions were repeatedly re-regulated until 2007. A private-sector severance payment scheme called Tfr ('contract termination benefit', covering about 60% of the workforce) featured as the only mandatory scheme, contributions to which were made available to the new funds through a silent-assent mechanism. All other second and third pillar schemes were instead funded and voluntary, even when set up by collective agreements. Closed funds ('fondi chiusi or negoziali') were not-for-profit organisations collectively available to specific occupational groups, reliant on third party investors for asset management. 'Open pension funds' ('fondi aperti') - established and managed by banks, insurance or investment companies - were instead occupational-private hybrids, which could be freely joined, collectively or individually. Available since 2000, tax-favoured private insurance plans (PIPs) were properly third-pillar schemes with no contributory duty for the employers. In 2011, supplementary pensions covered about 5.3 million workers (23% of the workforce, with assets in the

vicinity of 4% of GDP), with closed funds and PIPs respectively having about 2 million members. Contributions to the funds totalled about € 11.5 trillion, with about 5 coming from Tfr assets. The average investment portfolio was highly imbalanced: around 57% consisted of Italian Treasury bonds and 14% of capital assets (OECD 2011a).

In summary, before the crisis Italy's reformed pension system seemed trapped in a never-ending transition. The slow phasing in of the NDC system and the hesitant phasing out of early retirement repeatedly confronted policymakers with the need for short-term consolidation, further weakening the overall consistency of Italian-style NDC. Supplementary pensions, key to the status maintenance ambitions of the reformed system, were similarly underdeveloped and characterised by limited coverage, unsatisfactory regulation and governance, and big financial constraints on further expansion. Against this backdrop, the crisis had a twofold impact, worsening Italy's present and future pension prospects but also providing a formidable stimulus for redressing and, to some extent, rationalising the system.

Pressures from the crisis

While Italian financial markets withstood the crisis comparatively well, the economic slowdown severely affected Italy's GDP and public finances, driving the country to the verge of default as soon as turbulence shifted to European sovereign debts. Between 2008 and 2011, real GDP growth fluctuated between -5.5% and 1.8%. The employment rate decreased from 58.7% to 56.9% and unemployment rose from 6.1% to 8.4%. The deficit grew from -1.6% to -3.9% of GDP and debt from 103.6% to more than 120%. In November, a caretaker government led by the economist Mario Monti was appointed, backed by a bipartisan majority. The Monti government stuck to an austerity course, ratified the fiscal compact, and enacted major expenditure cuts as well as new taxes. The deficit trend was reversed, reaching high primary surpluses that are expected to reach 5% in 2014. Pension expenditure continued to grow, peaking at 16.7% in 2009, paving the way for a new pension reform, hopefully able to restore market trust in Italian bonds. After Monti's therapy (resulting in a 2.9% increase in the primary balance and long-term pension cost containment to 0.8% of GDP) the European Commission has classified Italy as out of immediate danger, while still being a country at medium fiscal risk in the medium term.

Long term cost projections were instead reassuring (with a negative 'sustainability gap' equal to -2.3 % of GDP), thanks in particular to the pension spending stabilisers within the NDC system and a lower increase in healthcare and long-term care expenditure (+1.6 points by 2060, 0.4 points lower than the EU27 average). Pension spending was projected to move between 12.5% and 13.5% of GDP until 2060. Most notably, projections indicated that spending would stabilise, notwithstanding unfavourable demographic and employment trends. While the old-age dependency ratio was expected to increase from 33.3% in 2010 to 61.6% in 2060 (from 28.4% to 57.7% in the EU27 as a whole), the working-age population was projected to fall to 55.9% of the total population. The activity rate should remain lower

than the average figure (66.6% against 73.8% in 2060), although optimistic projections of the participation rate of workers aged 55 to 64 suggest a sharp increase from 37.8% to 68.3% between 2010 and 2060. By way of comparison, the EU27 is projected to move from 49.7% to 66.5% over the same time span (the share of 55-64 year olds in employment is projected to increase from 12% to 24% and from 13% to 19% in the EU27). Still, in 2010, Italy's employment rates and effective exit age lagged behind EU27 figures (European Commission and Economic Policy Committee 2012).

Given the long transition of the Italian pension system and the immaturity of the new supplementary funds, the adequacy of pension income was not compromised by the crisis. Data for 2010, the latest available, show that the median relative income ratio was higher than the EU-average (92% versus 88%). Correspondingly, replacement rates after a full career stood in the vicinity of 90%, even though the aggregate replacement rate was at 53%, as in the EU as a whole. They were expected to remain at similar levels in the future, but only when assuming a steady and inclusive expansion in the coverage of supplementary pensions. On the contrary, the poverty risk was slightly higher than in the rest of the EU and strongly concentrated on women, mainly as a consequence of gender inequalities in career patterns. The dual nature of the Italian labour market, the incomplete development of supplementary pensions, and the phasing out of the old, more generous, DB rules all create serious adequacy concerns over the medium-long run. The combination of NDC public pensions and DC supplementary funds shifts all the risk onto individual workers, and an analysis of non-standard careers shows the dire impact of discontinuous employment and of various sorts of career breaks on projected replacement rates.

