Reforming Old Age Security Systems.
A Comparative Analysis of Institutional Change in France, Germany and Sweden

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Mareike Gronwald

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Erstgutachter:	Prof. Dr. Bernhard Ebbinghaus
Zweitgutachter:	PD Dr. Thomas Bahle
Dekan der Fakultät für Sozialwissenschaften:	Prof. Dr. Michael Diehl

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AFG	Association Française de la Gestion Financière / French association of financial services
AFP	Folkpension / Basic State Pension
AGIRC	Association Générale des Institutions de Retraite des Cadres / Association of Cadres' Pension Schemes
AMF	Arbesmarknadsförsäkring
ARRCO	Association des Régimes de Retraite Complémentaire / Association of Supplementary Pension Schemes
ASPA	Allocation de solidarité aux personnes âgées / Solidarity Benefit for Elderly People
ATP	Allmän tilläggspension / Supplementary State Pension
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht / Federal Financial Supervisory Authority
BAVC	Bundesarbeitgeberverband Chemie
BetrAVG	Gesetz zur Verbesserung der betrieblichen Altersversorgung / Occupational Pension Act
BMAS	Bundesministerium für Arbeit und Soziales / Ministry of Employment and Social Affairs
BMF	Bundesministerium der Finanzen / Ministry of Finance
BMGS	Bundesministerium für Gesundheit und Soziales / Ministrz of Health and Social Affairs
CDU	Christlich Demokratische Union / Christian Democratic Union
CNPF	Conseil national du patronat français / National Council of French Employers and Entrepreneurs
CNAVTS	Caisse Nationale d'Assurance Veillesse des Travailleurs Salariés / National Old Age Insurance for Employees
CREF	Complément de Retraite de la Fonction Publique / Civil Service Retirement Supplement
CSG	Contribution sociale généralisée / Special general supplementary income tax
CSU	Christlich Soziale Union / Christian Social Union
DB	Defined benefits
DC	Defined contributions
DRV	Deutsche Rentenversicherung Bund / Assocation of German Pension Insurance Carriers
DREES	Direction de la recherche, des études, de l'évaluation et des statistiques
EU	European Union
FDP	Freie Demokratische Partei / Free Democratic Party
FI	Finansinspektionen / Swedish Financial Supervisory Authority
FPG	Försäkringsbolaget Pensionsgaranti / Pension Guarantee Mutual Insurance Company
FRR	Fond de Réserve pour les Retraite / Statutory pension reserve fund
FSV	Fonds de solidarité vieillesse / Old Age Solidarity Fund

GDV	Gesamtverband der Deutschen Versicherungswirtschaft / Association of the German Insurance Economy
GRV	Gesetzliche Rentenversicherung / Statutory pension system
HI	Historical Institutionalism
IG BCE	Industriegewerkschaft Bergbau, Chemie, Energie / Union Confederation for Mining, Chemistry and Energy
ILO	International Labour Organisation
IMF	International Monetary Fund
IRCANTEC	Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités Publiques / Supplementary Pension Institution for (non tenured) State and Local Employees
ITP	Industrins och handelns tjänstepensionsavtal / Supplementary pension plan for salaried employees in industry and trade
ITPK	ITP komplettering / ITP supplement
KAP-KL	Kollektivavtalad pension – kommuner och landsting/Collective bargained pension – municipalities and county councils
Kåpan	Kompletterande ålderspension / Supplementary old age pension for public sector employees
LO	Landsorganisationen i Sverige / Swedish Trade Union Confederation
NDC	Notional defined contributions
OECD	Organisation for Economic Cooperation and Development
OMC	Open Method of Coordination
PA03	Pensionsavtal 03 (för anställda i statlig sektor) / Pension agreement 03 (for employees in the central government sector)
PAYG	Pay-as-you-go
PCF	Parti Communiste Française / French Communist Party
PDS	Partei des Demokratischen Sozialismus / Party of Democratic Socialism
PERCO	Plan d'épargne retraite collectif / Company Retirement Savings
PERP	Plan d'épargne retraite populaire / General Retirement Savings Plan
PPM	Premiepensionsmyndighet / Swedish Pension Agency
PREFON	Caisse Nationale de Prévoyance de la Fonction Publique / National Civil Service Provident Society
PS	Parti Socialiste / Socialist Party
PSV	Pensionssicherungsverein / Pension Protection Fund
PTK	Privattjänstemannkartellen / Council for Negotiation and Co-operation (former Federation of Salaried Employees in Industry and Services)
RAFP	Régime Additionnel de la Fonction Publique / Civil Service Additional Scheme
RCI	Rational Choice Institutionalism
RFV	Riksförsäkringsverket / Swedish Social Insurance Agency
RPR	Rassemblement pour la République / Union for the republic
SACO	Sveriges Akademikers Centralorganisation / Swedish Conferderation of Academic Associations
SAF	Svenska Arbetsgivareföreningen / Swedish Employers Confederation
SAP	Sveriges socialdemokratiska arbetareparti / Swedish Social Democratic Party
SED	Sozialistische Einheitspartei Deutschlands / Socialist Party Germany

SI	Sociological Institutionalism
SN	Svenskt Näringsliv / Confederation of Swedish Enterprises
SNCF	Société Nationale des Chemins de Fer / National Railway Company
SPD	Sozialdemokratische Partei Deutschlands / Social Democratic Party Germany
SPV	Statens pensionsverk / National Government Employee Pensions Board
TCO	Tjännstemannens Centralorganisation / Swedish Confederation for Qualified Employees
UDF	Union pour la Démocratie Française / Union for French Democracy
UMP	Union pour un Mouvement Populaire / Union for a Popular Movement
VBL	Versorgungsanstalt des Bundes und der Länder / Supplementary public sector pension agency
VDR	Verband Deutscher Rentenversicherungsträger / Federation of German Pension Insurance Institutes

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1 Introduction

1.1 Background and empirical puzzle

This thesis analyses the process of institutional change from dominant public pension pillar systems towards multipillar systems over the last three decades. The study of institutions has always been a central concern in sociology (see Karl Marx, Max Weber, Emile Durkheim) and the examination of how institutions evolve, how they shape individuals' behaviour and how they change has been particularly prominent in comparative politics and historical sociology (Tang 2011).

In 1986 the incumbent Minister of Employment and Social Affairs in Germany, Norbert Blüm, made his famous statement "Die Rente ist sicher" - the (public) pension is safe. This statement referred to the guarantee of sufficient public pensions, calming the increasing worries in the population of more drastic pension cut backs and retrenchment efforts in a situation of declining public revenues and growing financial needs. Blüm's statement also stands for the belief in the stability and inertia of the existing institutional structures, even in times of larger external changes. More than 25 years and several pension reforms and changes later, the validity of this statement seems more than questionable. The historically grown pension system architecture in Germany has gone through some significant alterations over the last three decades. Indeed, a restructuring process of the public-private pension mix has taken place in many West European countries by introducing cut backs in the public pillar, expanding and/or introducing private pension elements and strengthening incentives for private pension provision, fostering a shift away from the dominance of public to a higher share and growing necessity of private pension provision (Palier 2004).

Among the many fields of welfare policies, pension institutions and their reform dynamics have been the subject of a broad range of studies (Alber and Schölkopf 1999; Berner 2007; Bode 2007; Bonoli 2000; Bonoli and Shinkawa 2005; Ebbinghaus 2011; Immergut et al 2007, Meyer et al 2007; Müller 2003; Natali 2008; Orenstein 2008; Schludi 2005; Wiß 2010). The systematic examination of the process, the degree, and the direction of pension system changes is of particular interest. First, pension systems have become a major target for reform vis-à-vis the new post-industrial challenges, providing an interesting research object to study institutional changes and the dynamics of socio-economic and demographic problem pressures as well as the impact of relevant political actors and political institutions. Furthermore, institutional changes in pension systems are of high public concern as pension institutions represent a strong case of redistributive policies and in contrast to most other welfare policy fields (e.g. health insurance, unemployment insurance etc.), they concern everybody from a certain age. Hence, pension system reforms and changes have major implications for the distribution of benefits and burdens across a large part of the population and across different societal groups.

Based on the relative importance of the state and the market as a key dimension of pension provision, one can broadly differentiate between two types of pension systems in the OECD world: the dominant pillar system, in which the state is the main provider of largely pas-as-you-go financed old age income security, and the multipillar system, in which a sufficient old age income stems from a combination of public and private sources (Bonoli 2003; Ebbinghaus 2011). By the end of the 1970s, the majority of West European pension systems could be classified as dominant pillar systems, such as Germany, France, Italy, Sweden and Belgium while much fewer systems were of the multipillar type, such as the Netherlands, Switzerland and the United Kingdom (Ebbinghaus 2011).

Economic and socio-demographic changes since the mid-1970s have put all pay-as-you-go (PAYG) systems in Europe under pressure. First, population ageing, due to increased life expectancy and declining birth rates, has brought about an unfavourable ratio of a growing number of pension beneficiaries against a decreasing number of contributors who finance the system. Second, low economic growth and rising unemployment weakened the public revenue base. Third, most welfare states had "grown to their limits" due to generous and expansive social policies (e.g. high public pension levels, generous early retirement options etc.) implemented during the "golden years" of welfare state expansion (Flora 1986).

While both types of pension systems have been similarly exposed to the new challenges, demographic and labour market changes led to more dramatic financial pressures in those countries with a dominant public pillar architecture than in multipillar systems with a larger share of pre-funded private pensions and less generous public pensions (Bonoli 2003; Bonoli and Shinkawa 2005; Esping-Andersen et al. 2002; Hinrichs 2000a; Natali 2008).

Besides the financial issues, the recommendations and reports advocated by international organisations such as the World Bank, the OECD and the European Union excerted additional pressures on countries with dominant pay-as-you-go financed systems to curtail public expenditures, increase individual responsibilities and restructure the public-private pension mix towards a more sustainable multipillar architecture (OECD 1988; OECD 1998; World Bank 1994).

In response to this, both Marxist-inspired ("race to the bottom") as well as neo-liberal scholars ("best-practice") have proclaimed a phase of radical pension system change towards one neo-liberal pension model, the privatization of social risks and the introduction of market competition (Berger 1996; Clayton and Pontusson 1998; Deppe 2001; Scherrer 2001).

Neo-functionalist approaches highlighted the deterministic meaning of functional needs, assuming that the increasing financial problems would foster a sudden break down and replacement of the existing pension institutions. For the question on how institutions change and which factors shape the process of change, this approach clearly emphasised the role of external factors.

Taking the path-breaking nature of pension reforms in Latin America and Central/ Eastern Europe as an example, other scholars claimed that pension system privatisation or "multipillarisation"[1] trends could not only be seen as the national response to new functional needs, but also as a consequence of what has been advocated and/or imposed by international organisations such as the World Bank, the OECD or the EU adding another variable but with a similar emphasis on external factors to the debate on the drivers of change (Brooks 2005; Müller 2003; Orenstein 2003; Orenstein 2008; Weyland 2005).

However, in contrast to Latin America or Eastern European countries neither the OECD nor the World Bank have the same power to impose any binding regulations on the advanced industrial countries of Western Europe by using "hard" strategies such

[1] The term multipillarisation describes the expansion of occupational and personal pensions while the importance of public pensions is diminishing, fostering a multipillar pension system architecture and the implicit privatisation of pension income sources (Ebbinghaus and Schulze 2007).

as economic incentives and sanctions. Neverthless, policy diffusion theories assume international organisations' policy recommendations and the dissimenation of ideas on pension privatisation to be a signficant factor, influencing national pension policy decisions and the process of institutional change. The World Bank's agenda setting for pension reform debates and the dissemination of the idea of a multipillar pension model as a solution to the sustainability problems of public pension systems as well as the spreading of best practice information in pension, health and education policies through the OECD, framing national policy discussions by delivering statistics and analyses have been considered to have had a major impact on national pension policy making and the reform processes since the early 1980s (Armingeon 2004; Brooks 2005:). In many studies on European welfare states, the influence of the European Union has been of particular interest because of its broader range of strategies to exert direct and indirect pressures on national policy-makers in EU member states (Armingeon 2004; De la Porte and Pochet 2002, Schmähl 2010).

Without a doubt the changes in the economic and socio-demographic environment as well as international organisations' actions and recommendations constitute an important external trigger for pension system restructuring processes in West European countries. They explain why pension reform has become an important topic on the political agenda. However, can these external pressures fully explain the process, i.e. the degree and velocity as well as the mode and strategies of pension system change in different countries?

The fact that despite mounting external pressures for retrenchment, numerous attempts to radically dismantle the welfare state in West European countries had failed during the 1980s and 1990s, was the basis for other groups of scholars to focus on explanatory factors for the stability and persisting cross-national diversity of welfare institutions (Esping-Andersen 1985; Esping-Andersen 1990; Korpi 1983; Korpi 1989).

The concept of path dependency and the assumption that specific institutional configurations have a constraining impact on the trajectories of social policy reform has gained much popularity in the literature since the 1990s, building the starting point for many studies on institutional stability and change both with respect to the whole welfare state as well as specific policy sectors such as pensions (Pierson 1994; Pierson 1996; Pierson 2001b). In contrast to functionalist approaches and those theorists highlighting the impact of international organisations, the (neo-)institutionalist perspective emphasised the importance of the national institutional context in shaping the pension reform process. Furthermore, rather than expecting radical shifts and substantial transformations, this perspective has been closely connected to the assumption of institutional inertia. As Pierson (Pierson 2001a: 418) pointed out in his seminal work on the 'New Politics of the Welfare State': "Especially with large, complex and deeply institutionalised programmes like health care and pensions, social actors place a high value on predictability and continuity in policy."

With regards to the shift from a dominant public pension pillar structure towards a multipillar architecture, several authors pointed to the difficulty of altering mature pay-as-you-go financed pension systems into funded systems because of the "double-payer problem" which means that the current working generation would need to finance the acquired pension rights of current pensioners and save for their own future pension at the same time. Furthermore, the acquisition of pension entitlements via contribution payments fosters a quasi-ownership right of contributors to generous pensions, constituting a political barrier against radical cut backs (Myles and Pierson 2001; Pierson 1993). These are just two examples on how previous pension policy decisions (institutional legacies) impact on later developments, creating positive feedback mechanisms "locking-in" or stabilising the once established path making a path switch increasingly difficult over time. A second line of the stability argumentation refers to the impact of the national political context (the political system, the configuration of political actors, the degree of party competition etc.) structuring the number and power of veto points and veto players with the ability to block drastic pension reforms.

However, while pension systems have often served as the "locus classicus" for the resilience of institutions, the full impact of what was thought to be no change seems to have materialised during recent years pointing towards some bigger alterations. The intensification of cut backs in the public pension pillar, the strengthening of incentives for private pension provision and the introduction of new personal pension elements provided increasing empirical evidence for a shift in the public-private pension mix from a dominant public pillar towards a multipillar architecture since the early 2000s (Palier 2004).

France, Germany and Sweden provide three interesting country cases for the analysis of pension reforms and institutional change. First, in all three countries pension system restructuring has taken place over the last three decades. The public earnings-related pension scheme in Sweden for instance has been replaced by a defined contribution system consisting of a funded Premium Pension (Premiepension) and a pay-as-you-go financed earnings-related Income Pension (Inkomstpension). By introducing a funded pension element, invested in privately managed funds, a completely new component was integrated into the public pension pillar which had traditionally been organised after the pay-as-you-go-principle and was the responsibility of the state only. In Germany, the replacement rate of the public pension has been significantly decreased, severely eroding the status maintenance aim, while voluntary partially tax subsidized personal pensions have been introduced and occupational pension schemes have been improved. The replacement rate of pay-as-you-go financed public and collective pension schemes has been lowered in France and a stable legal framework for voluntary funded occupational and personal pension arrangements has been introduced. These developments strongly challenge institutionalist stability arguments, giving rise to the question to what extent three decades of pension reforms may have impacted on the existing pension institutions. It also poses the question how the degree of change could be measured.

Second, even though France, Germany and Sweden have all developed dominant public pension pillars, the specific design and the configuration of private pension arrangements reveals some important cross-country variations. A closer look at pension policy changes and new private programmes in the three countries show, that despite the common drift towards a multipillar architecture large international variations remain with regards to the specific reform paths and outcomes. This supports the assumption that the specific public-private pension design may have a significant impact in shaping the process of institutional change, and calls into question the simplified assumptions of the deterministic impact of external pressures (be it through socio-economic changes or international actors) and their resulting in radical transformations across different countries.

1.2 Research questions, argument, contribution

Based on the empirical puzzle presented in 1.1, the following research questions arise:

1. To what extent have old age security systems with a dominant public pillar architecture departed from their once established path?
2. How does the pension reform process look like? Which mechanisms and strategies can be identified that faciliated the institutional transformation? Which process pattern can be found?
3. Which role did the problem pressure, the political context and the institutional design (legacy) of the pension system play in shaping the degree, and the mechanisms and strategies (patterns) of change?

This dissertation seeks to advance the argument that European pension systems with a historically grown dominance of pay-as-you-go financed pension schemes are increasingly shifting towards multipillar structures, expanding and creating second- and third-pillar funded retirement schemes, significantly changing their traditional public-private pension architecture. However, instead of the proclaimed radical and sudden system shift, this thesis supports the argument that the institutional transformation takes place through gradual modifications and through interaction with the existing national institutional structures which provide constraints but also possibilities for change. In line with historical institutionalist theories, it is argued that national institutions and in particular previous pension policy choices do matter in shaping subsequent decisions and reforms, i.e. the process of institutional change.

In consideration of the weakness of institutionalist theories to explain transformative changes without taking recourse to external shock assumptions and functionalist arguments, more recent approaches have made several attempts to extend institutionalist stability arguments, focussing on incremental but transformative change processes. While the role of political institutions has received considerable attention in the literature, identifying different political strategies that fostered pension policy changes (such as the obfuscation of unpopular cut backs, the diffusion of blame through political consensus building and the creation of social pacts with unions and employers to overcome non-parliamentary resistance) (Immergut, Anderson and Schulze 2007; Kitschelt 2001; Merkel 2003; Pierson and Weaver 1993; Regini 2000; Rhodes 2001; Schludi 2008), only a few scholars have made theoretical and empirical attempts to expand the concept of path dependence in order to explain the transformation of an institution from a historical institutional perspective (Ebbinghaus 2005; Mahoney and Thelen 2010a; Streeck and Thelen 2005b; Thelen 2003).

The theoretical framework of this dissertation is primarily based on institutionalist theories. On the one hand they have already provided some valuable insights into explanations for the evolution and stability of institutions and on the other hand there is scope for further theoretical development of these approaches with regards to explaining the transformation of institutions, providing a challenge for this dissertation.

The goal of the thesis is to classify and measure the degree of change on a continuum from the status quo to a fullfledged institutional transformation in different countries and analyse the institutional features that allow for gradual but nevertheless transformative change, identifying the respective mechanisms and patterns in the process of change.

Based on a historical institutionalist perspective, this dissertation seeks to provide a systematic comparative account that helps to explain different paths towards pension system 'multipillarisation'. Furthermore, while past research has mainly concentrated on the transformation of the public pension pillar, the following analysis examines the development of both public and private pension arrangements. On the one hand, this thesis provides new empirical insights to the important but often overlooked development of the public-private pension mix in different countries and on the other hand it contributes to the theoretical literature in regard to the mechanisms of institutional stability and change.

1.3 Structure of the thesis

In *chapter 2* of this thesis, the dissertation project is positioned within the context of the current literature on pension reforms and institutional change. After a short clarification of the understanding of the term institution in the context of this study, the first part of the chapter gives an overview of the pressures that the economic and socio-demographic changes since the mid-1970s excert on dominant public pension pillar systems in Europe. It further discusses and reviews the arguments for the stability and change of pension institutions from the classic institutionlist and comparative politics perspective outlining the gaps in explaining transformations. Drawing on some of the most recent theoretical advancements in institutionalist theories to explain transformations, the second part of the chapter develops the theoretical-analytical framework for this thesis applying and expanding the existing theoretical assumptions on institutional stability and change.

Chapter 3 presents the methodological framework and operationalization for this dissertation. It starts with a brief introduction of the research strategy, followed by a discussion of the country case selection. It concludes with the definition and operationalization of the dependent variable 'pension system change' by developing comparable categories for pension systems as well as for the assessment of the degree of change.

The empirical part of this thesis consists of three detailed country chapters (*chapter 4-6*). In each country chapter, the institutional, functional and political circumstances before the reform process, the pension reform process between 1980 and 2010 and the outcomes of the process are analysed along a common structure so that the results can be more easily compared across the selected cases. Each case study consists of three major parts. The first part starts with a description of the pension system before the reform process, and is followed by an outline of the specific economic and socio-demographic situation in the country and the problem pressures arising from it. It concludes with a brief description of the national political context. In the second part the nature of the pension reform process is analysed assessing the quality of changes (i.e. changes of levels, instruments, goals) and the particular pension system features allowing for change as well as the sequencing and timing of decisions, identifying the mechanisms of change. The final part of the country chapters examines the outcome of the pension reform process. It describes today's pension system design and juxtaposes it with the design before the reform process assessing the scope of change. Together with the results from the process analysis it allows for the categorisation of the type of institutional development (path stability, path switch or path departure).

Chapter 7 first compares the results from the three country studies with regards to the degree of change and pattern of the pension reform process. Based on this it discusses the role of the functional pressures, the political context and the specific design features of the pension systems in shaping the degree and pattern of the change process by juxtaposing the configuration of these three (independent) variables and the respective institutional development (dependent variable) in the three countries.

The concluding *chapter 8* summarises the results of the single country case studies and the comparative chapter with regards to the initial three research questions of this dissertation. It further points out the contributions as well as the political implications of this thesis and concludes with the consideration of open questions and possible avenues for future research.

2 Institutional change

2.1 What is an institution?

A precise definition of the term "institution" is as challenging as it is important for the purpose of this study, which is analysing the change of one of the most important institutions of the welfare state: the old age pension system. Depending on the scientific discipline, the school of thought, or the research objective of a study, the term "institution" encompasses a broad range of definitions, reflecting its multifariousness.

Most scholars would agree that institutions can be broadly defined as a durable rule or set of rules that guide and direct actions and help to stabilise social relationships by enabling actors to develop expectations about other actors' behaviour. Institutions are also carriers of certain societal ideas and values (Maurer and Schmid 2002: 14; North 1990: 3; van Waarden 2009: 274). Van Waarden (2009: 274) argues that social and other rules are a more or less long lasting package of mutual social expectations, but if these rules and the associated expectations gain constancy and predictability over time they become an institution.

In a more fine grained definition, it can be differentiated between informal and formal institutions. While informal institutions refer to morals or values, conventions, traditions, customs and norms with informal sanctions (e.g. shaking hands as a greeting ritual in certain situations), formal institutions describe formalised sets of rules and norms (e.g. legal systems, the ruels for collective bargaining processes, etc.) that may be enforced by calling upon a third party (Streeck and Thelen 2005b: 10).

Classical institutional theories mainly developed in the 1950s. The major focus was to examine the structure and functioning of political institutions assuming that institutional structures determine societal actions. Rational choice theories and behaviouristic approaches formed a counter movement emerging in the 1960s shifting the analysis towards the micro level, calling the deterministic impact of institutions on political actors into question. The 1980s saw a revival of the interest in institutionalist theories in the form of neo-institutionalist theories especially with regards to the persistence of cross-national differences in welfare institutions despite Globalisation and Europeanization. Neo-institutionalist theories combine some of the basic assumptions from classical institutionalism with certain attainments from action and behavioural theories which led to some theoretical variations within the neo-institutionalist account forming three distinct strands: rational choice institutionalism (RCI), historical institutionalism (HI) and sociological institutionalism (SI) (Csigó 2006).

In this study, the focus is set on the development and change of formal institutions and in particular those formal rules and norms, that govern behaviour and expectations in the area of old age security. Djelic and Quack (2005) suggest that formal institutions articulate around three different dimensions: the formal rules of the game, the associated behaviour and the background logics. In this sense, pension institutions consist of a complex arrangement of policy choices concerning old age security that have been consolidated over time into a durable set of rules relating to certain expectations, incorporating specific goals, ideas and values. Old age security institutions generate patterns of regularized behaviour and shape actors' decisions. They also create and stabilize collective goods, mediate industrial conflicts and foster political stability and social cohesion (Myles and Pierson 2001: 312; Pierson 1993: 608; Streeck 1997).

Pension systems are an excellent research object to study the change of formal institutions. On the one hand institutionalist scholars have commonly described them as "immovable objects" or "frozen landscapes" (Pierson 1998, Esping-Andersen 1996) that are hard to transform and each of the three strands of neo-institutionalist theories has provided useful concepts that helped to explain institutional continuity. On the other hand pension systems have become a major target for reform in the context of the new post-industrial challenges over the last three decades. The increasingly noticeable transition from dominant public pillar to multipillar pension systems in some West European countries has attracted the attention of institutional change theorists and welfare state researchers.

Furthermore, there is a high level of public interest in the examination of the process, degree and direction of pension system changes, as they concern inter and intra-generational equality issues, the appropriateness of current and future old age security structures, the problem of old age poverty as well as the role of private savings, the financial service sector and private pension governance (see Ebbinghaus 2011).

Thus, old age security systems provide an interesting research object for both the study of institutional change as well as the examination of public and private pension policies, their development and interactions. The following paragraph will give a short overview of the state of the art on the post-industrial challenges, the related problem pressures, and the process of pension system change in Western Europe.

2.2 Pension system change in Western Europe

2.2.1 Post-industrial pension problems and reform

Although all West European welfare states have been equally exposed to post-industrial changes from the mid-1970s, different pension system types have led to differing kinds and degrees of problem pressures (Bonoli 2003; Ebbinghaus and Schulze 2007; Esping-Andersen et al. 2002; Natali 2008). The comparative welfare state literature has found that dominant public pension pillar systems with Bismarckian insurance features (mostly associated with non-liberal welfare regimes) have been particularly vulnerable to post-industrial economic, demographic and labour market changes from a financial point of view, resulting in high pressures to substantially reform the existing institutions. In contrast to this, the financial issues and therefore the pressures for substantial instiutional reforms have been smaller in countries with basic public pensions and developed funded private pension schemes in a multipillar architecture. They have been mainly concerned with regulatory issues of their private pension arrangements in the context of recent economic developments (e.g. financial market crises) (Ebbinghaus 2011).

Two sets of problems have been identified in the literature, pressuring European governments to pension reforms: a) financial sustainability issues and b) new social needs and demands (Bonoli 2006; Häusermann 2007; Hinrichs 2000a; Schludi 2005). According to these problem pressures the pension reform debate and agenda can be clustered along two broad dimensions. The first dimension addresses the financial sustainability issues and involves cost containment measures, public pension retrenchment and capitalisation while the second dimension addresses the new post-industrial demands for outsider protection and gender equality involving measures of recalibration (Häusermann 2007: 73; Pierson 2001a: 423 et sqq). The latter dimension also entails new issues arising from increased international labour mobility such as the treatment of migrants and the portability of pension rights etc. (Barr and Diamond 2008: 197).

For the analysis of the institutional transformation from dominant public pension pillar insurance systems towards multipillar systems, it is mainly the financial sustainability issues and the first category of policy responses that are of interest, as they impact on the public-private pension mix in the most substantial way. Hence, the following discussion of the triggers of the pension "crisis" focuses primarily on those developments causing financial sustainability issues, leaving the issues of outsider protection and gender equality largely aside (for a detailed discussion on new social risks and demands see (Armingeon and Bonoli 2006; Häusermann 2007)).

Four socio-economic developments have been identified (Pierson 2001c), challenging the financial sustainability of pension insurance institutions in Europe: 1. Economic internationalisation, 2. Tertiarisation of labour markets and production, 3. European Integration, and 4. Demogrpahic ageing.

First, the increasing economic globalisation over the last few decades, i.e. the liberalisation of markets, the internationalisation of trade and the deregulation of capital flows and financial markets, has led to increasing international competition to attract companies and foreign investors. The steadily rising public pension benefit level due to the constant improvement of the general insurance parameters (reference period, indexation, required contribution record etc.) as well as the reduction of the retirement age and the extension of public pension coverage during the three decades of welfare state expansion in pension systems with a dominant public pension pillar structure, had led to a continuous increase in pay-roll contributions. In the context of the progressing economic globalisation, the high and rising level of pay-roll contributions became increasingly problematic in these countries, as high non-wage labour costs were considered as a major factor, undermining the economic competitiveness of a country. Consequently, the pressures to curtail public spending in order to lower or at least stop rising socials contributions and taxes grew (Palier 2004).

Second, the growth and increasing importance of the service sector, fostering the shift from the industrial to the service sector society, has been associated with decreasing productivity rates and the slowdown of economic growth. The deindustrialisation of employment contributed to the steep increase of unemployment, especially among former industrial workers, while the expansion of the service sector fostered an increase in low value added jobs (e.g. retail sales, cleaning, catering etc.), resulting in a decrease of wages and an increase in social contribution free employment (Iversen and Wren 1998; Pierson 2001c). At the same time, generous early retirement options and disability pensions were used in many West European countries from the early 1980s as a labour market instrument to counter unemployment by reducing the labour supply, putting the already too costly welfare states into a serious dilemma by additionally increasing the number of retirees (Ebbinghaus 2006). Hence, while public revenues decreased because of lower wages, atypical employment and persistently high unemployment, more individuals became dependent on public pension benefits. As a consequence, the revenue side could not keep pace with the growth of public pension expenditures, leading to growing public budget deficits

Third, the growth in public deficits became increasingly problematic from the early 1990s with the advancement of the economic and political integration in Europe and the creation of the European Monetary Union. The demand for stricter budgetary controls to meet the fiscal sustainability requirements of the Maastricht Treaty as well as the Stability and Growth Pact, constrained the options of national governments a) to refinance their pension systems by public debt increases and b) to follow the Keynesian approach to stimulate growth and employment by interest rate cuts and public spending increases. The targeted deficit ceiling was set at 3 per cent of GDP and the public debt ceiling at 60 per cent of GDP for all government spending, including the social insurance system. As public pension expenditures and the implicit liabilities for the pay-as-you-go financed systems constituted the largest item of social expenditures in dominant public pillar system, the pressures for public pension retrenchment were particularly high in order to disburden the general public budget (Korpi 2003; Schmähl 2010). Additionally, the EU exerted its influence on national pension policies by the open method of co-ordination (OMC), which has been applied to the area of social protection and pensions since the early 2000s, pushing for a higher degree of funding and the development of private pension solutions (Schmähl 2010). The OMC is a "soft" strategy to shape national policies, mainly by increasing the pressures on national governments to justify their actions in a particular area. It contains the agreement on certain policy objectives and guidelines, which are transported to national and regional level policies. It also involves the establishment of indicators or benchmarks in order to compare best practice and multi lateral periodic evaluations and peer review processes (De Deken 2003; De la Porte and Pochet 2002).

Finally, the financial issues have been accentuated by the demographic ageing process. The dominance of the pay-as-you-go financing principle in dominant public pillar systems, according to which contribution payments of the current working generation are directly used to finance the current pensioners' benefits, made the functioning of these old age security system highly dependent on a favourable contributors-to-beneficiaries ratio. Decreasing birth rates on the one hand and a higher life expectancy on the other hand have increasingly disturbed this balance as a growing number of pensioners will have to be financed by a diminishing number of contributors in the near future. This development does not only increase the financing issues of the existing pension system but it also undermines the support for and confidence in the scheme among the current working population if the wealth is disproportionally shifted away from the active population towards the non-active population, while the confidence in the scheme to provide sufficient benefits in the future is increasingly eroding (Häusermann 2007; Palier 2004; Pierson 2001c).

In response to these increasing financial challenges many policy makers moved from expansionary public pension policies to retrenchment and budget consolidation measures. However, despite mounting external pressures, several attempts to radically dismantle public pension institutions had failed during the 1980s and 1990s. Thus, in contrast to functionalist theorists, proclaming the radical change of existing pension institutions, highlighting the deterministic impact of external pressures, institutionalist approaches started to gain in importance, argueing that the development and change of pension institutions takes place within certain country specific institutional constraints (Esping-Andersen 1996). Accordingly, encompassing reforms and radical changes were considered as very difficult if not impossible to enact, while smaller parametric reforms and changes were interpreted as marginal adaptations without substantially changing the status quo and thus the specific type of pension regime (Pierson 1996; Pierson 2001b).

Pension institutions have, indeed, proven a high degree of stability against external pressures for radical changes. Based on this, a large part of the theoretical and empirical research focussed on explanatory factors for the stability of pension institutions, drawing the attention towards the role of the national political context (political actors and institutions) and the historical legacy of pension systems.

2.2.2 The impact of the political context and the legacy of pension institutions

There are two major theoretical perspectives shaping the early welfare state literature, focussing on explanatory factors for the introduction and growth of welfare states and their respective social policy fields across OECD countries: the functionalist approach and the "power resource approach". The structural-functionalist approach emphasised the deterministic meaning of societal and economic needs in the context of changing external conditions (modernisation, democratisation) fostering the introduction and development of welfare states (Wilensky 1975). In contrast to this the "power resource" approach, which gained popularity during the 1980s, claimed that socioeconomic factors only provided the contextual framework for the political competition in a country highlighting the role of organised interests and collective actors and their respective power resources which were assumed to be decisive factors in the development and specific design of welfare programmes (Esping-Andersen 1985; Korpi 1983; Korpi 1989). While the functionalist perspective implied a rather uniform development of welfare states, the "power resource" argument emphasised the plurality of welfare state arrangements due to the different constellations of political actors in different countries. The research and empirical evidence on cross-national variations in the development of welfare institutions has been further advanced and systematised by Esping-Andersen's (Esping-Andersen 1990) influential welfare regime typology.

When several scholars testified the "crisis" of mature welfare states due to global socio-economic and demographic changes (Hayek 2000; Mead 2000; Murray 2000; O'Connor 2000; Offe 2000), the scientific discussion moved towards the analysis of welfare state retrenchment, restructuring and change. One central question was whether the existing theories and concepts that had focussed on the explanation of the establishment and expansion of welfare institutions could also explain their restructuring and change (Stuchlik 2010: 72).

Based on a revival of structuralist-functionalist explanations it was assumed that generous pay-as-you-go financed pension systems would become subject to radical reforms and changes driven by external problem pressures (Berger 1996; Clayton and Pontusson 1998; Deppe 2001; Scherrer 2001). Focussing on the impact of external pressures but from an actors' perspective other scholars highlighted the role of international and supranational organisations' policy recommendations and their power to influence national reform processes by binding regulations, economic incentives and sanctions equally assuming that external factors would drive and shape the radical transformation of the existing pension institutions (Brooks 2005; Müller 2003; Orenstein 2003; Orenstein 2008; Weyland 2005). Both approaches implied similar developments and reform paths leading to the convergence of the previously different pension system types towards one common (neo-liberal) multipillar pension model.

In contrast to the focus on external pressures, scholars in the tradition of the "power resource" approach pointed to the influence of national political factors, focussing on class politics and ideological party differences assuming that depending on the strength of the unions and the social democratic parties, the existing pension institutions would be maintained and defended against radical retrenchment.

Pierson's seminal work on the 'New Politics of the Welfare State' (Pierson 1996; Pierson 2001b) critically reviewed the existing approaches in the context of welfare state retrenchment, claiming that sudden and radical system shifts as proclaimed by functionalist theorists were highly unlikely because of the political and institutional resilience of welfare institutions. However, in contrast to classic power resource arguments, Pierson (1996) also argues that unions and social democratic parties have not been as essential for the defence of existing welfare institutions. He points out that class politics have declined in importance and ideological party differences mattered less for the restructuring process of welfare institutions than for their establishment and expansion. He argues that the politics of expansion differed from the politics of retrenchment. While politicians could claim credit for popular reform measures during the expansion of welfare arrangements, they would need to introduce major cut backs in the light of increasing external pressures. The previous expansion of welfare institutions, however, had expanded the size of the constituencies benefiting from these programmes producing a number of strong interest groups supporting the achieved status quo. As a consequence radical cut back measures were assumed to be difficult to implement as governing as well as office seeking political actors would try to avoid the potential electoral punishment independent of their party affiliation. According to Pierson's argument, the existence of mature and expansive welfare institutions themselves altered the context in which current politics of welfare restructuring had to be negotiated (Pierson 1996; Pierson 2001b).

Both, structural-functionalist as well as power resource models which have provided the theoretical underpinning for the establishment and expansion of welfare states ("old politics") were considered as less relevant for the understanding of this new phase of welfare state restructuring (Pierson 1996; Pierson 2001b). Thus, the analysis of welfare retrenchment needed a new theoretical understanding ("new politics") which was the basis for the introduction of a historical institutionalist perspective, the most prominent variant of neo-institutionalist theories.

In many ways, the "new politics" approach has built the starting point for the analysis of recent pension reform processes, rejecting the idea of radical transformations, emphasising the immovability and inertia of pension institutions. Despite some controversial discussions about the explanatory power of the "old politics" (Korpi and Palme 2003; Scarbrough 2000; Siegel 2001), the argument about the impact of specific institutional configurations on the trajectories of social policy reform has gained much popularity in the literature since the 1990s. Indeed, besides the focus on the role of the institutional legacy of pension systems, the power resource concept has been complemented by a more institutionalist focus on the national characteristics of governments, industrial relations and political decision making processes which were assumed to impact on pension reforms and policy outcomes. Departing somewhat from the emphasis on class struggles, several studies developed a more differentiated perspective on the impact of national political actors focussing on the specific configuration of party competition, the role of unions and their 'social pacts' as well as the impact of conflict lines, actors' alliances and reform coalitions with regard to pension reform processes in different countries (Anderson and Meyer 2003; Béland 2001; Busemeyer 2006; Ebbinghaus and Hassel 2000; Häusermann 2010; Schludi 2008).

Based on these approaches, the difficulty to change pension institutions has been most commonly explained by two lines of argumentation: one line refers to the impact of institutional legacies and the other line highlights the role of the political context, i.e. the configuration of national political actors and political institutions.

The first line of the stability argumentation is largely based on the concept of path dependence and points to the impact of previous pension policy decisions (institutional legacies) which are connected to positive feedback mechanisms that stabilise the established institutional path, i.e. the specific pension arrangements, over time. One prominent assumption is that the specific public pension arrangements create certain groups of beneficiaries and defined political interests in favour of maintaining the achieved status quo. A number of pension system features, associated especially with Bismarckian type social insurance systems, have been identified as creating very strong self-reinforcing feedback processes and barriers to radical change.

Firstly, a defined-benefit (DB) structure targeted at a high replacement rate of former wages, for instance, reinforces the expectation of public pension benefits as the continuation of former earnings. In defined-benefit systems, benefits are often calculated as a percentage of the final salary and the insured expect their old age pension to be at a certain level. (Bonoli and Palier 2000: 63). Furthermore, depending on the design of the benefit dimension, different objectives, such as income maintenance, poverty alleviation, or equality, can be emphasised. As Bonoli and Palier (2000: 62) argue "[…] support for a scheme might come from groups with an ideological orientation congenial to one of these objectives." It is assumed that earnings-related benefits are more likely to be supported by the middle-class than flat-rate benefits.

Second, generous earnings-related benefits together with a broad or even universal public pension coverage implies a higher number of individuals benefiting from generous programmes. On the one hand this produces a number of strong interest groups, including influential middle-income voters, supporting the achieved status quo and increasing the political costs for radical changes away from the dominant public pillar model. On the other hand the sudden decrease of public benefits would also cause a range of social problems, as a large number of people would not have established alternative income sources, in anticipation of sufficient benefits from the public system (Ebbinghaus and Gronwald 2011).

Third, in a contribution financed system the contributors usually receive their benefits based on their previous contributions, which fosters the perception of pension benefits as acquired rights. The tighter the link between contributions and benefits (equivalence principle), the more support for the system can be expected, and the more legitimate it will be perceived as, as the contributions paid are considered as postponed wages (Bonoli and Palier 2000: 63). Furthermore, the financing of public benefits primarily through payroll contributions increases the legitimacy and influence of the social partners within the system as they represent the interest of those who finance the system, i.e. the employees and employers (Bonoli 2000; Bonoli and Palier 2007).

Fourth, strong corporatist features, with the social partners participating in the management and administration of the pension system, create strong support by the unions in defending the status quo. It legitimises the participation of the social partners in the pension policy making process and provides the unions with a de facto veto power in the case of pension reforms (Bonoli and Palier 2000: 63).

Finally, it is not only the entrenched interests of institutional beneficiaries and their bargaining power that may hinder radical changes, but also large switching costs connected to specific design features create barriers for certain reforms. Myles and Pierson (2001: 313) demonstrated how the early decision for predominantly pay-as-you-go financed pension benefits, especially in non-liberal welfare states, has created a significant barrier to the radical privatization or capitalization of these pension systems because of the 'double payment problem'. The 'double payment problem' occurs as the current working generation would not only need to finance the acquired pension rights of current pensioners according to the '*Generationenvertrag*', but also save for their own future pension at the same time. A change like this would not only involve high political costs (risk of electoral punishment etc.), but also high monetary costs in the case of a transition.