As for supplementary funded schemes, capitalisation was consistently positive until 2008 (about +4.5% a year on average). By the end of 2010, most funds had recovered from the fall of 2009, although new losses were recorded in 2011. In most cases, however, the overall investment return of pension funds between 2005 and 2011 was lower than the statutory revaluation of the Tfr. The sovereign debt crisis and the downgrade of bond ratings in Italy and other EU Member States reduced in value the patrimonial reserves of the funds, forcing a move away from Italian bonds, the share of which in total assets dropped from 48.8% in 2010 to 36.6% in 2011. The fund regulator also stepped in, issuing temporary derogations from conventional management practices in order to avoid unnecessary capital losses.

The crisis did not halt fund membership growth, which registered a slowdown from 2008 (especially in the case of closed funds) but remained close to +6% in both 2010 and 2011. Assets have grown by about 20%, with the most notable increments registered among closed funds and PIPs. The number of open positions with no regular contribution grew by 15% from 2010 to 2011 (+200,000 units in one year). Finally, over the last two years, PIPs nearly doubled their members and became the most common type of fund, whereas closed funds lost about 2% of their total fund members. One possible explanation for the success of the PIPs is related to the crisis and to the surge

in unemployment, which could have encouraged a migration from the closed funds to the PIPs. Workers who lost the right to contribute to their usual closed fund may have chosen to transfer their rights to more flexible third-pillar schemes.

The reform pattern

Several austerity packages were enacted between 2009 and 2012, resulting in remarkable policy changes. Between 2009 and 2010, a centre-right government led by Silvio Berlusconi pursued short term savings, essentially by tightening age requirements. In 2008 and 2010, the EU issued formal sanctions against Italy for having reintroduced gender differences in civil servants' retirement ages. Italy responded by scheduling a gradual harmonisation of age requisites, across all occupations and genders, by 2026. With effect from January 2011, the government also replaced the old 'exit windows' with a 'single sliding window': effective exit became possible for employees only 12 months (18 for self-employed and atypical workers) after becoming eligible, even after a 'full seniority' career of 40 years. This provoked harsh criticisms from the unions, in particular from the left-leaning CGIL. Finally, from 2015 all age requirements will be adjusted, in alignment with increases in life expectancy, at 3-year intervals: the first adjustment, due in 2015, has been capped at three months, while the others will be synchronised with the updates of annuity divisors from 2019. By 2050 we expect retirement ages to increase by 3.5 years. Again the inclusion of 'full seniority' among the requirements to be updated aroused opposition from the unions, but the government soon managed to split the labour front (Jessoula and Pavolini 2012).

With the so-called Fornero reform, Monti's caretaker government tried to rationalise the reformed system while speeding up its transition. In this new phase, the unions began to work together when confronting the technocrats. However, their opposition was undermined by the depth and urgency of the crisis, the complexity of the new measures, and the single-minded approach of the government. The automatic adjustment of age requirements was brought forward and the revisions of pension ages and annuity divisors were scheduled to take place together, every other year from 2021. The pensionable age is expected to rise to close to 70 years by 2050. The standard retirement age would be completely harmonised across gender and sector by 2018, reaching 67 in 2021. The seniority requirement for early retirement regardless of age (a.k.a. 'full seniority') was raised from 40 years to 42 and 1 month for men, and 41 and 1 month for women, with further increases of one month in 2013 and 2014. The contentious single sliding window was eliminated. In order to speed up the phasing in of NDC rules, contributions paid from January 2012 would henceforth fall under the NDC formula, including those paid by previously exempted workers.

Retirement could be postponed until 70, subject to the implementation of an expanded set of divisors, due in 2013. It is worth noting that no divisor has yet been issued for the new flexible exit window (66-70). The minimum contribution period for receiving an old age pension in the NDC system was

increased from 5 to 20 years, with a pension of at least 1.5 times the social welfare allowance (about €430 a month in 2012). However, the law also made it easier for workers with very fragmented careers to bring together their contribution records. Finally, a new seniority pension in the NDC system allowed retirement up to three years before the (indexed) standard age, with 20 years of effective seniority, and a final pension of at least 2.8 times the social welfare allowance. Retirees younger than 62 were allowed to retire with benefit reductions after reaching full seniority. As an emergency measure, the law also suspended the indexation of benefits above € 1,400 a month in 2012 and 2013 and gradually increased (and harmonised) to 24% the contribution rates of the self-employed. As for the overall pension architecture, the law gave time until 2013 to appoint a commission in charge of evaluating the introduction of a carve-out option in the public pillar.

Concluding notes

Overall, pension legislation in the years of the crisis was predominantly focused on cutting short and long-term costs, in order to stabilise the public budget and restore the trust of the markets in Italian bonds. The first measures taken, enacted by the centre right, raised the age requisites for retirement and introduced new mechanisms affecting future benefits under both the old and the reformed rules, such as indexed retirement ages and the single sliding window. The Fornero reform, instead, focused more decisively on rationalising the NDC system, while still following the existing reform path. As a consequence, the new norms included provisions alien to the NDC model (such as the indexation of retirement age) or at odds with it (such as the partial indexation freeze and the introduction of a new early retirement option). Most notably, they forewent more radical changes, such as introducing cohort-based divisors, indexing contributions and benefits to changes in the wage bill, or drawing a clearer demarcation between social benefits and the lowest work pensions.