Summing up, the specific pension system design may generate opponents of change who are likely to exert pressures on governments through informal mobilisation or the threat of electoral punishment, in order to prevent changes (Bonoli 2000: 3). Furthermore, technical issues, such as large switching costs, or social problems such as old age poverty, provide potential hurdles to pension privatisation and capitalisation. Radical reform measures are therefore assumed to be difficult to implement as governments, as well as office seeking political actors, would try to avoid the potential electoral punishment for unpopular reforms.

The second line of the pension system stability argument draws attention to the impact of the political context on pension reforms. While the path dependency perspective explores the effects of feedback loops created by the specific design of pension institutions, the political-institutional perspective focuses on the role of the political structures in a country and how and to what extent they allow certain interest groups to control the policy-making process (Immergut 1990). It is argued that the proponents of far reaching cut backs and/or restructuring measures are not only constrained by certain pension institutional features but they are also restricted by the existing political institutional structures in a country as they "determine the extent of agreement needed to legislate, and thus establish the degree of influence that external groups, opposition parties, and lower tiers of governments can expect to have on national policy making." (Bonoli 2001: 238).

In this context, the theoretical concepts of veto players (Tsebelis 2000; Tsebelis 2002) and veto points (Immergut 1990; Immergut 1992; Immergut and Anderson 2007) have become a common instrument in the literature to compare and measure the influence of specific political-institutional configurations across countries and predict the potential and degree of resistance to social policy reforms.

The opportunities a political institutional structure provides to external groups to prevent the adoption of a given piece of legislation are called "veto points". The higher the number of veto points the greater the impact of political actors outside the government and the higher the potential to block reforms. "Veto players are individual or collective decision makers whose agreement is required for the change of the status quo." (Tsebelis 2000: 442).

Political-institutional veto points can be presidents, second chambers, or constitutional courts. Sometimes the configuration of partisan majorities is decisive for whether or not institutional veto points are politically significant. As Immergut and Anderson (2007: 7) point out, the second chamber (*Bundesrat*) in the German system, for instance, is only considered a veto point if its partisan majority in the *Bundesrat* differs from the majority in the first chamber (*Bundestag*). Veto players can for instance be the parties that oppose the government or the unions. It is assumed that the greater the distance between the policy preferences of different veto players and the more coherent the policy preferences of one set of veto players, the more difficult it will be to find a consensus necessary to pass legislation. Hence, the greater the number of veto players is, the greater are the barriers to pass legislation (Immergut and Anderson 2007: 8). Instead of differentiating between veto points and veto players it will commonly be referred to "veto possibilities" in this thesis.

Three major political-institutional dimensions have been outlined in the literature, which provide veto possibilities, i.e. opportunities to the opponents of change to veto against reforms: a) the electoral and party system, b) the organisation of the executive, legislative and judicative powers, and c) the system of interest representation.

a) In inclusive electoral systems based on consensus democracy with proportional representation, a number of legislative parties and coalition governments, potential 'losers' of retrenchment policies are represented and have to be included in the decision making process, making radical cut backs more difficult to pursue. Institutional opportunities for defenders of the status quo or groups opposed to cut back policies are smaller in exclusive majoritarian electoral systems with a two-party dominance and single party governments (Swank 2001: 209).

b) Governments with a stronger power concentration are expected to be more successful in introducing cut backs as they largely control the policy making process, in contrast to a system where the executive power is divided (bicameralism, federalism) and policy changes have to be negotiated with external interests to a larger degree. The government might have to make concessions to various actors and defenders of the status quo have more opportunities to pursue their goals in a fragmented system (Bonoli 2001: 239).

c) Highly organised and centralised trade unions, as well as corporatist forms of bargaining are assumed to constitute a barrier to pension policy change. Changes are more likely to be slow, marginal and negotiated instead of quick and radical (Swank 2001: 208-9).

Against this background, a considerable number of empirical studies examined the success and failure of pension reforms, analysing the capacity of different countries to adopt politically difficult reforms (e.g. Bonoli 2001; Clasen and Gould 1995; Immergut, Anderson and Schulze 2007; Lamping and Rüb 2004; Schludi 2005; Schludi 2008). Besides the plausible demonstration of the numerous political barriers against radical change, several political strategies have been outlined which can help to make pension reforms politically more feasible, providing an explanations for the introduction of policy changes. Especially in the light of more recent pension reforms which fostered the introduction of more far reaching public pension cut backs and the establishment of private funded forms of pension provision, these strategies have provided important insights for the analysis of pension system change.

The first set of strategies is based on the concept of blame avoidance developed by Weaver (Weaver 1986) and further elaborated by Pierson (Pierson 1994). Two strategies have been highlighted, pursued by politicians to avoid the electoral punishment for the introduction of unpopular cut backs. One strategy is to avoid blame by making cut backs less transparent ("obfuscation"), for instance by changing the benefit formula or benefit taxation rules. The other strategy is to introduce unpopular policy measures, such as the increase of the retirement age, over a long transition period, delaying cut backs into the future with the expectation that voters will have forgotten who was responsible for this measure.

Another set of political strategies for introducing reforms is based on the creation of a larger consensus among different political actors. Pension reforms take place in two political arenas, the electoral arena and the corporatist arena. Hence, the most important formal or informal coalitions are built with the opposition parties (electoral arena) and/or the labour unions (corporatist arena) (Busemeyer 2006: 401; Schludi 2008).[2] The broader the consensus on certain measures with the opposition and/or the social partners is, the more feasible the enactment of pension reforms will be. Moreover, the cooperation with the political opposition and/or interest groups who have a certain credibility as defenders of the welfare state, as well as the inclusion of independent experts in the policy making process, make it more difficult for voters to punish one particular party. The "blame" and the political costs for unpopular reforms are spread across different political actors ("blame sharing" strategy) (Immergut and Anderson 2007: 11). The inclusion of trade unions and/or independent experts can also be a strategy to avoid large-scale public mobilisation against reform and increase the support for the continuation of the reform process in the long run (Busemeyer 2006: 415). Another method that has been applied in the context of consensual strategies is to calm down the opponents of reform by compensating cut backs with the introduction of beneficial measures ("quid pro quo" strategy) (Bonoli 2000).

Finally, a third set of strategies to circumvent political barriers in the process of pension reform are based on technical methods such as "packaging". The "packaging" strategy means that the opposition is confronted with a yes or no-choice towards a

[2] For detailed studies on political actors' cooperations, coalition building and policy interests see also Häusermann 2010; Schludi 2005; Tsebelis 2002.

larger policy package with many different measures, including some controversial ones (Busemeyer 2006: 424).

Both, the historical perspective and the comparative politics approach have given important insights into the ways in which "history and politics matter" in shaping the development and cross-national diversity of pension arrangements. However, while the political logic of change has received considerable attention, i.e. the political strategies to overcome potential political barriers to change, the theoretical and empirical elaboration of the institutional logic of change, i.e. the role of pension instiutions and the potential mechanisms facilitating change, has been largely neglected. In this thesis it is assumed that the political context with its constraints and change facilitators is only one component that shapes the process of pension reforms while the pension system design constitutes the second component which is assumed to have an impact on the reform process not only by constraining changes but also by providing certain mechanisms and options for gradual transformations. So far only a few scholars have made some first theoretical and empirical attempts to expand the classic concept of path dependence in order to analyse the gradual transformation of institutions (Ebbinghaus 2005; Mahoney and Thelen 2010a; Streeck and Thelen 2005b; Thelen 2003). A comprehensive analysis of the connection between particular pension institutional features and the mechanisms, degree and pattern of change has been missing so far. The goal of this thesis is to examine these connections and contribute to both, the theoretical framework on institutional change as well as the literature on pension reform processes from a historical institutionalist perspective.

Several assumptions and concepts of the 'new institutionalist' theories provide some useful tools to analyse the institutional logic with regards to pension system transformation processes. These should be summarised and progressed in the following paragraphs.

2.3 Theorising change from a 'new institutionalist' perspective

Three major theoretical advancements of the more recent approaches of (historical) institutionalist theories provide useful tools to analyse pension system changes and answer questions about the nature of institutional developments in terms of stability and change as well as about the factors shaping and facilitating the process of institutional change.

The first theorectial advancement should help to define the dependent variable, i.e. the development of institutions and in particular the institutional transformation processes, more clearly. Going beyond the binary concept of path stability and path switch and the hypothesis of the 'punctuated equilibrium' (Krasner 1988), the gradual path departure has been described as a second type of institutional change process, accounting for the importance of the timing and sequencing of changes over a longer time period as well as less visible and smaller alterations cumulating into more signficant changes (Palier and Martin 2007; Streeck and Thelen 2005a).

Second, several attempts have been made to identify the facilitators of institutional transformations, i.e. the mechanisms that enable change (independent variables). These facilitators can be clustered into two sets of mechanisms: a) exogenous sources for change, i.e. the conditions under which positive feedback mechanisms are interrupted and stop working, opening the opportunity for changes, and b) endogenous mechanism of change. Based on this, different hypotheses can be developed about how the different forms of instiutional change are connected to the different sets of change facilitators.

The identification of endogenous mechanisms of change is calling the assumption of the automatic self-perpetuation of instiutions into question. Hence, the third theoretical advancement is the suggestion of a more dynamic perspective on institutions, according to which the basic properties of an institution do not only constitute positive feedback mechanisms, but they represent a politically contested nature and a certain degree of openness with respect to rule interpretation and enactment, providing for the animation of gradual institutional change and the application of endogenous mechanisms of change (Mahoney and Thelen 2010b).

2.3.1 Beyond continuity and radical break down – four forms of institutional development

The first theoretical advancement in the analysis of institutional transformation processes has been driven by the question of whether the radical break down is the only way through which social institutions can be changed substantially. Traditional concepts of path dependence have associated changes either with marginal adaptations and adjustments, maintaining the overall continuity of the existing institutional structures, or with abrupt and major alterations breaking with the former institutional settings (Streeck and Thelen 2005b: 6). Hence path dependency equalled stability.

However, some scholars assume that smaller adjustments and changes might cumulate into a significant transformation over time, introducing a type of institutional development that goes beyond persistent continuity and radical break downs (Crouch 2005; Ebbinghaus 2005; Palier and Martin 2007; Streeck and Thelen 2005a; Thelen 2003). This type of institutional transformation describes a gradual and slow departure from the once established institutional rules instead of a brutal and abrupt shift from one system to another. Furthermore, path dependency, i.e. the impact of existing instiutions and policy decisions on later developments plays an important role in gradual path departures. Thus, path dependency does not necessarily mean stability in this conceptualisation.

In order to differentiate the processes of instituional stability and change , Streeck and Thelen (2005: 8/9) suggest to distinguish between the characteristics of the reform process, i.e. smaller, incremental measures and reforms or major, abrupt changes, and the outcome of the reform process, i.e. continuity or discontinuity with the former institutional structures. Based on this two dimensional approach, four types of institutional developments can be distinguished, the path stability, the path return, the path departure and the path switch (see Table 2.1).

Tab. 2.1: Four types of institutional development

		Outcome	
		Continuity	Discontinuity
Reform process	Many reforms/ parametric/ long-term	***Path stability*** Marginal adaptation & reproduction	***Path departure*** Gradual cumulative changes
	Few reforms/ paradigmatic/ abrupt	***Path return*** Interruption and return	***Path switch*** Breakdown and replacement
		➔Institutional stability	➔Institutional transformation

Source: Based on (Streeck and Thelen 2005b: 9)

The *path stability* and the *path return* describe processes of institutional stability, while the transformation of an institution may come about as a *path switch* or as a *path departure*. Both, the stabilisation and the transformation processes involve changes, which is why I will use the term 'transformation' or 'transformative change' instead of the term 'change' to distinguish a significant alteration in a set of institutional rules from single reforms or changes, wich may or may not significantly alter the existing institutional structures.

The *path stability* entails a longer process of smaller changes but without substantially transforming the existing institutional structure. The *path return* describes the continuity of the institutional structures and rules "[…] through and in spite of historical break points […]" (Streeck and Thelen 2005b: 8). The first type of institutional transformation process is the *path switch* which is characterised by a short process introducing substantial (paradigmatic) changes leading to the break down of the existing institution and its replacement by a new set of rules. The second type of transformation is the *path departure*. It describes a process of several smaller, parametric reforms which lead to the substantial transformation of the previous institutional structure over a longer period of time.

Hence, with regards to the assessment of the type of pension system development, the focus should be given to a) the ***outcome*** of the pension reform(s) and whether it/they led to the "continuity" or "discontinuity" with the former institutional structures and b) the ***reform process*** and whether it is characterised by many smaller parametric changes over a longer period of time or whether it contains a sudden paradigmatic change during a short period of time (Streeck and Thelen 2005b: 8)

The distinction between different forms of institutional developments is very helpful a) to assess the nature of change, i.e. whether there has been an institutional transformation or not in the analysis of pension system changes, and b) to make assumptions about the logic of change, i.e. the possible facilitators of change, for instance external shocks in the case of a path switch.

2.3.2 What fosters institutional transformations?

The second theoretical advancement concerns the facilitators of an institutional transformation process. There are two possible ways that have been described in the institutionalist literature, which may foster the transformation of an institution. The first one is based on the argument that the interruption of those mechanism that stabilise an institution will open up opportunities for changes. The second way is based on the assumption that the properties of an institution itself do not only generate specific reproduction or stability mechanisms but also provide the space for specific endogenous mechanisms of change.

The interruption of stability mechanisms

In an attempt to depart from the overemphasis on the persistence of institutions and with the goal to specify the conditions under which institutions may change, some scholars have claimed that if the ideational and material foundations of an institution, which generate the mechanisms of reproduction, are shaken, a "window of opportunity" for the introduction of more significant changes is opened. Historical institutionalists describe this as "critical junctures", which are understood as short periods of time during which institutional constraints on subsequent developments are lifted, giving actors the possibility to change the institutional path (Capoccia and Kelemen 2007: 343). Thus, each institutionalist stability argument implicitly contains assumptions about the conditions under which institutional change is possible, namely those situations in which the underlying mechanisms of stability are interrupted or stop working (Beyer 2005; Lindner 2003: 916; Thelen 1999; Thelen 2003: 212).

Based on the general conception of institutions as structuring elements for societies which represent shared values and interpretative frameworks that are relatively stable over time and influence actors' behaviour by constraining their actions (Csigó 2006: 37), the three distinct lines of neo-institutionalist thought, the rational choice, the historical, and the cultural-sociological, emphasise different aspects in their reasoning about how instiutions are created, which major functions they fulfill and which mechanisms stabilise them over time (Hall and Taylor 1996). Accordingly, different conditions have been identified under which the respective stability mechanisms may be interrupted (Beyer 2005; Lindner 2003; Mahoney and Thelen 2010b; Rittberger 2003).

Emanating from the rational choice assumption that actors are benefit maximising subjects, institutionalist rational choice approaches define institutions as the product of rational actors' efforts to solve collective problems. The role of institutions is to coordinate individuals' behaviour into community compatible actions. This ensures the functioning of societal systems and it produces a particular institutional equilibrium. Three major mechanisms have been outlined in the literature, which generate this equilibrium: First, the introduction of an institution is often connected to high starting costs. These costs can be tangible, such as financial resources, or cultural, such as the accumulation of specific knowledge or learning effects connected to the institution. The more complex and expansive an institution is, the higher are the cultural and financial investments. A transformation would render existing information and skills useless implying high costs of change (large switching costs). Second, institutions produce positive coordination effects if the institutional profit increases with the number of individuals adapting to it. The more individuals profit from an institution, the more likely they are to protect and maintain this institution (positive coordination effects). Third, an institution is usually connected to other institutional settings, creating functional complementarities, fostering the mutual support and reinforcement stabilising the established institutional settings (institutional interdependence/ functional complementarities) (Beyer 2005; Csigó 2006: 39sqq.; Ebbinghaus 2005; Hall 1993; Hall and Soskice 2001; Pierson 1993; Rittberger 2003; Thelen 2003).

The stabilising effect of sunk in costs and large switching costs may be neutralised if the opportunity costs to maintain the status quo increases signficantly, for instance, due to changes in political priorities or new functional needs (Lindner 2003: 918). Similarly, the institutional profit that actors derive from adapting to an institution may decrease due to a change in actors' priorities or a change in societal and economic circumstances that render the institutional rule dysfunctional (Thelen 2003: 215). Finally, if the absolute or relative advantage resulting from the complementarities between different institutional settings decreases, change is possible. The decrease of the advantage is once again assumed to be caused by external factors such as environmental changes or changes in political constellations (Beyer 2005: 16).

Sociological institutionalists assume that individuals, rather than following a calculation of rational profit maximisation ("rational logic"), act based on the "logic of appropriateness" (March and Olson 1989; March and Olson 2004). Thus, institutions are created based on certain values and ideas which are commonly shared and recognized as legitimate and appropriate by a broad societal majority or cultural authority. These institutionalised values and ideas guide individuals' actions, defining appropriate behaviour in a range of different situations even if it is against their individual self-interest (Csigó 2006: 51). Based on this conceptualisation of institutions, actors are socialised or learn to follow institutional rules thereby reproducing and stabilising them. These "normative investments" are assumed to be a barrier to change (Rittberger 2003: 7). Further, as institutions are assumed to consist of cognitive scripts and templates that become taken-for-granted, individuals are also unconsciously and automatically following, enacting and thereby reproducing institutional rules (internalisation and routines) (Mahoney and Thelen 2010b: 5).

It is argued that the mechanism of internalisation and routine might be interrupted during times of crises and strong reform pressures when a situation of cognitive uncertainty is created in which actors are more open for persuasion. New interpretative frames, imported or imposed from the outside, might then provide for the transformation of the existing institution. This is also the case if new actors manage to unsettle dominant practices and then impose their own ideas (Dolowitz and Marsh 2000; Kern and Theobald 2004; Kus 2006; Mahoney and Thelen 2010b: 5; Rittberger 2003).

The historical institutionalist approach can be distinguished from the other two approaches by its strong emphasis on the historical context referring to the concept of path dependence. Originally based on a mathematic model ("Polya-Urn-Model") early concepts of path dependence have been used in technology and economic studies providing the theoretical framework to explain the selection of an inferior system and its persistence over time challenging neo-classical assumptions of rational efficiency maximising actors (Arthur 1989; David 1986; North 1990). It has been assumed that initial chance events result in the selection of one alternative which is likely to persist over time through increasing returns, creating positive feedback processes "locking-in" the once selected system. The economic path dependence model and the "lock-in" thesis represent a closed system ruling out any scope for actions and change. However, instead of an endless circle of continuous reproductions historical institutionalists assume a linear development pathway, where previous policy choices that have been consolidated over time, structure the subsequent institutional development. Changes are not per se excluded in this model but the primary focus has been set on how previously institutonalised choices foster stabilisation. With regards to the creation of instiutions, the historical institutionalist perspective takes on a power-political angle in contrast to the rational-functionalist and ideational perspectives of the other two institutionalist approaches. Institutional rules are considererd as the result of political conflicts and power struggles, which give some groups or actors disproportionate access to decision-making processes (Hall and Taylor 1996: 9). The distributive effects of institutions create vested sectionalist interest and certain societal power asymmetries which provide incentives for those, benefiting from these structures to reproduce the status quo (Mahoney 2000; Pierson 2000; Thelen 2003).

The stability mechanisms may be disturbed, if the power balance among social actors changes, for instance by the occurrence of new actors or a decline in the mobilizing power of the status quo defenders. Furthermore the interests and preferences among the most powerful actors might change due to changes in the environmental conditions. But not only external changes in the environment may intrude on the self-reinforcing institutional mechanisms. Power relations can also be reshuffled as a result of the distributional effects of an institution itself. Unintended long-term consequences of distributional effects could be the division of institutional power holders over time ("divided elites") or the discrimination against subordinate groups to an extent that they start to develop a common identity and organise themselves pursuing the transformation of the existing arrangements ("unintended subordinate group") (Mahoney and Thelen 2010b: 10; Rittberger 2003: 4/5).

Summing up, all three perspectives provide explanations for the stability of institutions and they also implicitly point towards a range of situations in which these stability mechanisms may be interrupted, opening a window for institutional change or at a so called critical jucuture (see Table 2.2).