Adequacy concerns as to pension levels have not been addressed, while the focus on cost containment has further worsened the pension prospects of future retirees. Nonetheless, many commentators suggest that automatically increasing retirement ages may indirectly contribute to benefit adequacy, if the necessary divisors are aptly defined. The inclusion of the social partners, especially the unions, in the reform process has been minimal if compared with the quasi neo-corporatist style of policy-making of the 1990s. To explain this difference one has to consider not only the greater role of the EU, but also the co-existence of different issues on the agenda of the unions. These issues, ranging from taxation to mass dismissals and the fight against unemployment, may have weakened the influence of the unions in the field of pensions.

3.4 Second generation social insurance in Finland and Sweden: the best of both worlds?

3.4.1 Finland

Pension legacies

Before the major reform of 2005, the Finnish pension system included a means-tested ‘national pension’ (KELA) and various DB earnings-related sector-wide schemes. The scope and generosity of the public pillar left little room for the development of supplementary pensions, which have nonetheless doubled since 2000. The system provided robust anti-poverty protection, but its early retirement incentives came to be seen as incompatible with the comparatively fast ageing of the country’s population. Throughout the 2000s, the debate on how to increase the relatively low effective exit age of Finnish workers intensified.

Two major reforms were enacted in 2005 and 2006 to consolidate and harmonise the pension system. After their enactment, the 1st pillar of the Finnish pension system consisted of the KELA and of a DB earnings-related system, made up of the TyEL (for private employees) and similar funds for civil servants and the self-employed. KELA is tax-financed and subject to a residency requirement (40 years of residence are necessary for a full pension); it is price-indexed and reduced by the amount of the earnings-related pension. Still, it covers approximately 50 percent of retirees. Eligibility begins at 65 but earlier take up with a reduced amount was possible from 62.

Earnings-related benefits are PAYG-financed with about 1/5 covered by prefunding. The TyEL system is decentralised and competitive: employers must establish a plan with one of the eligible providers. On average, employers contribute 16.8% of the payroll while employees pay 4.3% of gross wages. Benefits are calculated on the basis of career average wages (with no ceiling) and cohort life expectancy and indexed with a weighted index capturing 20% of wage dynamics and 80% of price changes. Exit from the labour market is flexible (between 62 and 68) with accrual rates increasing with age and penalties for retirement before 63. Part-time retirement can occur from the age of 60. Early retirement mainly occurs with receipt of disability or unemployment benefits, although the latter are currently being phased out (by 2014) and only remain in place for older workers (Vidlund and Kivela 2012).

Pressures from the crisis

According to the European Commission, Finland is not at fiscal risk in the short-term, but faces noticeable stress over the medium-long term due to the cost of ageing. On the one hand, its record is enviable. Finland’s old-age dependency ratio is projected to increase less than in the EU27, while the share of working-age population is projected to drop a bit less. The labour market participation and the employment rate of Finnish workers were above the EU27 average in 2010 and are projected to remain so in 2060. Older workers’ participation and employment (age 55-64) are currently above the EU average, albeit expected to fall below that average in 2060. On the other

hand, however, the structural reform process has not been completed. Spending is projected to increase by 3.2% of GDP for pensions and by 3.5% of GDP for healthcare and long-term care, while the EU27 figures are less than half of these. Government debt is projected to remain below the 60% threshold until 2020, rising thereafter to 91.5% (in 2030). As a result, Finland's fiscal gap amounts to 5.8% of GDP, against 2.6% for the EU as a whole (European Commission and Economic Policy Committee 2012).

Looking to the public pension system, the crisis has exposed two main problems: a reduction in poverty protection and an insufficient rise in the effective retirement age of Finnish workers. As regards the former, the risk-of-poverty rate for the population aged 65 or more was 2.4 percentage points higher than the European average, although material deprivation in this age class is lower than the EU27 average. With longer periods in retirement, older women are more exposed to the vintage pension syndrome of price indexation, especially if they could not also qualify for an earnings-related pension. There is a large gender gap (10 percentage points) in poverty rates among people older than 75, depending on many factors, including labour market segregation. For current workers, however, the gender gap in career length is almost closed and women's employment rate is higher than men's among 55-64 year olds. Nonetheless, official statistics show that the number of pensioner households experiencing difficulties in making ends meet increased from 22.1% in 2009 to 24.5% in the following year (European Commission and Social Protection Committee 2012).

Turning to the latter, since the 2005 reform, effective retirement ages have increased more than projected and up to 62.5 years. However, no progress has occurred in recent years and the gap with the lowest pensionable ages persists (63 in the earnings-related system and 65 for the national pension). The tripartite agreement reached in 2009 to further extend the average working life by three years by 2025 is unlikely to be implemented without new measures, which may include raising the minimum retirement age, should current incentives fail to encourage longer careers. In 2012, the social partners agreed to raise to 61 the part-time pension age requirement, to raise pension contributions by 0.4% per year in 2015-2016, and to agree on measures reinforcing compliance with activation programs.

Finally, the net investment returns of private pensions underwent major losses in 2008 (about -20%), but were among the fastest to recover in the following years. According to OECD estimates, the losses accumulated over the 2007-2011 period did not prevent Finland's funds from being among the most profitable across the EU27 and the OECD in the 2001-2010 decade. For this reason, and because of the limited weight of private schemes in total individual pension income, the impact of the financial crisis on Finland's private pension system has been comparatively less severe.