Tab. 2.2: Summary of major assumptions in institutionalist theory

	What does institution mainly reflect?	**Drivers for the establishment of an institution**	**Mechanisms of reproduction/ stabilty**	**Conditions for interruption of stability mechanism**
RCI	Reflection of functional needs	Rational actors efforts to solve collective problems	Large switching costs Positive coordination effects Institutional interdependences	Existing institution becomes dysfunctional in the light of environmental changes and new functional demands
SI	Reflection of commonly shared values recognised as legitimate	Logic of appropriateness	Internalisation and routines	Environmental changes/ external forces cause situation of cognitive uncertainty which opens room for persuasion and new ideas

HI	Reflection of specific power strcutures	Historical political conflict over resource distribution	Power asymmetries/ vested sectionalist interests	New environmental conditions change power balances Institutional distribution effects lead to shift in power balances

Notes: RC = Rational Choice Institutionalism; SI = Sociological Institutionalism; HI = Historical Institutionalism

The described conditions under which institutional stability mechanisms may be interrupted largely imply exogenous origins of change (except for the unintended long-term distributional effects of institutions) (Mahoney and Thelen 2010b; Rittberger 2003). These are without doubt important facilitators of transformative institutional change, but the question remains whether institutional transformations can also be facilitated without the external interruption of stability mechanisms, i.e. by endogenous mechanisms of change?

Endogenous mechanisms of change

Based on the criticism that institutionalist theories are still lacking some feasible theoretical assumptions on endogenous mechanisms that foster institutional transformations, four major mechanisms of institutional change have been developed in the most recent historical institutionalist literature supporting the assumption that it does not necessarily need external forces or environmental changes in order to transform an institution (Mahoney and Thelen 2010a; Streeck and Thelen 2005b; Thelen 2003).

The first mechanism of change is the *gradual displacement*. It describes a slow-moving process during which a new institution is gradually introduced (displacement by invasion), or a previously suppressed or "dormant" institutional alternative has been rediscovered and activated (endogenous replacement) which then competes with the existing set of institutions, discrediting them and reducing their primacy over time. It is assumed that the gradual displacement of an institution is a likely mechanism of change if the supporters of the status quo are unable to prevent the increasing defection of those groups who do not profit as much from the current structures (Mahoney and Thelen 2010b: 16).

The second mechanism of change outlined in the literature is the *institutional layering* by which new institutional elements are attached to an existing set of institutions to supplement but not necessarily compete with these (Thelen 2003: 227). It represents a very subtle strategy of change that works over time through mechanisms of differential growth slowly eating into the old core. “Since the new layers created in this way do not as such and directly undermine existing institutions, they typically do not provoke countermobilization by defenders of the status quo” (Streeck and Thelen 2005b: 23). This means that even if an institutional arrangement is subject to increasing returns and lock-in effects, this does not preclude change, because ‘immovable’ elements of an institution can be worked around by layering.

The change mechanism, *drift,* is based on the fact that every institution requires a certain amount of maintenance work for its reproduction. Drift therefore describes the intended or unintended neglect of adapting or recalibrating existing institutions to changing circumstances which might decrease its impact and relevance over time. The increasing misfit between existing public social programs and changing risk profiles, for example, could cause these institutions to slowly loose their grip. Change occurs as the result of policymakers’ (intended or unintended) non-decisions (Hacker 2005: 45 et sqq).

The fourth mechanism is the *gradual conversion* which describes the re-interpretation and enactment of existing rules in new ways. Actors who apply this strategy actively exploit institutional ambiguities to interpret or enact existing rules in a way to meet their interests rather than to dismantle the old institution (Mahoney and Thelen 2010a: 18; Thelen 2003: 225).

Another important aspect of endogenous mechanisms of institutional change is the *timing and sequencing* of policy decisions. Bonoli and Palier (Bonoli and Palier 2007) argue that incremental change should not only be understood as the introduction of unpopular policies in small doses over a long period of time, but the gradual path departure should also be understood as a sequential transformation where the first policy reaction or decision is highly determined by the existing institutional logic while the following measures build on the consequences of the preceding ones. Bonoli and Palier (2007) identified different stages in the pension reform process of Bismarckian type pension institutions forming a particular reform trajectory where each pension reform step facilitates or opens opportunities for the next reform measures. The authors conclude that radical retrenchment measures in the area of old age security can be facilitated by a) long periods of phasing-in delaying the actual consequences of the introduced measures as well as exploiting the longitudinal division of the electorate and b) the particular sequencing of reforms. The combination of moderate public pension retrenchment at the beginning, followed by the encouragement to take up additional private pension plans in subsequent stages, lets the working-age generation adapt their expectations between reform steps, fostering a change in their behaviour towards private alternatives of pension provision. Bonoli and Palier (2007: 572) argue that the people's reaction with regards to public pension cuts changes from voice to exit. Hence, one important mechanism underlying the gradual transformation of an institution is "a sequential process of change whereby one reform is partly to be explained by the (consequences of the) previous ones, and where learning plays and important role." (Palier and Martin 2007: 543).

2.3.3 Linking change facilitators to different forms of institutional transformation processes

The two sets of change facilitators, i.e. the exogenous interruption of stability mechanisms and the endogenous mechanisms of change, can now be linked to the two different forms of institutional transformation, the path switch and the path departure.

The most extreme form of an institutional transformation is, if external changes in the environment substantially and completely disturb the existing institutional setting and all of the entailed stabilty mechanisms stop working. Instead of using the general historical institutionalist termination and referring to this situation as a 'critical juncture', I will label this situation a 'critical rupture' in order to distinguish it from the 'critical juncture'. In contrast to the existing literature, I can now differentiate between two types of situations. The first type, i.e. the critical rupture, means that **all** stability mechanisms are interrupted or destroyed and the changes that are introudced during this window of opportunity are completely free from the influence of the previously existing instiutional arrangements. The second type of external interruption, which I refer to as a 'critical juncture' in this study, describes a situation, during which **some** but not all institutional constraints are lifted, so that the changes introduced are not completely free from the previously existing institutional structures (see exogenous path departure below). The critical rupture opens the possibilty for big and radical changes in terms of a switch from institution A to a new institutional setting B during a short period of time. Once the new institutional settings (B) are in place, a new stabilisation process begins. This process strongly supports the classic argument of the punctuated equilibrium (see Figure 2.1, model a). Furthermore, the path switch is a form of institutional transformation process which is a) not path dependent, i.e. influenced by previous choices and decisions and b) it is only facilitated by exogenous changes.

The second form of institutional transformation mentioned in the literature is the gradual path departure, which can be further differentiated into three distinct processes based on the different facilitaors of institutional change. First, the interruption of the stability mechanisms through external changes does not necessarily imply a radical and abrupt path switch, but it can also foster a gradual transformation process, i.e. a path departure. In this case, a critical juncuture occurs during which some but not all of the stability mechanisms are interrupted opening a window of opportunity for change, but still within certain institutional constraints. As a consequence, the changes introduced are less radical, so that the distance to the original path is relatively small until the next critical juncture occurs and another smaller change is introduced, gradually increasing the distance to the initial path from critical juncture to critical juncture (see Figure 2.1, model b). In contrast to the path switch, the changes introduced are path dependent in the sense that previous institutional settings and/or policy decisions still impact or frame later changes to a certain degree. The phases between the critical junctures are characterised by stabilisation. This type of path departure should be called *exogenous path departure* as it is facilitated by exogenous mechanisms of change.

The second type of path departure is facilitated only by endogenous mechanisms of change without critical junctures which is why it should be referred to as *endogenous path departure* (see Figure 2.1, model c). It is a "transformation without disruption" unfolding through a series of gradual changes, which are "conditioned and constrained by the very same […] institutions that it is reforming or even dissolving."(Streeck and Thelen 2005b: 5). The endogenous path departure describes a process of institutional transformation, where the absence of a critcal juncture and the disruption of stability mechanisms do not necessarily mean institutional continuity.

Finally, it can be assumed that the gradual process of a path departure can also be facilitated by a mixture of endogenous change mechanisms and the external interruption of some of the reproduction mechanisms. This type of transformation process should therefore be called *combination path departure* (see Figure 2.1, model d).

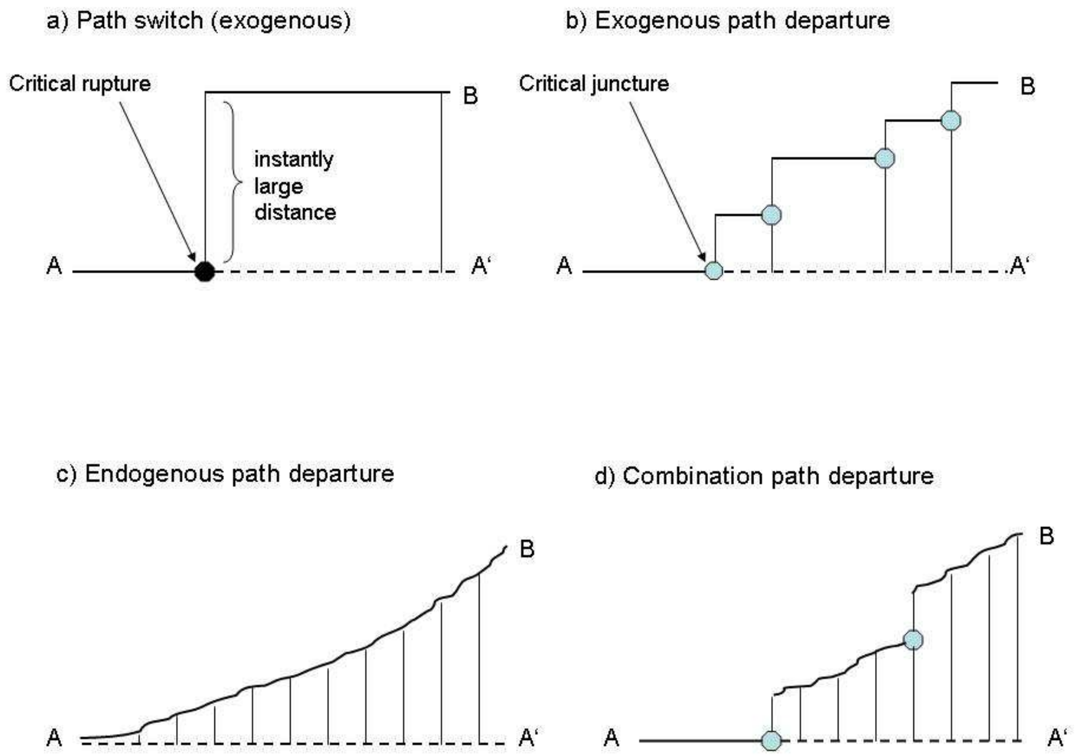

Figure 2.1: The different types of institutional transformation processes

Summing up, there are two major forms of how an institution can change substantially. It can either be transformed radically during a shorter period of time taking the form of a path switch or it can be transformed taking the form of a path departure, whereby the distance to the original institutional setting (A) is only gradually growing over a longer period of time leading to an institutional transformation (B). With regards to the facilitators of these two forms or processes of transformative change, the path switch is connected to exogenous facilitators only, while the gradual path departure can be facilitated through external changes at critical junctures (a) but it can also be facilitated by endogenous mechanisms (c) or a combination of the two (d).

All three variations of the path departure have in common that they are characterised by path dependency in the sense that the existing institutional arrangements or previous policy decisions impact on the subsequent development and changes, while this is not the case for the path switch, where all constraints are lifted. The role of the existing institutional settings or previous policy choices in the process of gradual institutional transformations should be further examined in the next paragraph.

2.3.4 The properties of an institution and the mechanisms of change

Similar to the mechanisms that stabilise an institution, the endogenous mechanisms of change are closely linked to the specific characteristics of an institution. Mahoney and Thelen (2010a) argue that the basic properties of an institution provide dynamic elements that allow for institutional transformations facilitated by the outlined endogenous mechanisms of change. They point out two important characteristic of institutions that are essential for the understanding and analysis of gradual institutional transformations.

First, institutional rules are characterised by a politically contested nature. In line with historical institutionalist approaches social institutions are understood as distributional instruments resulting from political struggles between different actors endowed with varying power resources. However, in contrast to the prevailing assumption that institutional outcomes of political power struggles reflect the goals of one particular group (most likely the one with the greatest resources), Mahoney and Thelen (2010a) claim that institutions often represent the relative contributions of all involved parties as well as the conflicts and tensions between them. Thus, social institutions "may be the unintended outcome of conflict among groups or the result of 'ambiguous compromises' among actors who coordinate on institutional means even if they differ on substantive goals." (Mahoney and Thelen 2010b: 8). Similarly, Crouch (2005) claims that institutional structures are not coherent, but they contain inconsistencies which may provide the basis for signficant changes. The beneficiaries of the existing institutional arrangements or rules may have a preference for their continuity, but this requires the ongoing mobilisation of political support as well as ongoing efforts to resolve institutional ambiguities in their favour. The ongoing struggles over the meaning and application of institutional rules are seen as the dynamic element that can animate endogenous change (Mahoney and Thelen 2010b: 9,14).

Second, institutions are characterised by a certain degree of openness in their interpretation and implementation or as Hacker (Hacker 2005: 46) puts it, they can be more or less malleable. Institutions are malleable due to a number of reasons: a) no rule can be precise enough to perfectly respond to the complexity of the real world leaving space for actions that are neither prescribed nor eliminated by the existing rule; b) the designers of an institution have cognitive limits and cannot anticipate all possible future scenarios leaving space for unanticipated consequences which might open a gap for other actors to change the course of direction; c) institutional rules might be enforced by actors other than the original designers opening space for the way a certain rule is enacted (Mahoney and Thelen 2010b: 11 et sqq.; Streeck and Thelen 2005b: 14/15).

Hacker (2005: 46) argues that on the one extreme, instiutional rules can entail clearly specified procedures and aims that are widely understood and central leaders are endowed with strong tools to control those actors that shape results, providing only a low degree of malleability or discretion for relevant actors. On the other extreme, institutional rules can entail relatively unclear and unspecified procedures and inconsistent aims and central leaders may not be endowed with strong tools to control relevant actors, providing a higher degree of malleability and discretion. He concludes that the degree, to which an institutional setting gives rise to self-reinforcing feedback mechanisms, shapes the malleability of the institutions. Hence, the stronger the stability mechanisms or barriers to change are, the lower is the degree of malleability.

Based on this, two theoretical assumptions can be derived a) depending on the specific design, pension institutions differ in the extent to which they give rise to stability mechanisms and thus differ in the degree of their malleability and b) external/environmental changes that interrupt the functioning of some stability mechanisms may increase the malleabilty of the existing institutional setting.

2.4 Summary

Based on the theorectial insights of institutionalist theories as well as comparative politics approaches, the specific design of old age security systems and the specific configuration of political actors and political institutions (political environment) can be assumed to have a strong impact on the pension reform process shaping the particular pattern and degree of change. While the pension system design structures the strength of positive feedback mechanisms and the patterns of interests and status quo defenders, it is the national political context that defines the number and density of formal and informal veto possibilities (veto players/veto points) in a country and thus the ability of change agents to pass significant reforms (Bonoli 2000; Hacker 2005). The stronger the positive feedback mechanisms, the more numerous and powerful the status quo defenders and institutional constraints, and the more expansive the veto possibilities in a country, the stronger the status quo bias of the political environment will be. Hence, the stronger the positive feed back or stability mechanisms and the more expansive the veto possibilities, the more difficult the enactment of far reaching pension reforms and changes will be

However, institutional transformations are not impossible and can occur without exogenous shocks and the complete break down of the existing institutional structures. Instead of a radical transformation in terms of a sudden path switch, the transformation can be gradual, unfolding over a longer period of time in terms of a path departure. A range of different political strategies have been identified in the literature which can foster pension policy changes such as the obfuscation of unpopular cut backs, the diffusion of blame through political consensus building or the creation of social pacts with unions and employers to overcome non-parliamentary resistance (Busemeyer 2006; Häusermann 2010; Immergut, Anderson and Schulze 2007; Kitschelt 2001; Merkel 2003; Rhodes 2001; Schludi 2008). But while the political logic of gradual change has received considerable attention, the examination of the institutional logic of change has been less advanced theoretically and empirically.

Hence, based on the insights of instititutionalist theories, a range of conditions and mechanisms have been outlined, that have been identified as facilitators of gradual transformation processes, i.e. external changes which interrupt or lift some of the institutional stability mechanisms (critical juncture) and endogenous mechanisms of change which have the potential to gradually transform the existing instiution over time without necessarily needing to interrupt existing stability mechanisms. This is because the properties of an institution do not only define reproduction mechanisms but they also contain a certain degree of malleabilty, leaving space for endogenous change mechanisms to facilitate change. Depending on the degree of institutional malleability or discretion, different endogenous change mechanisms are assumed to be more likely to occur (Hacker 2005; Mahoney and Thelen 2010b).

Summing up, the design of the existing institutional arrangements defines the strength and number of stability mechanisms and thus the malleability of the institutional settings which defines how much space there is for changes and therefore impacts on the type of endogeous institutional mechanism that will be considered the most appropriate in order to introduce changes (see Figure 2.2).

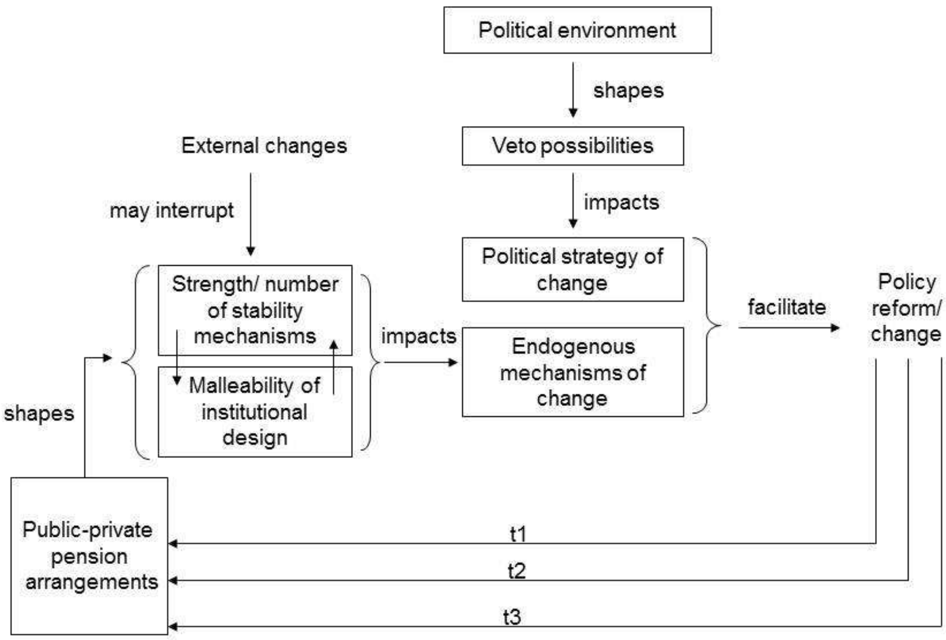

Figure 2.2: Analytical framework for the gradual transformation of pension institutions

The malleability of the institution can be increased during the course of the gradual transformation process, if external changes interrupt the functioning of some of the existing institutional stability mechanisms. Furthermore, it can be assumed that the political context, i.e. the given veto possibilities, define the degree to which major reforms can be facilitated and thus the political strategy that is most likely to be applied. Finally, the policy reform or changes introduced, impact on the public-private pension arrangements (t1) and may then change the malleability of the institution, opening additional or different options for subsequent changes, which will further alter the existing public-private pension arrangements (t2) progressing the gradual transformation.

3 Research strategy, case selection and operationalization

3.1 Research strategy

For the empirical analysis of pension system transformation processes in France, Germany and Sweden, two research strategies are combined in this study: in-depth case studies and the structured and focussed comparison across countries. First, the nature and underlying logic of the pension reform process and the type of institutional development (stability or transformation) will be examined in three in-depth country case studies, using the methods of process tracing and within case comparison. In order to depict gradual transformations and changes that unfold over a longer period of time, all reforms and changes between 1980 and 2010 are included in the analyses. The process tracing method is considered as a useful tool to detect the sequence of decisions and identify potential change facilitators in the transformation process from a dominant public pillar pension system to a multipillar pension system. The within case comparison of the pension system structures in 2010 with the institutional settings of the early 1980s, i.e. before the latest restructuring process began, is used to systematically assess whether the reforms and changes have fostered an institutional transformation so far or whether they have been merely adaptational without substantially changing the original institutional logic.