The reform pattern

Between 2007 and 2010 Finland was governed by the Centre Party (CP)-led centre right/green cabinet of Matti Vanhanen; from June 2010 to the June

2011 elections, Mari Kiviniemi, the new president of the CP, took the leadership of the executive. The first response to the financial crisis, in 2008, was to relax for a 2-year period the rules on solvency ratios (obligations to assets) for pension insurance companies and funds, allowing them to use reserves to improve their solvency levels. This prevented pension providers from underselling risky assets under punishing conditions. In exchange, the information obligations of pension providers towards scheme subscribers were tightened. In 2010, the government presented a bill extending the new solvency provision until the end of 2012, announcing the appointment of two groups in charge of discussing more permanent changes to the solvency rules. Still in 2010, provisions concerning the introduction of a new type of voluntary, tax-subsidised saving accounts (PS-accounts) were implemented (Vidlund and Kivela 2012).

In an attempt to stimulate the economy, the January 2009 supplementary budget gradually eliminated employer contributions to the KELA (by 2010) and increased employee and employer contributions to the TyEL by 0.4 percentage points a year between 2011 and 2014. A mix of higher environmental and energy taxes was introduced to cover the budget shortfall. Moreover, the government expected the creation of 10,000 new jobs as a result. The government also lowered taxes on pension income and prevented benefit indexation from turning negative in 2010. Both the government and the social partners also showed concern for the decline of pension benefits. Net replacement rates were expected to fall by almost ten percentage points between 2010 and 2050: a much lower level than assumed during the 2005 reform. Access to early retirement schemes has been significantly tightened in recent years, in order to ensure adequate and sustainable earnings-related pensions. In 2009 the government and the social partners agreed to discuss additional measures to raise the average effective retirement age (59.4 years in 2008) by at least three years by 2025. In 2009, the Finnish government appointed two tripartite working groups to draft proposals for pension system reforms, with the aim of persuading unions and employers to agree on ways of lengthening employees' careers and working lives. The working group tasked with identifying ways of improving working life reached agreement. The second group, discussing the raising of the retirement age, did not. But the social partners involved in the working group agreed to raise the age for unemployment pensions and partial retirement pensions from 60 to 61. Pension rules allowing a person to retire at 62 will be abolished in 2014 (Jokivuori 2012).

In the 2011 elections the issues of European Integration and of the EU bailouts to the Euro-periphery featured prominently. The result marked a clear defeat for the incumbent CP and a major victory for the populists of the True Finns (TF), with the other mainstream parties suffering some electoral losses. After long negotiations, the centre-right National Coalition Party (NCP) managed to form a bipartisan coalition that also included the Social Democrats and the far left, leaving only the CP and the TF in opposition. The former Minister of Finance Jyrki Katainen, leader of the NCP and strong advocate of responsible conduct towards EU decisions, was appointed Prime

Minister. Even though the left joined the government having expressed a veto on the issue, the question of whether the minimum pension age should in fact be raised above 63 is currently much debated. Another key concern is the extended unemployment benefit for the elderly, which is unwelcome to employers and seen as costly to the state. All the parties have agreed to work towards a broad reform to be finalised in 2017.

The new government also enacted expansive reforms. In March 2011, a new 'guaranteed pension', subject to a residency requirement, was introduced for low-income pensioners, supplementing the income-tested universal pension for about 10% of all pensioners (about 120,000 people). Expenditure from the guaranteed pension was expected to amount to approximately €94 million (in 2011). The government programme also included measures for improving well-being at work (e.g. the development of occupational health care, traineeships for all unemployed young adults) in line with the proposals of the so-called Ahtela working group, established in 2010. However, one of the reforms being studied is a tightening of the sickness allowance requirements in order to close a pathway leading from prolonged sickness to early retirement through a disability claim (Vidlund and Kivela 2012).

Concluding notes

In sum, the Finnish reform pattern shows a remarkable continuity over time (before and throughout the crisis) and through changes in the composition of the government. Policy-makers succeeded in protecting private pensions from short-term financial turbulence, while also fostering the expansion of third pillar options. The two main problems which emerged before the economic crisis – the re-emergence of poverty in old age and the lack of progress towards longer working careers – have been dealt with through various temporary and structural interventions, which, however, do not yet seem to be fully effective. Given the comparatively faster ageing of the Finnish population, the relatively bad employment projections for the next decades, and the widespread recognition of these two problems, further legislative measures are soon to be expected, if no political upheavals occur.

3.4.2 Sweden

Pension legacies

In the 1980s, the Swedish pension system underwent a political and financial crisis. High-income-earners were dissatisfied with the highly redistributive character of the post-war system and its increasing costs. In 1998, after a decade long process of consultation and research, Swedish policy-makers enacted with a large consensus a radical reform, which introduced new NDC rules for public pensions as well as new supplementary pillars.

As a result, the statutory pillar assumed the following three-tiered and partially pre-funded structure. The first tier consisted of a tax-financed, residence-based (40 years, in Sweden or in another EU/EES country) and price indexed 'guarantee pension', which supplemented low pensions and was

sometimes integrated by a housing allowance. The second and third tiers were a wage-indexed NDC earnings-related 'income pension' and a mandatory funded DC 'premium pension'. Both were payroll tax financed (18.5% of gross wages): 16 points were paid into the NDC system, while the remaining 2.5 points were invested in up to 5 funds, individually chosen out of about 800 acknowledged providers. Financial resources for the third tier were still collected by the state, and complementary pensions were still paid by public institutions. The practical administration of these resources, by contrast, was handled by private managers investing contributions in the financial market. If the insured person did not choose a private fund, his/her contributions were managed by the public authorities through the 'default' fund. So, while the system was still partly of a Paygo type, it worked like a funded system. Contributions were saved in individual accounts to provide future pensions. For a given contribution amount paid by or on behalf of an individual, the same individual would receive the same amount of pensions, both in the public and in the private pillar.

The role of occupational schemes was limited to the second pillar, then supplemented by individual savings (the third pillar). In 2003, occupational funded schemes provided an average gross replacement rate of 13.9% and covered around 90% of the labour force (well above the average coverage in social insurance countries). At that time, the general public scheme gave an average gross replacement rate of 57% of previous earnings, but this is expected to decrease to 40% by 2050 (Natali 2008). The non-public occupational scheme for private-sector workers was funded and of a 'defined-benefit' type, but since the 1980s part of the contributions had been used for a 'defined-contribution' supplement. In 2006, employers and unions agreed to replace the old DB supplementary plan for private sector employees (ITP) with a DC scheme for individuals born in 1979 or later. Employers paid 4.5% of gross wages (more for very high salaries) into the new fund. Employees had to choose one or more qualified pension manager, while the central ITP administrator would provide an authorised insurance provider. Benefits could be drawn at 65, or at 55 with an early retirement option. Recent reforms have consisted of the partial pre-funding of the first pillar and the introduction of the NDC benefit structure in its PAYG part. This is expected to lead to a drop in total public spending and a reduction in the generosity of the first-pillar benefits (gross replacement rates are expected to decline by about 30%).

Consistent with its own historical evolution, the system is still fundamentally public and based on the role of the state as regulator and provider. It is, however, becoming increasingly complex. In this sense, a noticeable feature of the Swedish NDC system is the 'balance ratio'. It was defined as the value necessary to keep assets and liabilities in inter-temporal balance in the current year. Whenever its value fell below 1, the system had to draw on its buffer funds to meet its obligations. In 2001, Swedish policy makers decided to strengthen NDC's ability to absorb unsustainable spending dynamics, introducing an 'automatic balancing mechanism' known as the 'brake'. The brake was meant to kick in every time the balance ratio fell below 1, reducing

the indexation of pensions in payment and the revaluation of accrued contributions in order to restore the system to its long term balance.

Pressures from the crisis

While the global crisis has surely put to the test the Swedish NDC system and its ability to absorb short-term fluctuations as well as long-term trends (Palme 2003), Sweden was nonetheless among the EU countries least affected by the economic storm. According to the European Commission, the Swedish economy does not appear to face any kind of sustainability challenge. Its deficit was only briefly negative in 2009 and its public debt (38.4% of GDP, expected to drop further over the short term) is much below the Treaty threshold. Sweden's fiscal gap is just 1.7% of GDP (0.9 points better than the EU as a whole): a value close to that registered in 2009 and equal to the primary surplus projected for the country in 2014. Whereas population ageing is somewhat higher than for the EU27 (+3.8% of GDP against +2.9%) the NDC system is expected to prevent any spending hike, keeping the pension spending increase foreseen for 2060 down to just 0.6% of GDP (European Commission and Economic Policy Committee 2012). Drawing lessons from the Swedish experience, the IMF notes how Sweden succeeded in building up economic reserves and international credibility in times of economic expansion. Moreover it is argued that, unlike other EU Member States, the country could adopt an aggressively expansive monetary and exchange rate policy at the apex of the crisis. Finally, Swedish policy-makers managed to promptly defuse panic when bank profitability fell between 2008 and 2009.

Looking at public pensions, Sweden's buffer fund and funded pensions recovered well from the financial crisis. The balance ratio, however, fared slightly worse, as the system fell short of its liabilities in 2009. For the first time, this minor imbalance activated the 'brake mechanism', theoretically leading to the adoption of a negative indexation term for pensions in 2010 (see below). Overall, the crisis confirmed the traditional strengths of the Swedish pension system and labour market. Population ageing will affect Sweden less than its European peers: the old-age dependency ratio is projected to increase from 31.3% to 51.3% in 2060, moving from about 3 points above to more than 6 points below the EU level. The share of working-age individuals is expected to drop from 65.1% to 56.9% of the total Swedish population, with a lower decrease than in the EU as a whole. Participation rates in the country were close to 80% and are expected to remain roughly 8 points above EU level throughout the next decades. The participation rate of older workers was above 70%, compared to less than 50% in the EU27, and is expected to reach 77.9% in 2060, against 66.5% in the EU as a whole. Employment rates for the two age groups show this same behaviour between 2010 and 2060 (European Commission and Economic Policy Committee 2012).

The percentage of the elderly at risk of poverty and social exclusion was 15.9% in 2010, almost 4 points less than in the EU overall. While the poverty rate in the population aged 75 or more was 1.6 points higher than in the EU27, this

result might be due to the greater dynamism of Swedish wages slowly hollowing out the real value of the oldest pensions. More problematic is the large gender gap in poverty rates: within the population aged 65 or more, the poverty rate in 2010 was 8.2% for men and 22.1% for women, 11.3% and 31.6% being the corresponding values for the population above 74 (European Commission and Social Protection Committee 2012). This surprising shortcoming of the Swedish pension system is increasingly due to the NDC system's accurate translation of labour market dynamics into individual welfare after retirement. Swedish women, in fact, typically have shorter working lives than their male counterparts, while living longer and being overrepresented among the very elderly. As a result, 63% of Swedish women received a guarantee pension in 2010, as opposed to 15% of men. At the same time, however, when looking at material deprivation rates (0.7% for the population aged 65 or more and just 0.2% for the very elderly) the strengths of the Swedish social model reappears once again in comparison with the 8% figure of the EU27.