Second, based on the assumption that the public-private pension structures in each country and the political environment have configuration specific causal logics for the process of change, the systematic qualitative comparison across France, Germany and Sweden is used to examine the link between the properties of specific institutional structures and the degree and pattern of pension system change.

3.2 Selecting the country cases

3.2.1 Typological theorising

The qualitative in-depth analysis of institutional change excludes the consideration of a large number of countries in the analysis and demands for a small-N case selection. Typologies are a useful tool in order to select cases (George and Bennett 2005: 149). One of the most prominent classifications in welfare state research is the “three worlds of welfare”-typology by Esping-Andersen (Esping-Andersen 1990). Esping-Andersen differentiates between three types of welfare regimes: the social-democratic or Scandinavian type, the conservative or Continental type and the liberal or Anglo-Saxon type. The three welfare state types differ substantially with regards to three major dimensions: the degree of de-commodification, social stratification and the role of state, market and family.

A broad number of European welfare states have been classified according to one of the three types of welfare regimes[3]. Based on the assumption that the differing objectives of the three welfare regime types are also reflected in the respective social policy field, i.e. pensions, health care, labour market policies etc., pension systems have often been classified in reference to Esping-Andersen’s typology (Stöger 2011).

However, some authors have pointed out that welfare states should not be understood as coherent entities, but that every social policy field has its specific development conditions and functions, often representing a certain type of its own which may not necessarily fit with the overall welfare regime type (Hinrichs 2000a; Pfau-Effinger 2004). A more policy field specific categorisation of pension systems is therefore the differentiation between the Bismarck type and the Beveridge type system (Bonoli 2003; Palier and Bonoli 1995).

The two pension system ideal types are based on the simplified and condensed historical empirical information on two European pension traditions. One is strongly associated with the developments in Germany, which was the first country to introduce a statutory social insurance for old age and invalidity under Chancellor Bismarck in 1889. However, it was mainly the system after the post-war reform in 1957 that provided the blue-print for what is referred to as Bismarck model. The Beveridge type is related to the basic pension tradition which found its earliest expression in Denmark in 1891 and was later inspired by the name giving British Beveridge report of 1942.

The main difference between the two ideal types can be found in the underlying welfare objectives. The Bismarckian type promotes the income maintenance goal, while the underlying welfare objective of the Beveridge type is the alleviation of old age

[3] For a critical review of Esping-Andersen’s welfare typology see Arts and Gelissen 2002; Castles and Mitchell 1993; Esping-Andersen 1997; Ferrera 1996; Obinger and Wagschal 1998; Trifiletti 1999.

poverty. In the Bismarckian pension model the state provides earnings-related pensions which are primarily financed by wage-based contributions of the insured and in the Beveridge model the state provides a tax financed flat-rate minimum pension independent from the previous working history or employment status of the insured (Hinrichs 2000a; Stöger 2011).

Both classifications, the Bismarck-Beveridge dichotomy as well as the categorisation of pension systems according to one of the three welfare regime type have one big limitation: they mainly refer to the public pension pillar of old age security systems, largely neglecting the two private pension pillars, i.e. the occupational and personal pillar (Stöger 2011: 4). As a consequence, most studies have focussed on the public pension pillar only in their examinations of the impact of pension legacies on the process of institutional change while the closer examination and consideration of the private side of pension provision has often been neglected. However, with regards to the increasing pension privatization trends in recent developments, it is important to consider both the public and the private side of pension arrangements and the specific public-private pension design they form.

In this context Stöger (2011: 4) points to a more encompassing pension system typology, i.e. social insurance or dominant public pillar systems versus multipillar systems, which also accounts for private pension arrangements (Bonoli 2003; Ebbinghaus 2011; Hinrichs 2000a). The difference between the two types of this classification is not the general welfare objective, i.e. poverty alleviation versus income maintenance, but the difference lies in the specific design of the public-private pension mix in order to achieve a common goal, the income maintenance during retirement (Stöger 2011: 4).

This public-private pension typology builds on the Bismarck-Beveridge classification and combines it with the assumption that the specific institutional design of the public pension pillar have had major repercussions on the development of private pension schemes and vice versa (Behrendt 2000; Gern 2002: 440; Hinrichs 2000a; Larsen and Andersen 2006; O'Higgins 1986; Rein and Rainwater 1986; Rein and Wadensjö 1998; Whiteside 2002; Whiteside 2006). One of the most prominent assumptions in the literature is that public and private pension arrangements are functional equivalents[4]. The role of occupational and personal pensions as income source during retirement is therefore assumed to be dependent on the scale of public pension provision. Hence, the early decision towards a social insurance system of the Bismarckian type or a basic pension of the Beveridge-type during the late 19th and early 20th century had important consequences for the subsequent development of the particular public-private pension mix (Ebbinghaus and Gronwald 2011).

Most of those countries with Bismarkcian type pension systems such as Germany, Italy, France, Austria and Belgium fostered the development of a dominant pay-as-you-go financed public pillar architecture by improving earnings-related public benefits and expanding public pension coverage during the post-war period, while the developments within the Beveridge group were less homogenous splitting the previous country cluster into different groups. In Great Britain, Denmark, the Netherlands and Switzerland, the income maintenance problem was mainly left to be solved by private pensions, fostering the establishment of a multipillar architecture, compared to Sweden and Finland, who introduced public earnings-related pension schemes during the late 1950s and early 1960s in order to supplement their basic pensions, fostering a dominant public pillar architecture, especially with the gradual decline of the meaning of the basic pension and the maturation of the earnings-related scheme (Ebbinghaus and Gronwald 2011; Hinrichs 2000a)[5].

Summing up, by the late 1970s two types of public-private pension architectures can be identified in Western Europe: a) the dominant public pillar architecture and b) the multipillar architecture. In dominant public pillar systems, the income maintenance goal is largely achieved by the provision of generous, earnings-related public benefits

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[4] Other authors have called the hypothesis about the functional equivalence into question, presuming that the expansion and improvement of public pensions might as well initiate the growth of private pensions under specific historical circumstances. It is argued that the improvement of public pension benefits can boost expectations about adequate income levels stimulating the improvement of private pensions suggesting a positive correlation. There is empirical evidence for both sets of hypotheses (Pedersen 2004), however, in the context of the country selection in this thesis, it is mainly the classic crowding-in/ crowding-out assumption that is of importance.

[5] Some authors have labelelled these pension systems as "Beveridge plus" accounting for both the public earnings-related second tier pension as well as the historical basic pension tradition (Ebbinghaus and Gronwald 2011). Others reclassified Sweden and Finland as second generation social insurance systems (Hinrichs 2000a; Schludi 2005) while a third group argued that the Scandinavian world has split into a west-Nordic (Denmark, Norway) and an east-Nordic (Sweden, Finland) pension system structure with the pension systems in the west-Nordic countries falling into the Beveridge group providing public minimum protection and the pension systems in the east-Nordic countries coming closer to the Bismarckian-type with their emphasis on public income maintenance (Øverbye 1996).

to a large part of the (working) population financed by pay-roll contributions of the insured, reducing the incentives and necessity for additional private sources of retirement provision (crowding-out). Occupational and personal pensions only function as a supplement, topping up public benefits. In multipillar systems, the public pension pillar only provides minimum benefits in order to alleviate poverty, leaving more development space for occupational and personal pension provision in order to achieve the income maintenance goal. The importance of private occupational or personal pensions is much higher (crowding-in) (Gern 2002: 440; Rein and Rainwater 1986; Rein and Wadensjö 1998). Typical representatives of the multipillar pension model are for example the United Kingdom, the Netherlands, Switzerland, Denmark and Ireland, while Germany, France, Austria, Italy, Sweden and Belgium can be classified as dominant public pillar models.

3.2.2 France, Germany and Sweden

From the early 1980s both types of pension systems, i.e. multipillar systems as well as dominant public pillar systems have been confronted with several new challenges due to changes in the socio-demographic an economic environment (see chapter 2.2.1) However, while countries with mature multipillar systems have mainly been concerned with regulatory issues of their private pillars, those countries with a dominant public pension pillar structure have been confronted with severe financial problems calling the existing institutional design into question. Indeed, many of these countries have introduced cut backs in the public pension pillar while fostering the establishment and improvement of funded occupational and/or personal pensions, pointing towards a more substantial transformation creating an interesting case for the study of institutional change.

Out of the population of countries with dominant public pillar architectures and the pressures to move towards a multipillar structure, France, Germany and Sweden have been selected for two reasons. First, the long-term institutionalised, mature pension systems in France, Germany and Sweden have commonly served as the prime example for path stability and the constraining impact of institutional structures on policy reforms hindering substantial, transformative changes. However, the Swedish 'big bang' pension reform of 1994/1998 and especially the introduction of the funded premium pension which was integrated into the public pension pillar has caused controversial discussion about the radicalness and sustainability of these changes (Carson 2005; Hagberg 2006; Jochem 2004; Svensson 2002). In Germany, the replacement rate of the state pension is going to decrease signficantly over time, severely eroding the traditional status maintenance aim of the public pension pillar, while voluntary partially tax subsidized personal pensions have been introduced and occupational pension schemes have been improved, raising the question of the level of change "between continuity and paradigm shift" (Hinrichs 2003). In France, the replacement rate of pay-as-you-go financed public and collective pension schemes has been lowered and a stable legal framework for voluntary occupational and personal pension arrangements has been introduced, leading several scholars to call the long-held view of the immobility of French pension institutions into question (Hinrichs 2000a; Palier 2010b; Palier and Martin 2007; Schludi 2005). Hence, France, Germany and Sweden provide three interesting cases to examine the questions to what extent and how their long-term institutionalised pension systems departed from their once established path since the 1980s.

Second, a closer look at the private pension arrangements in France, Germany and Sweden reveals some important within-type variations with regards to governance structures, coverage, and the degree of commitment in the occupational pension pillar (see Table 3.1). The French pension system of the late 1970s was characterised by a dual pension pillar design for private sector employees with the income maintenance function being fulfilled by a combination of both public and mandatory occupational pensions and a classic single public pillar design for public sector employees. However, unlike most of the occupational pension schemes in other countries, the mandatory occupational schemes in France have been purely pay-as-you-go financed similar to the public pillar schemes. In accordance with the functional crowding-out thesis, funded occupational and personal pension provision was voluntary and relatively unregulated, playing only a marginal role for the overall retirement income in France. In Germany, the income maintenance function had been largely ascribed to the public pension pillar (GRV) for all dependent employees (public and private sector). Occupational pension schemes were largely crowded-out and mainly used to top-up statutory benefits (especially for high income earners) through voluntary and less regulated funded schemes mostly offered by the employer. In Sweden, the generous benefits from the public pension pillar were also supplemented by partially funded occupational pensions fulfilling the topping-up function. However, almost almost 90 per cent of the working population were covered by occupational pensions based on sector-wide agreements between the social partners (quasi-mandatory). Institutionalised personal pensions were inexistent in all three countries. The only form of personal retirement plans would be voluntary general personal savings or investments. However, due to a lack of data and the problem to differentiate between savings for retirement and other savings, it has been more difficult to examine this empirically (Behrendt 2000; Gern 2002: 440).

Tab. 3.1: Major characteristics of the public-private pension architecture in France, Germany and Sweden, 1980

	Public	**Occupational**	**Personal**
FR*, DE, SE**	Dominant PAYG	Partially funded supplements	Nonexistent (only personal voluntary savings, life insurance contracts etc.
France	Earnings-related, generous, basic security	Mandatory Social partners PAYG	
Germany	Earnings-related, generous, income replacement	Voluntary Employer commitment Funded	-------
Sweden	Flat rate universal, basic security + earnings-related, generous, income replacement	Quasi-mandatory Social partners Funded/ PAYG	

Notes: *refers to private sector schemes only, **refers to GRV only
Source: (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007; Stöger 2011)

Based on the theoretical model presented in chapter two, it is assumed that despite similar problems and pressures to transform the existing pension systems in France, Germany and Sweden into multipillar systems, the degree as well as the pattern of the institutional transformation processes are likely to differ due to these within-type variations in the public and private pension arrangements. The link between the specific institutional characteristics and different levels of change and transformation patterns should be explored in the following in-depth country case studies (see chapter 4,5 and 6) and especially in the cross-country comparison (see chapter 7).

3.3 The different dimensions of pension institutions

In order to compare pension system changes across different countries and over time, it is important to work with comparable indicators in order to pin down cross-national differences and similarities as well as changes within one country over time. A very common indicator used in quantitative comparative welfare state analysis has been social expenditure data but more and more authors have pointed out the shortcomings of this measure and emphasized the importance of more refined dimensions that acknowledge the complex design of social security programmes (Bonoli 1997a; Clasen and Siegel 2007; De Deken and Kittel 2007; Hinrichs 2000b; Palier 2010c)). Furthermore, the careful operationalisation of pension institutions into comparable dimensions should also help to better assess the scope of change counteracting "the noticeable absence of reflection on how to conceptualize, operationalize and measure change within welfare states." (Clasen and Siegel 2007: 4). Hence, the comparative dimensions introduced in the following section are more encompassing in order to attain a more complete picture of the pension systems and respective changes under study.

Based on the definition of formal institutions by Djelic and Quack (2005), it can be differentiated between several hierarchial levels of an instiution (see chapter 2.1). In the conceptualisation of old age security institutions it should thus be differentiated between a) the overarching architecture and policy goals (political paradigm or guiding principles), b) the technical-institutional dimensions, and c) the associated behaviour (social practice). While the political paradigm should be understood as a set of normative assumptions and beliefs about the guiding principles which are defined in the respective national or cultural context, the technical-institutional dimensions contain the regulative details which shape social practices and specify behaviour based on the implicit guiding principles and consolidated expectations (Bogedan, Bothfeld and Leiber 2009: 103). The dimension of the "associated behaviour" describes how the institutional rules and regulative details are put into practice by the individuals. This study especially focuses on the first two dimensions of pension institutions.

3.3.1 Overall architecture and goals

A number of scholars (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007) and some international organisations (World Bank, ILO, EU) applied the terms "pillars" and “tiers” in order to describe the architecture of pension systems. Pillars commonly refer to the question who is responsible for the coverage against the risks of old age by providing benefits and who is mainly responsible for the organisation and administration of the pension schemes - the state, the social partners or the companies, or the individual (EFRP 2006; Goodin and Rein 2001). Tiers usually refer to the function that is fulfilled by the pension schemes anchored in the three pillars. The first tier provides basic protection against old age poverty; the second tier involves programmes that aim at income maintenance and the third tier refers to programmes that top up pension income (Ebbinghaus 2011)(see Figure 3.1).

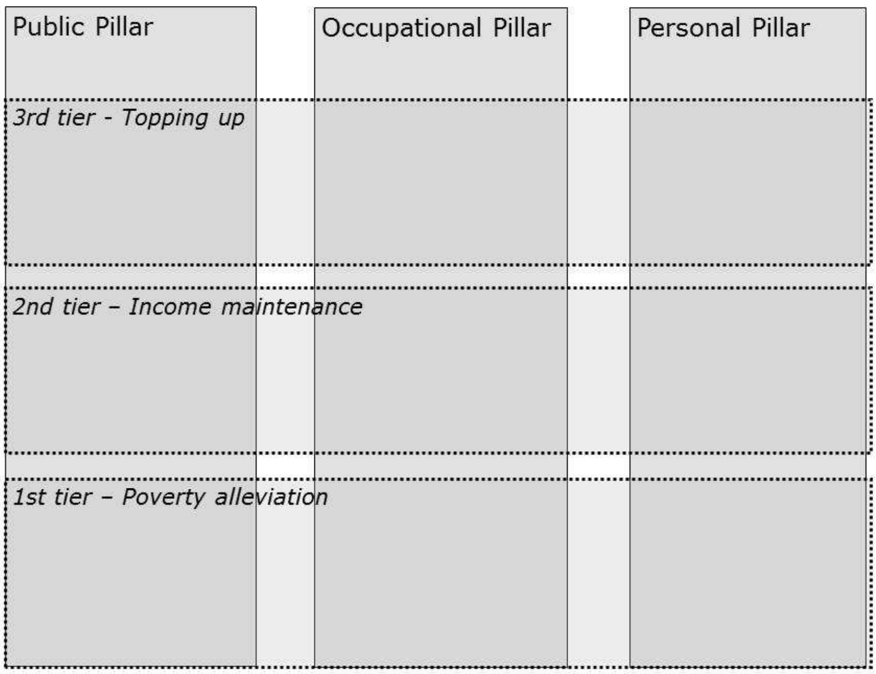

Figure 3.1: Pillars and tiers pension model
Source: Based on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007)

The pension system architecture reflects the interplay between the public and the private (occupational and personal) sphere as well as specific social policy goals. Social policy goals can be defined as the consolidation of certain values that are realised to different degrees depending on the specific deisgn in each of the technical-institutional dimensions. Some of the goals, which have been commonly identified with regard to old age security systems in OECD countries, are income security and steadiness, poverty alleviation, inter-generational and intra-generational solidarity, state or individual responsibility, corporatist management. Depending on the implemented pension policy choices a certain goal can be relevant or not relevant, strong or weak in the specific pension system (Transfer-Enquête-Kommission 1979). Bogedan et al (2009: 105) summarise four major policy principles which are characteristic for Bismarckian social social insurance systems. The first one is the solidarity principle. The creation of solidarity through a specific design of the technical institutional dimension can be related to three types of solidarity: a) the solidarity between insured with a high risk and a low risk of needing benefits. In the case of pension systems it is the solidarty between those insured that retire at the standard retirement age and those that retire earlier; b) the income solidarity, i.e. the redistribution from high income groups to low income groups. The stronger the equivalence principle, i.e. the stronger the link between contribution payments and benefits, the less pronounced is the income solidarity which is the case in most Bismarckian type pension systems; and c) the intergenerational solidarity which refers to the compensation between young insured and elder insured, i.e. contributors and beneficiaries, in the system mainly through the pay-as-you-go financing method. The second principle is the membership or contribution principle which means that only those who are (contribution paying) member of the insurance system are entitled to receive benefits. In Bismarckian pension systems the membership principle is dominated by a strong employment focus. The third principle describes the public income maintenance function which contributes to the legitimacy of the system as well as reproduces status differences in combination with the equivalence principle. Finally, another principle is the participation and representation of the insured in the management and administration of the system.

3.3.2 Technical-institutional dimensions

While the overall pension system architecture and goals can be considered as building the background logic (see chapter 2.1), Bonoli and Palier (2000) differentiate between four major technical dimensions defining the regulative details of the system. The overall pension system architecture can therefore be considered as the historic result of the particular pension policy choices taken with regards to these four technical-institutional dimensions: pension schemes and their management, access to pension schemes and benefits, the type and generosity of benefits and the financing mechanisms (Bonoli and Palier 2000: 335). The specific pension system rules in these four dimensions can be understood as the building blocks that create and support a particular pension system architecture which in turn represents or serves specific policy goals.

a. **The schemes and management dimension** is related to the number and type of pension schemes anchored in each pension pillar as well as their administrative structures. Pension schemes can be locally administered, centralised or decentralised. Furthermore, different groups can be involved in the management of the schemes.

b. **The access dimension** is associated with coverage and eligibility. Pension coverage defines which part of the population is covered by a pension scheme and which groups might be excluded by law or de facto. Coverage can be universal or restricted to wage and salary earners. Some pension schemes might only cover certain professional groups. The degree of coverage by private pensions can be determined by different parameters. The coverage by law usually includes all employees while the degree of coverage based on collective agreements depends on collective bargaining traditions and union density. If coverage is determined by voluntary employer commitments mostly, only people of larger firms are included. Finally, if coverage is left to the individual herself by choosing a savings plan the degree of coverage largely depends on the individual awareness about the need for private savings (pension gap) and her financial literacy (Ebbinghaus and Wiß 2011; Mitchell 1993). The eligibility to pension benefits is defined by a series of criteria that have to be fulfilled in order to receive pension benefits. In most pensions systems pension benefits can only be withdrawn after reaching a certain retirement age. The receipt of pension benefits can also be dependent on previous contributions, the number of previous contribution years or a certain insurance period (waiting period). The access to pension benefits can also be based on citizenship or on need, which means that the amount of income and assets available to the individual is below a defined threshold.

c. The **institutional dimension of benefits** describes different rules that determine the level and the type of pension benefits. Benefits can be earnings-related in which case they are calculated as a function of earnings gained during the working career. Flat-rate benefits, on the contrary, are unaffected by previous earnings. In some pension plans the amount of benefits that should be paid is previously set (defined benefits) while in other schemes the amount of contributions paid determines the level of benefits (defined contributions). Benefits can be indexed in different ways and they can be reduced or increased according to deviations from the standard retirement age. Benefits can also differ with regard to the acknowledgement of non-contribution or non-employment periods due to unemployment, sickness, maternity or education. In the case of private pension benefits there are also different rules for the vesting and portability of pension benefit entitlements and insolvency protection.

d. **The financing dimension** describes who finances the pension scheme based on which principles and how. The financing can be based on general taxes or social contributions paid by the employee, the employer or both. There are two financing principles: the pay-as-you-go principle (PAYG) and the funding principle. The pay-as-you-go principle means that contributions paid by the current generation of employees finance the pension benefits of the current generation of pensioners. The funding principle means that individual contributions are invested in a fund which will be paid out at the time of retirement. The contribution level indicates the financial commitment to a pension scheme and its future importance for retirement income.

In an ideal-type institution all three levels, i.e. the overarching policy paradigm, the technical-regulative details and the associated behaviour and social practices, are supposed to form a coherent and consistent entity, however, in the real world, tensions between the three levels of social security institutions are assumed to be a common feature (see also chapter 2.3).

Bogedan et al (2009: 103) argue that there are tensions on the horizontal level, for instance, if the different technical dimensions are coming into conflict with each other producing contradictory or inconsistent behaviours, and there are tensions on the vertical level for instance if the dominant political paradigm is not coherent with the existing technical rules or the actual social practices. As described in chapter 2.3, these inconsistencies and incoherences provide the dynamic element for institutional transformations.

3.3.3 Transformation or continuity? How to assess the scope of changes and reforms?

An important question in the anaylsis of pension system change is how to conceptualise and measure the crucial threshold which marks an institutional transformation (Jochem 2007). As outlined earlier (chapter 2.3), Streeck and Thelen (2005b) presented two dimensions that should be looked at in order to define the type of institutional development. One dimension refers to the characteristics of the reform process, i.e. short and paradigmatic or slow, incremental and parametric. The other dimension refers to the outcome of the reform process, i.e. the maintenance (continuity) of the overall institutional settings or the deviation (discontinuity) from the original institutional settings. But what do paradigmatic and parametric, deviation and maintenance mean with regards to pension reforms and pension system change?

The previous operationalisation of old age security institutions along the five institutional categories helps to classify the process of change, i.e. the type of reforms or changes introduced as well as the outcome of the reform process. For the assessment of the type of reform process, pension reforms should be labelled as parametric when they represent minor adjustment of levels, for instance contribution rates or benefit levels, and/or changes in pension policy instruments for instance the benefit calculation formula, the indexing method etc. Long-term reforms or changes are those that are enacted or unfold only over a longer period of time. Reforms or changes are defined as paradigmatic and radical if they entail the change of the overarching architecture and policy goals during a short time window. For the assessment of the outcome of the reform process, changes in the overall pension system architecture and goals point towards the discontinuity with the previous institutional structures whereas the maintenance of the overall architecture and goals should be classified as continuity (Ebbinghaus 2005; Hall 1993; Hinrichs and Kangas 2003).

4 France: The ambiguous case

The French pension system architecture as it stood before the latest restructuring process has been the result of some major historical political decisions in the context of socio-economic changes, conflicting interests and class struggles. It reflects the particular dynamic between public and private forms of old age security. The dominant components represent the typical Bismarckian social insurance characteristics mixed with some Beveridge-inspired attributes as a result of the post-war compromise between some Beveridge goals such as solidarity and universalims and the Bismarckian means of contribution financing, professional fragmentation and the definition of benefits in relation to former wages (Bonoli 1997a; Vail 2004: 159). Funded private pension only play a subordinate role in the overall architecture, albeit the public pension scheme is supplemented by mandatory pay-as-you-go financed occupational pensions for private sector employees fostering a two pillar social insurance for this group of employees.

From the mid-1970s this particular architecture was confronted with the issue of growing public pension costs compared to an eroding revenue base. But due to the dominance of the pay-as-you-go priciple and the related double payment problem as well as the strong involvement and institutional stake of the unions within the mandatory social insurance, pension retrenchment and the shift towards funded private pensions was perceived as difficult. Indeed, despite the growing pressures to restructure the existing pension system, the reform process during the 1980s and 1990s in France has been particularly sluggish with long phases of political passiveness and failed reforms while those measures that were successfully implemented were far from being radical. The French case has therefore often been referred to as a classic example of the "frozen" welfare state pointing towards institutional inertia (Esping-Andersen 1996). It seemed that the system was not open for more signficant changes but most recently these asspumtion have been challenged (Bonoli and Palier 2007; Palier 2005).

Indeed, despite the viscous process of restructuring over the last three decades, three major development trends can be identified today, impacting on the overall pension system architecture and goals, calling the assumed institutional rigidity into question: first, the development of "two worlds of welfare" in the public pension pillar, as well as the structural harmonisation of old age security between public and private sector employees; second, the increasing "first-pillarisation" of the mandatory occupational pension schemes, reinforcing their social insurance features and promoting their quasi-statutory status; and third, the increasing institutionalisation and expansion of voluntary private pension provision and the departure from the predominance of the pay-as-you-go principle. Are these changes big enough to represent an institutional transformation? And if so, how has this transformation been faciliated?

The following chapter examines the reform- and restructuring process over the last three decades in order to carve out the specific pattern and the mechanisms that have helped to facilitate changes. Furthermore, it analyses to what extent the developments in the French pension system architecture can be interpreted as an institutional transformation.

For reasons of comparability, the French country chapter as well as the other two country chapters follow the same structure. The first section (4.1) provides a short overview of the historical evolution of the public-private pension mix followed by a detailed description of the particular pension arrangements and underlying principles that had developed in each pension pillar by the late 1970s, constituting the overall pension system architecture and goals.

The second section (4.2) provides a brief outline of the particular problem pressures the French old age security system has been facing in the context of demographic and socio-economic changes since the mid-1970s. This is followed by an overview of the political-institutional constraints to major policy reforms in the third section (4.3).

The fourth section (4.4) analyses the reforms and changes in the public as well as the private pension pillars, introduced between 1980 and 2010, focussing on the institutional mechanisms and specific pattern of institutional change.

In the fifth section (4.5), the different institutional dimensions of the pension system today, are compared with the pension system structure before the reform process, providing a systematic overview of what has changed, serving as the basis for the assessment of the degree of change. The concluding section (4.6) assesses and summarises the degree as well as the patter of institutional change.

4.1 The French pension system before the reform process

4.1.1 Historical origins and maturation

Until the end of the 19th century, social security in France was seen as the responsibility of the individual based on liberal ideas and the individual's freedom of choice. Private pension plans had mainly only been offered to state and local authority officials, sailors, employees of railways, mines, gas and electricity companies. Thus, most of the population did not have any form of old age security (Palier and Naczyk 2011: 94; Reynaud 1997: 7).

With the progressing industrialisation, classic liberal concepts supporting private initiatives over statutory solutions were perceived as insufficient to deal with the effects of the industrialisation process. The emerging working class was increasingly rebelling against the social conditions and the ruling bourgeoisie awoke to the necessity of social reforms in order to control the labour movement. But even though the idea of a statutory social security system was in the air, it had not been put into practice until after the First World War (Ambler 1991: 3; BGB1. I 1974 ; Saint-Jours 1981: 188).

Hence, the only statutory engagement in the matter of social security was to financially subsidise private initiatives, which was commenced at the end of the 19th century. During this time more and more employers in the private sector had also started to offer occupational pensions to their employees in order to stabilise and control their personnel, leading to a boom in private insurances and the spreading of the insurance principle in general (Saint-Jours 1981: 188). However, occupational pensions were not very employee friendly as accrued pension entitlements were lost in the case of a change of employer or bankruptcy of the firm.

Due to these drawbacks, the government decided to set up a mandatory social insurance system for workers and farmers in 1910. But the idea was met with resistance from employers as well as employees. Most unions had a relatively hostile attitude towards the government and its interventions. This was partly due to the weakness and fragmented nature of the labour movement in France on the one hand and the strength of the centralised French government on the other hand fostering "a highly asymmetrical distribution of power between unions and the government" (Béland 2001: 157). As a consequence, the relationship was characterised by confrontation rather than collaboration. At the end, the implementation of the system also failed due to a number of technical problems.

After further unsuccessful attempts to set up a public pension system based on the German Bismarckian model after the First World War, by extending the systems in former German Alsace and Lorraine to the whole of France, the first mandatory fully funded social insurance scheme for workers was finally introduced in 1930 (Palier and Naczyk 2011: 96; Saint-Jours 1981: 189/190). Even though the system was strongly influenced by the Bismarckian social insurance model, only employees below a certain income threshold were subject to mandatory coverage, while the membership for those employees with earnings above this threshold was voluntary, supporting a general public perception of the system as poverty relief instead of insurance. Furthermore, the establishment of the system coincided with the great economic depression in 1929/1930, which was aggravated by the Second World War, providing little chance for the system to survive and become institutionalised (Saint-Jours 1981: 190). Most workers did not receive sufficient pension benefits and when the social insurance system went bankrupt in 1941 the trust in public social insurance and especially the funding principle was substantially shaken (Palier and Naczyk 2011: 96).

In consideration of these past experiences, the second period in the development of the French pension system architecture began after the Second World War. A new statutory social security system was established, inspired by the British Beveridge Report, but without completely breaking with the pre-war Bismarckian type system. Based on the proposal of the civil servant Pierre Laroque, who had just returned from his exile in London, the goal was to establish a more generalised social security system that would cover the entire workforce, allowing for the redistribution between different occupational groups. Furthermore, the depletion of former pension funds and the high level of distrust in the funding principle had paved the way for the introduction of the pay-as-you-go principle (Gallouj and Gallouj 2008: 209; Palier and Naczyk 2011: 96; Saint-Jours 1981: 190).

In 1945 the *régime géneral de la sécurité sociale* was established, although with a few modifications in regards to the original plan of one universal system for the whole population. In reaction to the resistance of those professional groups (civil servants, railway workers, etc.) who were already covered by pre-1945 pension schemes, the general pension system was only mandatory for wage earners in the private sector, leaving room for the multitude of already existing autonomous pension schemes to co-exist. After public sector workers being allowed to maintain their separate special schemes, the self-employed and farmers also successfully pushed for the establishment of their own public pension schemes in 1947 and 1952 respectively. Hence, the mandatory coverage with public pensions expanded to the whole population, but the pre-existing diversity of separate pension schemes for different professional groups was prolonged with some important consequences for the general pension system architecture (Saint-Jours 1981: 191).

While the pension schemes for public sector employees provided generous benefits pursuing the income maintenance function, the benefits provided by the *régime général* were comparatively low, especially for high income earners. This had caused some agitation among the better off executives and management staff (*cadres*) whose public pension benefits would not replace earnings above a certain threshold due to a relatively low income ceiling. After a strike of the executives, a collective agreement was signed in 1947 and the occupational pension institution AGIRC (*Association Générales des Institutopns de Retraites des Cadres)* was set up for management staff (*cadres*) to complement the public pension system, solving the income maintenance issue (Saint-Jours 1981: 244).

Soon after, the income maintenance question also became a relevant topic for other private sector employees (non-cadres) in the context of the rapid post-war economic growth and the growing income gap between the working population and the elderly. Hence, these 'non-cadres' private sector employees also fought for the establishment of complementary occupational pensions based on collective agreements during the 1950s inspired by the success of the executives in negotiating a collective occupational pension. In 1961, the multitude of private sector occupational pension schemes was subsumed under the umbrella organisation ARRCO (*Association des Régimes de Retraites Complémentaires)*, which was founded by the social partners in order to improve the coordination between the different schemes (Palier and Naczyk 2011: 97; Saint-Jours 1981: 244).

In contrast to occupational pension schemes in most other countries, AGIRC and ARRCO were not funded, but based on the pay-as-you-go principle. Moreover, the coverage by an occupational pension schemes was made mandatory by law in 1972.

AGIRC and ARRCO thus became an integral part of the otherwise dominant public pension pillar architecture in France while the development of funded occupational and personal pensions was unregulated and patchy, playing a very limited role for the overall old age income.

4.1.2 The institutional design of the French pension system by the late 1970s

Pension schemes and management

The public pension pillar of the French pension system by the late 1970s consisted of four different earnings-related pension schemes for different occupational groups (see Table 4.1). The *régime général* was the largest public scheme covering all private sector employees[6] as part of the *régime général de la securité sociale,* offering comparatively low earnings-related pension benefits (first tier pension). In contrast to this, public sector employees[7] and civil servants[8] were covered by special schemes (*régime speciaux*), which provided more generous pension benefits (first and second-tier pension). Finally, there were autonomous pension schemes for different groups of self-employed[9] (*régime autonome or régime non-salariés*), as well as separate schemes for farmers and employees in the agricultural sector (*régime agricole*).

While the schemes for the self-employed and the agricultural sector had been largely harmonised with the rules of the general pension system during the early 1970s, the differences between the private sector general scheme and the special public sector schemes were significant, resulting in a much higher public pension level for the latter (see Table 4.1). Hence, the fragmentation of the public pension pillar was very strongly pronounced, especially between public and private sector employees, supporting the maintenance of socio-professional differences during retirement, and fostering intra-group rather than inter-group solidarity.

For those publicly insured who did not qualify for contributory pensions, or whose pension benefits were below the subsistence level, the public pension pillar also offered

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[6] Management staff and employees in industry, trade and services
[7] Miners, seamen, state employees and employees of state owned companies and institutions
[8] Military, local government and public hospital
[9] craftsmen, free professions, clergy

a minimum pension scheme (*minimum vieillesse*), which provided benefits at the existential minimum (Schludi 2005)

Tab. 4.1: The design of the French pension system, 1980

	Public Pillar	Occupational Pillar	Personal Pillar
Third tier		Diversity of occupational pension plans (*article 39, article 83*) - Voluntary, selected employees - Funding, tax incentives - DB, DC, topping-up	Different types of personal asset formation (life insurance contracts) - External funding - Voluntary, individual - DC, topping-up Voluntary personal pension schemes for public sector employees (PREFON, CREF**)**
Second tier	Public sector employees (*régime spéciaux*) - Contribution financing, PAYG - Earnings-related, DB, income replacement	Mandatory occupational schemes (*régime complémentaire obligatoire*) - Private sector wage earners (ARRCO); executives (AGIRC) - Self-administered by social partners - Contribution financing, PAYG - NDC, income replacement & topping up Mandatory schemes for craftsmen and for some public sector employees (IRCANTEC)	
First tier	Private sector employees (*régime général*) - Self-administration - Employer-employee contribution financing (80/20), PAYG - Earnings-related, DB, income replacement/ basic security Separate schemes for: - Farmers (*régime agricole*) - Self-employed (*régime non-salariés*) - - - - - - - - - - - - - - - Minimum pension scheme (*Minimum viellesse*) - Means-tested - Tax financed - Poverty alleviation		

Source: Based on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007)

The management of the *régime général* was in the hands of public institutions self-administered by employees' and employers' representatives. Different old age insurance agencies on the national (CNAVTS), as well as regional and local levels, were responsible for the collection of contributions and other administrative issues[10] following a strict hierarchy. The involvement of the government was very limited, with the Ministry of Social Affairs mainly functioning as supervisory authority controlling the administration of the scheme (Conceição-Heldt 2007; Lewerenz 2003; Wischeropp 1999). The self-administration of the general scheme and the limited involvement of the state was partly based on the goal to socially and politically integrate the employees and foster the cooperation between employers and employees as part of the concept of *'la démocratie sociale'*. Furthermore, the growing weakness of private sector unions could be partly compensated by their strong role in the management of the public pension scheme. As Palier (2010a: 77) puts it, the self-administration through the social partners also fulfilled a strong symbolic function. Especially, the French labour unions strongly identify themselves with social security and "claim to express the strong popular attachment to this institution" (Béland 2001: 159).

The occupational pension pillar in France consisted of mandatory pension schemes supplementing the public *régime général* and a range of voluntary mainly capitalised forms of occupational pension provision. The mandatory supplementary pension system for private sector employees (*régime complémentaire obligatoire*) was based on collective agreements and managed by the social partners without any state interference. Pension rules were set by two bipartite organisations: AGIRC as the peak association for executives' (*cadres*) schemes and ARRCO for all private sector employees (*non-cadres* and *cadres*). It underlined the important role of the social partners in the area of old age security as well as the goal of collective risk sharing. The shared administration expanded the principle of '*la démocratie sociale*' into the occupational pillar. Furthermore, the mandatory character of AGIRC/ ARRCO showed a strong state support for the development of supplementary occupational pensions, even though this was one of the rare interventions by the state.

Following the AGIRC and ARRCO pension model, mandatory pay-as-you-go financed occupational pension arrangements also existed for craftsmen (since 1978)

[10] The national pension agency takes on a general planning function and regional and local pension agencies are subordinate to its authority. The major task of the regional agencies is the management of pension benefit payouts.

and some types of public sector employees (IRCANTEC since 1970) but for all other professional groups there were no mandatory occupational pension schemes set up (Lewerenz 2003; Niemelä, Salminen and Vanamo 1996: 31; Wischeropp 1999). The development of mandatory occupational pensions for private sector employees was a reflection and a consequence of the strong professional fragmentation and institutional differences within the public pension pillar.

The extensive role of both mandatory public and occupational pension schemes had left little room for the development of funded private pension plans. The existing forms of voluntary occupational pension provision were characterised by extreme heterogeneity and complexity due to the piling up of different legal provisions over time (Lavigne 2002). French companies were very contained with regards to offering employer-financed occupational pension plans to their employees on top of the mandatory pension insurance on a broader scale. These offers were usually confined to executives.

Voluntary funded occupational pension plans were normally carried through as company or multi-employer funds, direct commitments, or direct insurances. Company or multi-employer funds were often based on collective agreements and managed by the social partners in equal representation, while the majority of insurance plans were managed by external financial service providers. Statutory interventions were limited to the supervision and authorisation of operations (carried out by the Ministry of Social Affairs and/or the Ministry of Finance) as well as the regulation through the tax code. The different types of plans were therefore referred to by the number of the tax code. There were two major types: *article 39* plans, which refer to defined-benefit plans (DB) and *article 83* plans which refer to defined-contribution plans (DC). *Article 39* and *article 83* schemes could be based on a unilateral decision by the employer, a proposal by the employer and a referendum by the employees, or they could be based on a collective agreement. (Reynaud 1997: 84/85).

Life insurance contracts were the most common form of voluntary personal retirement savings. The only formally institutionalised voluntary personal pension schemes existed for public sector employees. PREFON had been set up on the initiative of the civil service union and CREF had its origins in the "mutual insurance association movement" (Palier and Naczyk 2011: 105; Reynaud 1997: 78). However, for most of the voluntary occupational, as well as the voluntary personal savings plans, it was difficult to differentiate between pension related arrangements and other savings arrangements. Thus, voluntary funded pension plans had not been institutionalised as such for the majority of the working population(Reynaud 1997: 73/74).

Financing

All schemes of the public pension pillar were based on the pay-as-you-go principle and financed by contributions. The following description of the details is mainly focussed on the largest scheme of the public pension pillar, the *régime général,* unless there are significant differences in the other professional schemes which would be of importance for the subsequent analysis of change.

First, pension contributions to the *régime général* were split 80/ 20 between the employer and the employee. The financial responsibility was therefore largely assigned to the employer. (Wischeropp 1999: 100). In 1979 the contribution rate for employers was set at 8.2 per cent, while employees contributed 4.7 per cent of their gross wage up to the social security ceiling (Kaufmann 2001; Palier and Naczyk 2011). Second, contributions were the major financing source, while taxes only played a marginal role, reflecting the attempt to be as independent as possible from the state (Palier 2010a: 75). In the early 1980s only 2 to 3 per cent of revenues to finance the social security system stemmed from taxes (Gallouj and Gallouj 2008: 224; Wischeropp 1999: 46). Third, the funding principle did not play an important role in the financing dimension of the public pension pillar. The assets of the reserve fund were relatively small, with less than six months of expenditures. The pay-as-you-go method was the dominant financing method, strongly supporting the goal of intergenerational solidarity and distribution.

Since 1974 financial deficits were balanced out between the different schemes through a special mechanism of inter-regime compensation. It was mostly the deficits in the *régime speciaux* and the *régime autonome* and *agricole* that had been burdened on to the general pension scheme during the late 1970s and early 1980s. Despite the fact that the *régime spéciaux* covered less than a quarter of the labour force, about 35 per cent of the overall public pension costs stemmed from these schemes while about 41 per cent of the overall pension costs was produced by the *régime général* in 1988 (Bonoli 2000: 126; Wischeropp 1999: 88). The financial balance mechanism created an element of solidarity between the different professional groups, despite the strong fragmentation of the public pension pillar and it balanced out the financial disadvantages due to an unequal demographic structure across the different schemes (Saint-Jours 1981: 253; Lechevalier 2007: 142; Veil 2000, Kaufmann 2001: 64).