Finally, as regards benefit dynamics, the full implementation of the NDC system is expected to bring future replacement rates down by between 7 and 20 points. Low income workers are expected to suffer the most, due to the non-redistributive character of the NDC formula. Nonetheless, by assessing pensionable incomes over the entire career, the NDC system is also expected to reduce replacement rates for high-income workers with steep wage dynamics. Career breaks due to childcare and other care responsibilities are comparatively well protected in the Swedish system. Unemployment spans are also reasonably well protected, at least if they do not sum up to more than three years of absence from the labour market.

The reform pattern

In the absence of major direct or indirect challenges to social and fiscal sustainability, recent reforms of the Swedish pension system have consisted of minor interventions and further research on how to improve the system. To begin with, in-work tax credits for older workers – first introduced in 2007 – were increased year after year and payroll taxes have been abolished for employers aged 65 or older in the two-year period 2008-09. In 2009, targeted measures were adopted for people with reduced work capacity, the long-term unemployed, newly arrived immigrants, and young workers. As mentioned above, decreasing employment rates and negative returns for the buffer funds in the years 2008 and 2009 brought the balance ratio down to 0.976 in 2008 and to 0.957 in 2009. These drops triggered the 'brake' for 2010 and 2011. The latter's effect, in combination with slow wage growth, would have reduced current benefits in 2010 by 4.5%, followed by a further 3.5 point decrease in 2011. Unwilling to let the cuts occur during the 2010 election year, Swedish politicians tweaked the formula of the balance ratio, using the 3-year moving average of buffer fund values, instead of their current market value. In so doing, they postponed to 2011 the brunt of the reduction. During the official debate, several agencies warned the government that using a moving average to value the buffer funds would produce less accurate evaluations of the system's financial stability. Nonetheless, the Swedish Parliament passed

the legislation in October 2009. Furthermore, in order to ease the effects of two years of negative indexation, the government revised the tax treatment of pension income. At first, it gradually increased tax allowances for the elderly from 2009. Later, it enacted further tax cuts for 7.5 billion SEK with effect from 2011, absorbing most of the benefit cuts. The overall result was therefore limited to a 1% drop in the net income of the average pensioner in 2010. As stressed by Sarfati and Ghellab (2012), the government consultation before the draft legislation was submitted to Parliament was curtailed in the light of the perceived need to enact new legislation within the year 2010. The unions were not consulted at all on this occasion. By contrast a key role was played by the cross-party Working Group on Pensions, representing the five parties in the Swedish Parliament (Social Democrats, Conservatives, the Liberal party, Centre party and the Christian Democrats).

Since 2012, the government has also increased the housing supplement for the poorest pensioners. As for supplementary pension funds, guaranteed levels of return on investment for (hybrid) DC schemes have been lowered and solvency standards revised to allow longer recovery periods back to solvency. The supervision of pension insurance groups has also been strengthened and the new Swedish Pension Agency has taken over management responsibilities for public DC plans. In May 2010, the AP7 fund – responsible for the assets of the premium pension accounts – restructured its investment lines, adopting a life-course approach and revising its policies towards members who do not express any active investment preference. In addition, a number of DB occupational funds decided to shift to a DC formula in recent years (Baroni and Axelsson 2012).

Finally, Swedish policy-makers continued to promote research in order to further strengthen and develop the system. In September 2011, the investment rules and the governance of the NDC buffer funds were reviewed, considering the possibility of merging them into a single buffer fund, as recommended by an independent commission in November 2010. Reports on the issue were due in August 2012. Still in 2011, the government appointed a commission to consider new measures to delay retirement and review the state of work, health, and retirement choices among older workers. The first report of the commission was due in April 2012.

Concluding note

Sweden has not been significantly affected by the recent economic crisis. This, combined with a viable pension system adopted through radical reforms in the 1990s, has meant that only marginal ‘recalibration’ of the system has taken place, in order to deal with some stresses, especially in terms of the performance of funded schemes. The main traits of recent reforms have pertained to the revision of taxation of pension benefits, the introduction of new rules for the governance of buffer funds and the easing of provisions relating to the automatic revision of indexation (to reduce the negative social consequences of the crisis).

4. European pension austerity: preliminary comparative conclusions

In the following section we provide some preliminary remarks as to the reform trends we have analysed in this paper. We divide this concluding section into two parts: in the first part we look at policy and institutional trends. The latter have shown both similarities and differences between countries and pension models (see Table 6 for a summary). In the second part we refer to the political dynamics at work in the eight countries under scrutiny. The focus is on the changing role of trade unions and their interaction with national governments.