The financing principles of the mandatory occupational pension schemes were very similar to the ones of the public pension pillar. AGIRC and ARRCO schemes were also based on the pay-as-you-go method and financed by employer-employee contributions. The employer share of contribution payments was slightly higher with 60 per cent compared to 40 per cent for employees in ARRCO schemes, and significantly higher with 75 per cent compared to only 25 per cent for employees in AGIRC schemes emphasising the ascribing a larger part of the financial responsibility to the employer similar to the public pension schemes.

The contribution rate consisted of a rate for the mandatory pension and a rate for an optional part on top of the mandatory pension. Thus, the contribution rate varied from scheme to scheme, as the level of the optional contribution rate varied, depending on the scheme conditions as well as the wage and the professional status of the employees. The contribution rate for optional pension arrangements could be set based on an agreement between the employer and the employee or a collective bargaining process (Reynaud 1997: 44). For ARRCO schemes the contribution rate varied between 4 per cent of gross earnings up to a ceiling covering the mandatory part, and 8 per cent including the rate for optional arrangements (the average contribution rate was 4.9 per cent in 1981). The contribution rate for AGIRC schemes varied between 12 per cent of gross earnings between a lower and an upper ceiling covering the compulsory part, and 16 per cent including the rate for optional arrangements (the average rate was 13.9 per cent in 1981) (Reynaud 1997: 24/25). The optional contribution rate provided the possibility to negotiate a topping-up within AGIRC and ARRCO contributing to the diminished role and rudimentary development of other voluntary private pension plans.

Another specific feature in the financing dimension of AGIRC and ARRCO was the distinction between a ‘contractual contribution rate’, which was used to calculate benefit entitlements, and the ‘actual contribution rate’ at which contributions were collected. The actual rate was fixed annually by employers’ and employees’ representatives in order to balance out costs and expenditures. Since 1971 the actual contribution rate has been higher than the contractual rate, so that a part of the contributon payments were not collecting benefit entitlements (Reynaud 1997: 44).

The statutory support for the occupational schemes and the integration as part of the mandatory insurance was also represented by the fact that employees' contributions to AGIRC/ ARRCO were generally exempt from tax and employers' contributions were exempt from tax and social security contributions (Dorow 1970: 42; Lewerenz 2003: 93; Lechevalier 2007: 145).

In contrast to the mandatory occupational schemes, voluntary occupational pension schemes were mostly funded, except for some *article 39* plans (mainly direct commitments) which could be financed by book reserves, and some public sector plans (CREF) which were partly funded and partly pay-as-you-go financed (Reynaud 1997: 73, 79). *Article 39* schemes were financed by employer contributions only, while *article 83* plans were usually financed by employer contributions unless they were based on a collective agreement that allowed for employee contributions (Palier and Naczyk 2011: 109). Similar to the mandatory occupational schemes, contribution payments into a voluntary occupational scheme were exempt from tax, except for direct commitments. The tax regulations encouraged companies to set up schemes with a third party body, i.e. a pension fund or insurance company instead of internally financed direct commitments (Reynaud 1997: 61/62).

Other personal retirement savings plans were funded and solely financed by the individual. Due to the marginal role of voluntary occupational and personal pensions and the pay-as-you-go financing of the biggest schemes of the occupational pension pillar, the principle of intergenerational solidarity was strengthened within the overall pension system architecture, while the funding principle was a lot less pronounced.

Access

The mandatory coverage of public pensions had been continuously extended since the introduction of the first statutory pension schemes at the beginning of the 20th century. In the late 1970s 68 per cent of the labour force was covered by the *régime général*, while the remaining 32 per cent were covered by the various other schemes of the public pension pillar (21 per cent by the special schemes; 11 per cent by independent and agricultural schemes). Following the Bismarckian pension tradition, access to public pension benefits was employment-based and acquired through contribution payments, but unemployed persons who received state benefits, students, war widows and social assistance recipients were also covered, providing almost universal public pension coverage (Joel 2000; Palier 2010a).

There were two eligibility criteria that had to be met in order to receive pension benefits: a) the fulfilment of a certain number of contribution years and b) a certain retirement age. Both conditions could vary largely between the different professional schemes. Some public sector employees for instance could retire at age 40 (e.g. opera dancers) (Blanchet and Legros 2002: 111; Lewerenz 2003; Niemelä, Salminen and Vanamo 1996; Schludi 2005: 192) while full pension benefits could only be drawn at age 60[11] with a contribution period of at least 37.5 years in the *régime général*, or at age 65 independent from the number of contribution years (Guillemard 1991: 131).

The benefits from the minimum pension scheme were means-tested. All French residents had access to the minimum pension scheme (*minimum vieillesse*) from the age of 65 if their income from pensions, work, investments, or real-estate did not surpass a certain threshold (means-test) (Joël 2000: 22).

The coverage of occupational pensions was relatively broad by the end of the 1970s. The collective schemes under AGIRC and ARRCO, which had been made mandatory by law during the early 1970s, covered almost all private sector employees, including atypically employed (e.g. part-time and/or fixed-term contracts), providing occupational pensions to approximately two-thirds of the work force. The standard retirement age for the collective pension schemes was 65, but benefits could be withdrawn at age 60, or in some cases at age 55 (AGIRC), if a certain number of insurance points[12] had been collected. In 1988 almost seven million employees and about one million executives in the private sector received occupational pensions from AGIRC/ARRCO (Wischeropp 1999: 94). In contrast to the private sector, employees in the public or agricultural sector and the self-employed were not subject to the

[11] The retirement age was lowered from 65 to 60 in 1983 mainly as a labour market strategy to cope with increasing unemployment (Guillemard 1991).

[12] Normal employees have to have at least 100 insurance points and executives are eligible to benefits after reaching a minimum of 500 insurance points.

mandatory occupational pension coverage. This was partly due to the fact that their public pension schemes provided more generous benefits than the *régime général*, limiting the need for additional occupational pensions.

As a result of the broad coverage of the working population with public as well as collective occupational pensions, the coverage with funded voluntary occupational and personal savings plans was low and very selective. Civil servants and teachers had the possibility to join a voluntary occupational pension scheme which had been set up on the initiative of the civil servants' union (PREFON) or originated in the "mutual insurance association" movement (CREF) respectively (Reynaud 1997: 78). Because of the mandatory coverage by AGIRC and ARRCO, French employers in the private sector were generally very reluctant to offer additional funded occupational pension plans to all their employees. Most employers offered *article 39* pension plans with mandatory participation to confined groups (mostly senior managers) as a human resource strategy. *Article 83* schemes were somewhat more widespread, covering a larger number of wage-earners, but these schemes were usually only accessible after at least 12 month of employment in the company and offered as a fringe benefit to top up occupational benefits from AGIRC and ARRCO (Palier and Naczyk 2011: 101).

There is no accurate data available about the coverage of voluntary occupational and personal pension plans, but it was estimated that less than 5 per cent of the French working population were covered by an occupational savings arrangements. Furthermore, the life insurance reserves (life insurances were the most popular form of personal old age savings) represented only about 4.3 per cent of the French households' financial wealth in 1980 (Lavigne 2002: 9; Reynaud 1997: 77).

Benefits

In line with typical Bismarckian features, public pension benefits were defined in relation to former wages (earnings-related), preserving rather than eroding status and income differences during retirement (Vail 2004: 158). However, due to differences in the benefit calculation method especially between the public and the private sector schemes, the generosity and thus the income share of public pensions on the overall old age income varied considerably among the different professional categories.

The benefit calculation followed the defined- benefit (DB) principle in all schemes and the benefit formula generally consisted of three variables: The reference salary, the rate of increase, and the duration of the insurance period. Furthermore, all public pension benefits were regularly indexed to wages and liable to taxation after an allowance of 10 per cent (Reynaud 1997: 63). However, the assessment of the reference salary and the required insurance period as well as the targeted replacement rates differed.

In the early 1980s the reference salary in the *régime général* was based on the individuals' average annual gross wage of the best 10 earnings years, indexed to inflation. The rate of increase was assessed in relation to the retirement age and the number of contribution years. The full rate (i.e. full pension benefits) was applied either at a retirement age of at least 65 years or after the fulfilment of 37.5 contribution years (150 trimesters). For persons retiring before the age of 65, or with less then the required number of contribution years, the full rate of increase was reduced by 2.5 per cent per trimester (10 per cent per year), whereas any contribution years above the required number did not automatically increase the pension level (Lechevalier 2007: 146; Veil 2002: 59; Blanchet and Legros 2002: 113).

In the *régime spéciaux*, the reference salary was based on the average individual earnings of the last six months of employment (final salary scheme) and the required number of contribution years in order to receive a full pension was much lower, varying between 15 to 35 years (Veil 2002: 46; Rothenbacher 2001: 18). The benefit calculation principles for the insured in the agricultural sector and for self-employed were similar to those of the *régime général*, but benefits were more heavily subsidised by the state, which made them come closer to a second tier rather than a first tier pension (Palier and Naczyk 2011: 90).

The maximum replacement rate for private sector employees in the *régime général* was targeted at 50 per cent of the reference salary up to the social security ceiling. However, unlike most other Bismarckian pension systems, the ceiling on pensionable earnings was rather low (about the average gross wage), which further reduced the maximum amount of pension benefits attainable. Especially for higher income groups, benefits from the general pension scheme were rather basic in comparison to their former earnings, coming closer to first tier pensions rather than fulfilling the income maintenance function.

In contrast to this, the replacement rate of the *régime speciaux* was targeted at a maximum of 75 to 80 per cent of the reference salary. Thus, civil servants and public sector employees received a lot more generous benefits from the public pension pillar, emphasising the income maintenance function of the public scheme. The benefit dimension of the public pension pillar clearly reflected a great division between the public and the private sector schemes. While the *régime général* fulfilled a basic security function, the public sector schemes offered second-tier benefits fulfilling the income maintenance function.

Besides pursueing the Bismarckian status maintenance goal, the benefit dimension of the public pension pillar also entailed a few distributive solidarity elements. First, individuals who qualified for a full pension from the general scheme, but whose previous wages were very low, were entitled to have their benefits raised to a minimum pension level (*minimum contributif*). The minimum level of the general pension was indexed to the price development (Bonnet 2006: 49). Second, certain non-contribution periods (i.e. during disability, pregnancy, work accident, invalidity, military service or parenting) were acknowledged and credited as contribution years (Wischeropp 1999: 83). Third, the statutory minimum pension offered benefits for those with insufficient or no earnings-related public pensions. However, the number of people receiving minimum pension benefits had been continuously decreasing since the 1960s (Joël 2000: 22).

Due to the comparatively low public pension level of the *régime général*, occupational pension benefits played an important role as an income-maintaining supplement for all private sector employees. Only together with the mandatory occupational pensions from AGIRC and ARRCO, a replacement rate of 70 to 80 per cent of the reference salary could be attained, fulfilling the income maintenance goal. Voluntary private pension plans were mainly attractive for top managers with very high earnings in order to top up their retirement benefits from the mandatory insurance (Palier and Naczyk 2011: 101).

Pension benefits from AGIRC/ARRCO were strictly linked to the amount of contributions paid during the working career by a point system comparable to notional defined-contribution systems (NDC). Contributions were converted into pension points by dividing the annual amount of contributions by the "point price". The "price" for one pension point was usually indexed to the average wage development. At the time of retirement the collected pension points were multiplied by the current pension value, which was annually indexed to the development of all contributors' average gross wages, with the goal to maintain the purchasing power of occupational pension benefits. The number and the value of collected pension points defined the retirement benefit level. Pension points were also credited for certain contribution free periods, such as during unemployment or sickness as well as for parenting, integrating redistributive elements typical for public pension schemes within the occupational pension pillar. Some collective schemes also provided child allowances (Reynaud 1997: 35 et sqq).

Occupational pension benefits were indexed once or twice a year according to the development of the point value Wischeropp 1999: 93, Lechevalier 2007: 149, Veil 2002: 62). In the event of an employee changing company, pension points from the new company were added to the already accumulated pension points from the old company without any losses, as AGIRC and ARRCO were national and not firm or sector level schemes. Benefit entitlements were immediately vested with the first contribution payments (Reynaud 1997: 38). These regulations provided a high degree of benefit protection and portability to the insured. The well developed regulatory frame underlined the importance, but also the social security character, of AGIRC and ARRCO, making occupational pensions more than just a human resource instrument. With the free choice to set the contribution rate within a defined range, AGIRC and ARRCO also offered options to improve the benefit level beyond the compulsory dimension. Contribution rates beyond the minimum rate (4 per cent for ARRCO and 12 per cent for AGIRC) allowed for higher benefits (Reynaud 1997: 10). The benefit taxation rules were the same as the ones applied to the public schemes (see benefit dimension public pension pillar).

Funded voluntary occupational pensions were either based on the defined-contribution principle, such as with *article 83* schemes, or they were calculated based on the defined-benefits principle, such as with *article 39* schemes. Most company schemes (company or multi-employer funds and direct commitments) were defined-benefit schemes, while the majority of those schemes set up with an insurance company (direct insurance) were defined-contribution schemes. There were no legal or commonly applied regulations with regards to the indexation and preservation of entitlements and benefits. The indexation of funded pension benefits was relatively rare. In some schemes benefit entitlements were vested after 10 to 15 years of contributions, but benefit entitlements were rarely preserved in the case of a change of employer (Reynaud 1997: 75).

The public-private architecture and goals

The historically developed and pronounced professional fragmentation of the public pension pillar strongly influenced the configuration of the overall pension system architecture in France. The pension system for public sector employees and civil servants (*régime spéciaux*) was characterised by a single pillar structure, with mandatory public pension schemes providing sufficient benefits to maintain the previous living standard, thereby crowding out the necessity for occupational and/or personal pension provision (see Figure 4.1). In contrast to this, the *régime général* for private sector employees differed considerably from the *régime speciaux* with regard to insurance conditions and benefits. The benefit level of the general pension scheme was comparatively low, especially at the time of its introduction, which left more space for the development of complementary occupational pensions for private sector employees to secure a decent income replacement during retirement. As a consequence, the pension system for private sector employees was based on a dual pillar structure, with the general scheme as *régime de base* anchored in the public pension pillar and AGIRC and ARRCO as *régime de complémentaire* anchored in the occupational pension pillar (Guillemard 1986: 32).

The self-administration and parity contribution financing of the *régime général* ascribed a high level of responsibility and power to the social partners, emphasising the principle of "*la democratie sociale*". Furthermore, it supported the emancipation of French workers and fostered a strong identification of the unions with the social security system while statutory interventions were confined to the supervisory or legal level (Gallouj and Gallouj 2008: 220/ 221).

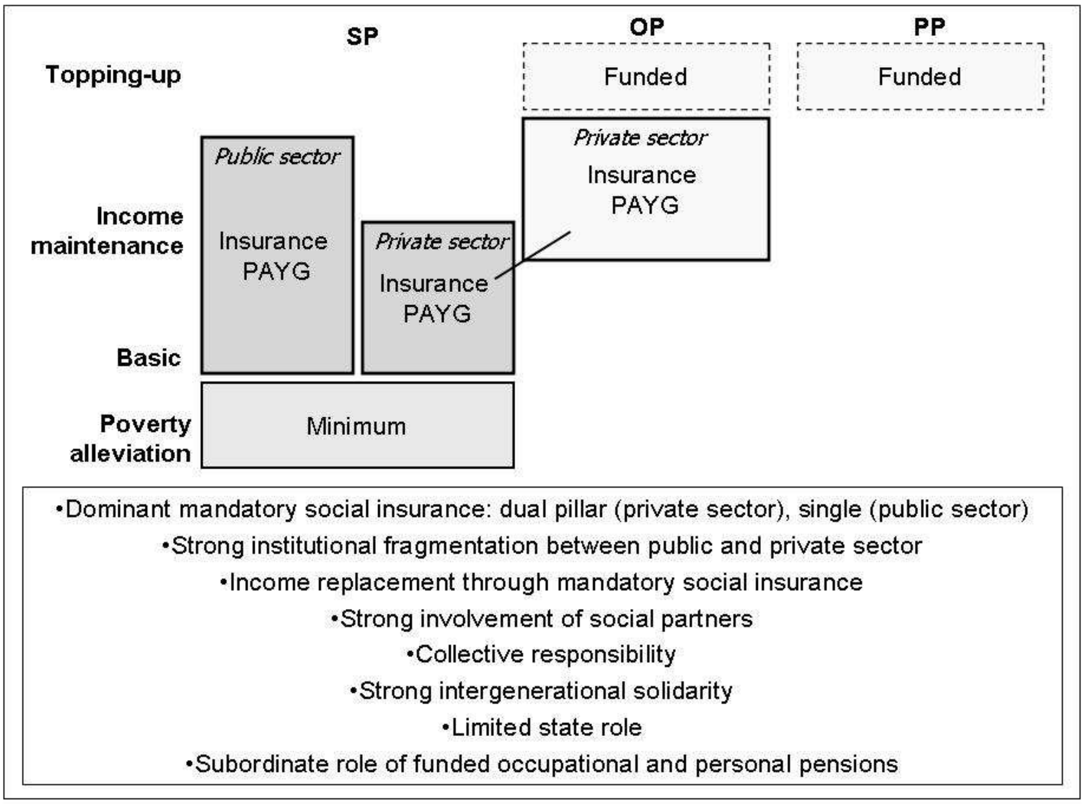

Figure 4.1: The French public-private pension architecture and goals, 1980

The obligatory occupational pension scheme for private sector employees featured a range of elements typical for Bismarckian social insurances. Based on collective agreements with nationwide coverage the schemes under AGIRC and ARRCO were administered by the social partners and pay-as-you-go financed by parity contributions, strengthening the principles of intergenerational solidarity and collective responsibility, as well as the social partners role in the overall pension system architecture. The fact that the membership had been made mandatory by law has led many studies to describe AGIRC and ARRCO as a quasi-statutory part of the French pension system.

Given the almost universal access to public pensions and the mandatory character of the complementary occupational pension schemes (AGIRC/ ARRCO) providing a replacement rate between 70 and 80 per cent, the necessity for additional voluntary occupational as well as personal pensions has been very limited for all the different professional groups (Bode 2007; Palier and Naczyk 2011). Hence, voluntary funded pensions mostly functioned as a topping up (third tier) for higher income groups and executives with earnings higher than were covered by the mandatory systems.

There was no legal framework regulating voluntary private pension provision except for the tax code, demonstrating the limited interest by the state to push for this form of provision. Similarly, the union's interest in shaping voluntary funded private pension solutions was also relatively limited due to their extensive involvement in the management of the public as well as the complementary occupational pension schemes. As a consequence the development of voluntary occupational pension plans was very selective and mostly set up on the employer's initiative. The lacking necessity for private provision was also reflected in the fact that the personal pension pillar was hardly institutionalised as old age security instrument going beyond the general personal savings through life insurance contracts except for some public sector employees' plans.

4.2 Problem pressures: Rising social deficits in times of economic distress

Like many other social insurance countries, France had been confronted with the "new challenges" of the welfare state from the mid-1970s, which increasingly threatened the financial long-term viability of the existing pension system architecture. As described in the previous sections, the coverage of public pensions in France had reached an almost universal degree and the benefit level had continuously improved for all insured as a result of both the prospering economy during the 1950s and 1960s as well as expansive pension reforms. The benefit level of the general pension scheme for private sector employees was not as generous as the special schemes for public sector employees but by the late 1970s a full pension from the general scheme reached a replacement rate of about 70 per cent of the average former life time earnings (Häusermann 2007: 87). Public pension expenditures grew to almost 9 per cent of GDP during the 1980s (see Table 4.2). More than one third of the overall pension costs were incurred by the special schemes for the public sector even though they only covered one fifth of the labour force. As the financing of the public pension system was mainly based on pay-roll contributions paid by the current working generation according to the pay-as-you-go principle, any changes increasing the number of beneficiaries and/or the level of benefits in combination with a decline in the number of contributors and/ or the amount of contributions paid undermine the financial balance of the system.