Table 6 Pension fund real net rates of return in selected Member States

Country	Pension models	Crisis	Challenges	Reforms	Estimated impact of crisis and austerity ^a
Ireland	Multi pillar (1 st generation)	Severe economic recession; Large banking and financial crisis; Severe debt crisis and loss of sovereignty;	Low poverty protection; Gender gap in pension income; Inadequate pension fund regulation;	Benefit revaluation freeze since 2009; Higher retirement age and contributory requirements for new applicants since 2012; Eligibility for early retirement tightened (cancelled for some groups); Higher requirements for tax relief on pension contributions; Disinvestment in public pension reserve fund, also used to finance the banking sector bail out; Cut of tax subsidies for pension funds; Cutback for civil servants' pensions; Revision of pension fund regulation (auto-enrolment from 2014)	-57.55%
UK	Multi pillar (1 st generation)	Financial and budgetary crisis; Systematic underfunding of private DB plans;	Stress on private pension market; Persisting adequacy gaps; Unfavourable budgetary position;	Higher retirement age (faster increase and harmonisation); One-off increase of pension benefits soon after the crisis; Cutback for civil servants' pensions (mainly harmonisation); Benefit indexation reduced (also in some private DB funds) or frozen; Revision of pension fund regulation (laxer solvency requirements);	-36.37%
Poland	Multi pillar (2 nd generation)	Comparatively favourable macroeconomic scenario; Major private pension losses;	Worrisome demographics; Long term adequacy concerns; Limits of a strong 'male breadwinner' model;	Higher retirement age (very slow harmonisation of male/female requisites); Temporary anti-poverty measures soon after the crisis; Eligibility for early retirement tightened or cancelled; Reduced contributions to mandatory funded schemes; Revision of pension fund regulation;	+63.70%

Table 6 Pension fund real net rates of return in selected Member States (cont.)

Country	Pension models	Crisis	Challenges	Reforms	Estimated impact of crisis and austerity [^]
Slovenia [#]	Multi pillar (2 nd generation)	Severe economic recession and financial crisis; Modest private pension losses;	Unfavourable demographics; Large gender gaps; Design flaws in the 1 st pillar; Ill-regulated and fragmented pension market; Insufficient pension supplements;	Limited pension cuts soon after the crisis; Higher retirement age; Benefit indexation reduced or frozen; Revision of pension fund regulation; Several failed or repealed reforms;	+8.97%
France	Social insurance (1 st generation)	Favourable macroeconomic and demographic situation;	Reducing the reform gap vis-à-vis European peers; Reducing fragmentation;	Temporary anti-poverty measures soon after the crisis; Higher retirement age (faster increase and harmonisation, with new exceptions for careers with an early start and stronger protection of motherhood and unemployment); Eligibility for early retirement tightened or cancelled; Revision of pension fund regulation and financing (taxation and payroll contributions; harmonisation of parenthood bonuses, rates of returns, and retirement ages);	+38.33%
Italy	Social insurance (1 st generation)	Severe budgetary and financial crisis; Unfavourable demographics; Technocratic government;	Short term pension costs; Fragmentation and gender gaps; Future adequacy concerns; Insufficient and fragmented supplementary pension sector;	Higher retirement age (faster increase and harmonisation) and contributory requirements; Eligibility for early retirement tightened or cancelled; Benefit indexation reduced or frozen (except for low pensions);	+3.29%
Finland	Social insurance (2 nd generation)	Little economic and financial impact of the crisis; Temporary losses on private pensions;	Unfavourable long term debt projections; Comparatively fast population ageing; Reform gap vis-à-vis European peers (exit ages); Decreasing poverty protection;	Eligibility for early retirement tightened or cancelled; Benefit indexation reduced or frozen (except for minimum pensions); Lower taxes on pension income; Revision of pension fund regulation (relaxation of solvency rules); New "guaranteed pension";	+47.38%
Sweden	Social insurance (2 nd generation)	Temporary and aptly managed financial and banking turbulences; Temporary unbalance in the present values of the public pension system;	Decreasing replacement rates; Gender gap in average replacement rates;	Work tax and payroll tax credits increased for the elderly; Lower taxes on pension income; Revision of pension fund regulation (relaxation of solvency rules); Benign revision of benefit coefficients in the presence of automatic cuts; Increased housing supplements for the elderly.	+15.63%

[#] See footnote 4 above

[^] As a result of the cuts in the public pillar, in percentage of GDP. Source: National Strategy Reports and National Reform Programs.

[^] Estimates represent the stock of savings (or spending increases) expected between 2010 and 2045 in percentage of potential GDP (at 2010 prices). Estimates have been calculated as follows. Spending and GDP figures were taken from the Sustainability Report 2009 and the Ageing Report 2012 and their Statistical Annexes. Spending figures relative to the 2009 and 2012 rounds of projections have been calculated in absolute terms at 2010 prices for available years and then linearly interpolated for missing years. The tabled figures correspond to the sum of yearly differences between the two trends. For more information on the methodology, contact the authors.

4.1 Policy trends

Irrespective of the intensity of the recession, all the countries under scrutiny have applied a two-step strategy in response to the crisis. In the first years of the crisis (2009-10) they introduced anti-cyclical measures: ad hoc measures and/or more long lasting policy decisions aimed at reducing the negative social consequences of the crisis while improving the adequacy of pension benefits. The second part of the strategy (from 2010-11 on) has consisted of austerity measures to improve the financial viability of pensions, such as revised indexation, an increase in the retirement age or a stricter link between contributions and benefits. Recent cutbacks have been consistent with the longer-term curtailments introduced in the last few decades.

While all the countries under scrutiny have thus followed similar approaches (and used the same toolkit) to tackle the main challenges to their pension systems, they have also differed in the sets of measures they have implemented since the crisis. A first source of differences has been the pension model inherited from the past. Multi-pillar systems have seen a more explicit attempt to address problems in private pension funds. In the case of multi-pillar forerunners (Ireland and the UK) a key issue has been the regulation of supplementary pension funds. Auto-enrolment has been used in both cases as an attempt to go beyond pure voluntarism (while rationalising tax exemptions for pension funds). Both countries have further intervened to contain public pension spending (even if state pensions in both countries are not particularly high). Second generation multi-pillar systems (Poland) have faced less severe budgetary strains (but worrying demographic projections), and economic trends have been above the EU average. In the case of Poland, the reform of the supplementary schemes has been very controversial. The public/private mix has been revised with the private part being reduced. Slovenia is a mixed case: compared to Poland, it has suffered more severe recessionary and budgetary problems. As a consequence, policymakers have tried to cut public expenditure (through the containment of indexation). In Slovenia, political and social dialogue has proved difficult and this has led to a stalemate. Radical reforms, such as the introduction of NDC rules in the first pillar and the further development of supplementary schemes, have not been possible.

Social insurance countries have concentrated more on the first pillar. In the case of Italy, a country very much affected by recession, the measures taken to stabilise the public budget deficit have included pension reforms. In the meantime, supplementary schemes have remained untouched and, to some extent, seem to have lost momentum in the debate and to have disappeared from the policymakers' agenda. France has been characterised by persistent political debate: it is one of the few countries in Europe that has reversed cost-containment measures (introduced in 2010) through the reduction of retirement age limits (in 2012).

Second generation social insurance systems (Finland and Sweden) have proved to have a more balanced pension mix, with less severe challenges

(both in terms of financial viability and social adequacy). Since the crisis, measures have been introduced to increase old-age protection for those more at risk of poverty: this is the case of the new 'guaranteed pension' in Finland and the more gentle revision of benefit coefficients in Sweden. A reduction of taxes on pensions has been a crucial tool in reducing the potential negative effects of the crisis and improving the level of benefits. A second set of measures has aimed at making the system more growth- and employment-friendly.

While institutions inherited from the past have played a role in shaping national responses to the crisis, the magnitude and nature of the latter have also impacted national reforms. More radical reforms have resulted from the most evident sources of tension. The European countries most affected by economic recession have reformed the most: Ireland, Italy, and to some extent the UK have introduced cutbacks. The situation in Poland is an example of endogenous tensions and problems (related to the limited success of the reforms introduced in the 1990s). Countries less affected by the (exogenous/endogenous) crisis have followed a more incremental path: this is the case of Finland and especially Sweden. Slovenia is an unusual case: despite recession and economic problems, policymakers have not been able to revise the pension system. Political blockages and vetoes have led to gradual changes.

In such a context, the role of the EU has been to promote a strategy of austerity. However, as stressed above, some potential inconsistencies (especially between active ageing and the continuing support for private pension funds) have given national policymakers a certain amount of room for manoeuvre, especially in the future re-designing of the public/private mix (as shown by the case of Poland).

4.2 Political trends

In the past, pension reform has been a core issue for social partners. Trade unions have played a key role in the policymaking process, with the capacity to strike deals with national governments and block unilateral reforms. As far as the post-crisis period is concerned, the state of social concertation and the dialogue between social partners and national governments has varied from country to country. But the broad trend has been towards a deterioration of the dialogue between governments and social partners.

In the countries where social concertation was crucial (and largely successful) in the past decades, trade unions have seen much of their role eroded. This has been true for Ireland, Italy, Slovenia and Poland. In the case of Ireland, the acute recession has led to the marginalisation of social dialogue. All major reforms have been unilateral (driven by the government) and aimed at containing public spending. As stressed by some analysts, the constraints provided by international organisations and the EU (through the memorandum of understanding) have helped to bring an end to social

partnership and to encourage more central action by the government. In Italy, social concertation has ended: in the first part of the crisis (and even before) the right-wing government effectively worked to divide trade unions and the social partners in general. Later on, the technocratic government took a unilateral approach to revising pension legislation. In Slovenia, tripartite agreements have proved impossible, due to the extreme opposition between social and political forces, yet unilateral reforms have been stopped. All this has resulted in a stalemate of the reform process. In the case of Poland, trade unions have been part of a complex political game with political parties. While negotiations have never stopped, the reform of 2012 (with an increase in the legal retirement age) proves that the government can pass new measures even in the case of fierce opposition from the labour movement. Mass protests and strikes did not prevent parliament from voting through the reform. All these countries seem to prove the declining role of trade unions. Part of the explanation seems to be the urgency of cutbacks under pressure from both financial markets and international organisations. This is particularly the case of the EU and its renewed and reinforced economic governance. Both 'ordinary' tools (e.g. the European Semester and the revised Stability and Growth Pact) and 'ad hoc' measures (e.g. the memoranda of understanding mentioned for Ireland, or the 'secret' letters from the ECB to national governments) have reduced the margin for manoeuvre and negotiation of national policymakers.

In the case of the Nordic countries, the political trends which emerged in the 1990s have been confirmed. In Sweden, the role of trade unions in the debate on revising pension legislation has been marginal: preparation of the new measures has centred on the inter-party pension working group and active dialogue with social NGOs. Trade union representatives, by contrast, have been pushed to the edge of the political and parliamentary debate. In Finland the dialogue has been more intense, and tripartite concertation has continued. The Finnish case proves the stability of a system of social concertation and ongoing negotiations on short-term measures to address both the initial impact of austerity and the long-term sustainability of public and private schemes.

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