Tab. 4.2: Problem pressures in France – indicators, 1970 - 2012

		1970	1975	1980	1985	1990	1995	2000	2005	2010
Public social expenditures % GDP (cash benefits + benefits in kind)		…	…	20.0	26.0	24.9	28.5	27.7	29.0	…
Public pension expenditures % GDP (cash benefits)		…	…	7.5	8.5	9.0	10.4	10.3	10.5	…
Public revenues** % GDP		12.4	14.4	17.1	18.5	18.5	18.4	16	16.3	16.6
Real GDP growth		6.2	-1.1	1.6	1.6	2.6	2	3.7	1.8	1.5
Unemployment % of labour force		…	…	5.8	9.6	8.4	11	9	9.3	9.8
Labour force participation rate of persons aged 55-64 % of labour force	Total	...	...	...	35.6	32.9	31.4	31.6	40.7	42.5
	Male	75.4*	68.9*	68.5*	44.3	39.3	36.1	35.4	43.8	45.2
	Female	40.0*	35.9*	39.7*	27.7	26.9	27.1	28.1	37.7	40.0
Persons aged 65 and older % of total population		12.9	13.5	13.9	12.9	14.0	15.2	16.1	16.5	16.7

Notes: *(Mitchell 1993: 6); **includes only compulsory social security contributions, social security contributions which are either voluntary or not payable to the general government are not included (see OECD 2011, Revenue Statistics 2011, p. 303).

Source: Data extracted from OECD.Stat, http://stats.oecd.org, [accessed 15.12.2011], Datasets: LFS by Sex and Age – Indicators; Demographic References; Revenue Statistics - Comparative Tables; Country Statistical Profile 2011; Social Expenditure - Aggregated Data.

The process of demographic ageing due to increasing longevity and declining fertility rates had been identified as a major issue for the financial sustainability of pay-as-you-go financed pension systems as an increasing number of pensioners would need to be financed by a declining number of contributors in the workforce. Indeed, the life expectancy in France had been rising steadily since the late 19th century similar to other industrialised countries, increasing the absolute number of elder persons and thus pensioners. However, this development stood against a comparatively high fertility rate, keeping the population ageing process at a moderate pace compared to most other West European countries with a much lower and much more steeply declining fertility rate from the mid-1960s. Between 1970 and 1990 the share of persons aged 65 and older of the overall population had increased moderately from 12.9 to 14 per cent (see Table 4.2).

Yet, despite the relatively favourable demographic balance, France was confronted with a growing social security deficit from the early 1970s (Häusermann 2007: 87; Marier 2002: 81). This was most notably a consequence of the economic changes in the aftermath of the oil crisis from 1973, strongly affecting the balance between revenues and expenditures. In the light of weakening economic growth, high inflation, the stagnation of investments and increasing unemployment, the post-war economic strategy of an interventionist state (*dirigisme*) had been gradually shifted towards a neo-liberal concept of economic liberalisation (Bournay and Pionnier 2007; Levy 2011: 6).

In order to cushion the workforce against the negative impact of extended market forces, one strategy of the government had been to further expand public social security programmes despite increasing costs until the early 1980s. The last expansive measures were introduced after the victory of the left-wing parties in 1981. Pension benefits for low income workers were improved through the introduction of a minimum benefit level and the retirement age in the *régime général* was reduced from 65 to 60 with the Pension Reform Act 1982 (Muroy Reform) (Coceicao-Heldt 2007: 177).

Especially early retirement options had been promoted and expanded with the goal to palliate the persistence of mass unemployment on the one hand and to diminish the union's capability to mobilise resistance against industrial restructuring on the other hand. Many employers welcomed these measures as a strategy to restructure their companies by offsetting elder workers from the labour market. As a consequence, the labour force participation rate of elder male and female workers dropped significantly from the early 1970s (see Table 4.2) (Levy 2011: 6 et sqq.). The number of early retirees and thus the costs for the public pension system increased while the number of contributors was diminishing.

Public pension expenditures had reached a comparatively high level of almost 8 per cent of GDP during the early 1980s and they continued to grow over the following three decades reaching almost 11 per cent in 2005 (see Table 4.2). Public pension expenditures were estimated to reach about 14 per cent of GDP in 2060 (European Commission 2008).

Despite the statutory efforts to solve the problem of unemployment, the number of unemployed especially among the young continued to increase, rising from 5.8 per cent of the labour force in 1980 to 9.6 per cent in 1985 and almost 11 per cent during the early 1990s. Together with the spread of atypical employment and the slow down of wage increases this development significantly reduced the pension contribution base. The ratio between pension contributors to pension beneficiaries had worsened from 3.8

in 1970 to 2.21 in 1985 and continued to decline during the following years (see Table 4.3) and the level of public social expenditures grew much faster than the level of public revenues, which even dropped from 18.5 per cent in 1990 to 16 per cent in 2000, contributing to the increasing deficit in the social security household (see Table 4.2).

Tab. 4.3: Dependency ratio contributors to pensioners in France, 1960 - 1997

1960	1970	1980	1985	1990	1995	1997
4.14	3.80	2.68	2.21	1.88	1.61	1.54

Source: (Joel 2000: 16)

By the end of the 1980s the financial issues of the public pension system had reached "worrying proportions" with a deficit of 17.1 FF billion in the *régime général* (Bonoli 2000: 129). After the second economic recession during the early 1990s, the general public deficit had augmented to 5.9 per cent of GDP (Bournay and Pionnier 2007: 1). Facing growing public expenditures and increasing deficits on the one hand, France was pressured to reduce the public budget deficit to 3 per cent in order to fulfil the Maastricht criteria and qualify for the Euro on the other hand (Gallouj and Gallouj 2008).

Against this background of problem pressures, the future sustainability of the French pension system architecture had become an important topic on the French social policy agenda, setting a process of pension reforms and changes in motion.

4.3 Political context: Weak formal veto possibilities, high electoral competition and strong union mobilisation

The political context for the process of pension system change between 1980 and 2012 has been characterised by relatively weak formal veto possibilitles associated with the political institutions in France, high electoral competition and strong informal veto powers of the unions, providing large political leeway for reform from the formal side, but strong informal barriers to change.

The political system in France shows a mixture of parliamentary and presidential features. The Prime Minister directs the government and controls the parliamentary agenda. He or she is appointed by the President, who represents the second part of the executive. The President is elected directly by the people for a five year term separate from the parliamentary elections. He or she implements laws after their final adoption and signs decrees and ordinances. If the President is supported by a parliamentary majority of the same political party, he or she may also set the general policy guidelines. If the President and the Prime Minister are from different ideological blocs (cohabitation), the Prime Minister is assigned to exercise power on domestic issues while the President's domains are defence and external affairs (Conceição-Heldt 2007: 152/153; Immergut and Anderson 2007: 25). The President is considered as a potential veto player in the policy making process especially in a situation of cohabitation. The President can veto ordinances and decrees by refusing to sign it and in the case of a law he can ask the Parliament to reconsider the bill or parts of it. However, he does not have the power to veto a law (Conceição-Heldt 2007: 160). Furthermore, as pension policies are domestic issues, they fall in the domain of the Prime Minister and the President's role and impact in the pension reform process is usually relatively limited.

The Prime Minister and his or her government are comparatively powerful and endowed with certain institutional mechanisms (exclusion of articles or amendment of bills, power to cease all parliamentary debates immediately and very short time frame for motion of censure) to push through legislation (Conceição-Heldt 2007: 153).

The French legislative consists of two chambers: One chamber is the National Assembly (*Assemblé Nationale*) which adopts legislations and which has the power to force the government to resign by a vote of no confidence. However, if the government has an absolute parliamentary majority, the National Assembly does not represent a veto point. Furthermore, as the government is endowed with a range of institutional mechanisms to push through legislation, the veto power of the *Assemblé Nationale* is comparatively low even in the case of the absence of an absolute governmental majority (Conceição-Heldt 2007: 153)The second chamber is the Senate (*Sénate*), which can amend legislations and which needs to agree with the proposed legislation. But as the government has the option to curtail the parliamentary discussion, it is not considered as formal veto point (Immergut and Anderson 2007: 26).

The Constitutional Court represents a veto possibility in the French political system as it has the power to turn down any law that is considered not in line with the constitution (Conceição-Heldt 2007: 157, 160).

The presidential and legislative elections follow a mixed majority-plurality formula. However, the empirical difference between the majority-plurality electoral system and a purely majoritarian voting system is marginal. Hence, the French governments are usually strong with clear parliamentary majorities while smaller parties are less represented fostering a stable, bipolarised party system with the Social Democratic Party (PS) and the Communist Party (PCF) as the coalition at the Left and the Gaullist party (RPR, later UMP) and the liberal centre-right party (UDF, later *Nouveau Centre*) at the Right (Conceição-Heldt 2007: 157).

Due to the ideologically separated party system into two distinct blocs, government coalitions do not provide strong partisan veto players, as the coalition partners are usually not interested in breaking the coalition to ally with another party from the opposition. The party and electoral competition is very high in France, hence the timing of reforms with regards to the electoral cycle has been considered as a crucial point for the successful passage of a reform (Conceição-Heldt 2007: 158). In order to circumvent the potential electoral punishment, major pension reforms are assumed to be more successful if they are introduced at the beginning of the electoral cycle. Furthermore, a governmental change is considered as a favourable condition for the introduction of reforms, as the sympathies with the defeated former government and new opposition is supposed to be low among the constituencies while the sympathies for the new government are high (Conceição-Heldt 2007: 181). Indeed, up until the early 2000s, the political color of the government changed after every election during the 1980s and 1990s, confirming the high degree of electoral competition and the division into two equally strong ideological blocs in France. It is only during the 2000s that the centre-right coalition managed to maintain the governmental power over two electoral cycles (see Table 4.4).

The institutionalisation and impact of interest groups on the policy-making process is relatively weak in France. Furthermore, the unionisation rate is low and the fragmentation along class, religion and occupational groups is high, fostering a high degree of internal competition and difficulties to organise consent among their rank and file (Conceição-Heldt 2007: 164; Schludi 2003: 215). However, despite this, the mobilisation capacity of the unions (especially the public sector union) and their public popularity in France is high. In order to counteract the lack of institutionalised forms to impact on pension policies, the unions developed strategies to express their disapproval for certain reforms by large demonstrations and strikes providing them with informal veto powers especially in the context of an upcoming election, as governments would try to avoid the potential electoral punishment (Bonoli 1997b; Conceição-Heldt 2007: 164).

Tab. 4.4: The political context in France, 1981 - 2012

Time	1981-1986		1986-1988	1988-1993	1993-1997		1997-2002	2002-2012
President	Mitterand (PS)					Chirac (UMP)		Sarkozy (UMP)
Head of govern ment	Muroy (PS) Fabius (PS)		Chirac (RPR)	Rocard (PS) Cresson (PS) Bérégovoy (PS)	Balladur (PRP) Juppé (PRP)		Jospin (PS)	Raffarin (UMP) Villepin (UMP) Fillon (UMP)
Co-habitation	No		Yes	No	Yes (till 1995)	No	Yes	No
Governing parties	Left-wing coalition (PS & PCF)	Socialist Party (PS)	Centre-right coalition (RPR & UDF)	Socialist Party (PS)	Centre-right coalition (RPR & UDF)		Left-wing coalition (PS; PCF; Les Verts/MDC/PRG)	Centre-right coalition (UMP & Nouveau Centre)
Majority in *Assemblé National*	Absolute	Relative	Relative	Relative	Absolute		Absolute	Absolute
Elections *Assemblé Nationale*	1981		1986	1988	1993		1997	2002, 2007
Party competition	Strong Confrontational							
Industrial relations	Tensed, strong union mobilisation						Union internal tensions, weakened resistance of moderate unions	

Notes: * former RPR, **former UDF

Source: (Conceição-Heldt 2007; Hardt 2001), http://www.assemblee-nationale.fr/elections/2007/index.asp [accessed 10.2.2012]

Summing up, the political context for the pension reform process in France has been characterised by relatively weak formal veto possibilities and strong governments on the one hand, but a high degree of electoral competition between the two ideological party blocs as well as a high capacity of union mobilisation creating signficant obstacles to unpopular reforms on the other hand.

4.4 The process of institutional change

4.4.1 Two worlds of welfare and the structural harmonisation of the public pension pillar

When it turned out that the expansion of social policy programmes during the 1970s and early 1980s only aggravated the financial issues of the social security system without having the desired effect on the economy, the discussion on public pension retrenchment and reform came on to the political agenda in France (Niemäla et al 1996; Coceicao-Heldt 2007; Häusermann 2007). But even though most politicians agreed that reforms were necessary, the incumbencies of both the socialist as well as the centre-right governments were paralysed with non-decision with regards to unpopular cutback measures during the 1980s and early 1990s. Hence, the **first phase** of the public pension restructuring process was characterised by the refusal to introduce cut back measures in order to downsize public expenditures (see Table 4.6 Chronology). Instead, the main focus was set on the expansion of the revenue base by increasing the contribution level, following a strictly path-dependent logic of maintaining the existing institutions (Palier 2010a: 77).

The contribution rate for the general public pension scheme had already been increased from 8.5 per cent in 1968 to 12.9 per cent in 1980 (Bozio 2006: 341). In order to avoid another steep increases in non-wage labour costs, which would undermine the competitive capacity and the creation of employment, only employees' contributions were gradually increased from 4.7 per cent in 1980 to 6.55 per cent in 1992, while employers' contributions were kept constant during this time, shifting a larger part of the financial burden towards the employees, fostering parity contributions instead of the old 80/20 relation(Bozio 2006; Palier 2010a: 78) (see Figure 4.2).

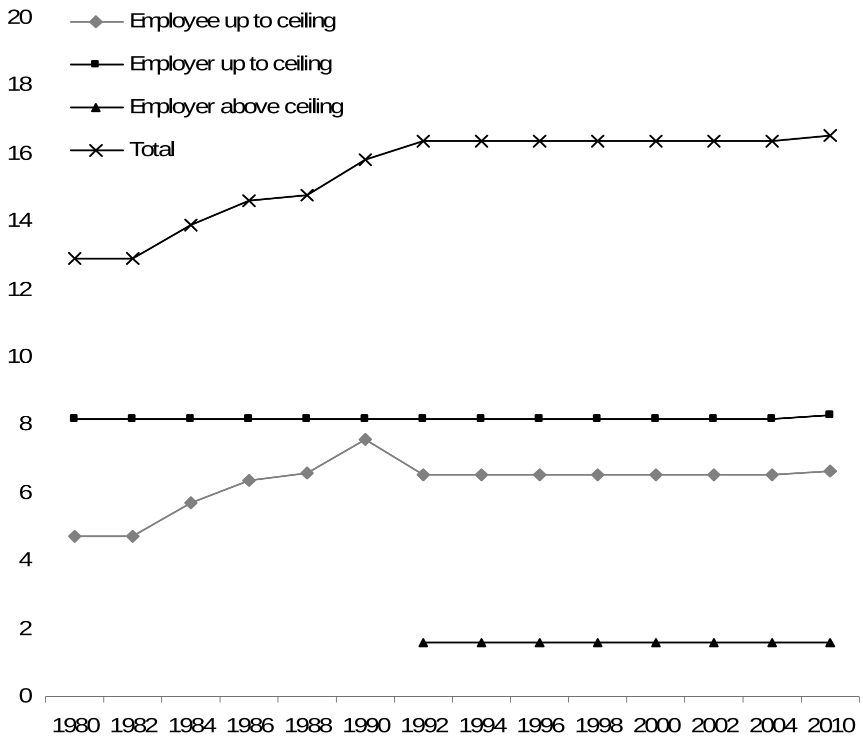

Figure 4.2: Statutory pension contributions, régime général (%), 1980 - 2010
Source: (Bozio 2006), http://www.urssaf.fr [accessed 4.6.2010]

However, over time the increases in employee contributions had led to a drop in the purchasing power of a large part of the population and due to the contribution ceiling, lower income groups had been much more affected by the contribution increases than higher income groups. This situation provided the ground for the socialist government to establish a social tax (CSG) as a new means of financing in 1991, which would distribute the financial burden more equally among the whole population. It was initially introduced at a relatively low rate of 1.1 per cent on all income (wages, capital, revenues, pensions etc.). Furthermore, employers had to pay contributions of 1.6 per cent on wages above the contribution ceiling, but these contributions did not generate pension entitlements as they mainly served to restore a more equal distribution of the financial burden beween employers and employees (Wischeropp 1999: 172). As will be seen during the following years, the introduction of the social tax provided the first step away from a strictly contribution financed pension scheme opening an institutional gate for the state to increase its power in the financing dimension of the public pension pillar (Veil 2002: 54) (see Table 4.5).

Tab. 4.5: Financing of the French social security system (% of total revenues)

	1982	1984	1986	1988	1990	1992
Contributions	70.0	69.0	69.3	69.3	70.1	68.6
Tax and charges	2.2	3.4	2.6	3.0	3.0	4.1
Other	27.7	27.5	28.1	27.7	26.8	26.1

Source: Wischeropp 1999: 46

The expansion of the revenue base during the 1980s and early 1990s was accompanied by an extensive discussion about the issues of the French pension system and the possibilities for reform, through a range of different expert and government commissions. At least six reports and expertises (e.g. Tabah Report 1986, Schopflin Report 1987, Report of the Commission of the Wise 1987, Report of the Commission on Social Protection 1988, 'Livre Blanc' 1991, Cottave Report 1992) were published between 1986 and 1993 containing several suggestions on how to reform the public pension pillar.

The recommendations of the various commissions pointed out the need for an encompassing reform to restore the financial sustainability of the system by cutting back expenditures. The question was how to reform the system without impairing the existing institutional structures. Among the recommended measures was the extension of the reference salary for the calculation of benefits and the change of the pension indexation from wages to prices and vice versa, depending on which indexation method would cause less costs. Other suggestions, such as increasing the retirement age or adapting the pension rules of the public sector schemes to those of the *régime général*, were more controversially discussed. Furhermore, there was strong agreement to maintain the pay-as-you-go financing principle (for a detailed analysis of the reports see (Marier 2002: 82 et sqq).

At the end, the implementation of any of the recommended retrenchment measures was procrastinated by the respective governments (Häusermann 2007: 199). The only governmental effort made to downsize expenditures was the episodic change of the indexation of pension benefits (*régime général*) from wages to prices towards the less generous option, which was introduced in 1987 (Marier 2002: 84).

After the general resistance against retrenchment during the 1980s, the **second phase** of restructuring was characterised by some smaller gradual cut backs on the one hand

and long phases of non-decision and the impediment of any bigger interventions in the institutional structures on the other hand (see Table 4.6 Chronology). In the light of the second economic downturn at the beginning of the 1990s and a persistently high unemployment rate, the capacity to increase contributions and taxes without negatively impacting on the working population and the labour market had reached its limits, while the financial issues of the public pension pillar were far from being solved. In fact, the public pension system itself had been increasingly perceived as the source of the crisis by producing increasing non-wage labour costs and by undermining the economic competitiveness.

The long-term projection of pension expenditures suggested that the contribution rate that was necessary to finance future pension costs would need to be raised to between 24 and 26 per cent by 2010 and to between 30 and 40 per cent by 2030. The ideological affronts against the welfare state intensified, calling the general support for an extensive public pension system into question (Bonoli 2000: 130; Gallouj and Gallouj 2008: 210, 231). Additionally, the Maastricht Treaty from 1992, advancing the European Monetary Union, increased the pressure to consolidate the public budget. This prepared the ground for the newly elected centre-right government to introduce the first major pension reform in France, the Balladur Reform, in 1993 (see Table 4.6 Chronology).

After intensive consultations with the unions, several measures were introduced to reduce public pension expenditures, but the Balladur Reform was far from being radical. The pay-as-you-go financing principle and the retirement age were equally as untouchable and therefore largely spared from any direct cut back measures or changes (Wischeropp 1999; Marier 2002; Schludi 2003; Französische Botschaft 2010b; Bonoli and Palier 2007). Furthermore, the reform only affected the general pension scheme for private sector employees while the schemes of other professional groups, in particular the public sector, had been spared. The existing institutional and political barriers only allowed for some relatively moderate changes at this stage despite the intensification of external pressures.

First, some parametric changes were introduced in the benefit and access dimension of the *régime général*. In the benefit dimension, the reference salary for the calculation of pension benefits was going to be gradually increased from ten to 25 best earnings years by 2008. The extension of the number of earnings years tightened the link between contributions and benefits, strengthening the equivalence principle supporting the existing social insurance logic. At the same time the expansion of the reference salary for the calculation of benefits also meant that more people with interrupted working careers (atypical employment, parenting, long educational periods etc.) and/ or a varying income level were more likely to become dependent on the tax financed solidarity benefits. The benefit level would be lowered significantly for this group, increasing the number of people relying on the tax financed minimum pension scheme (*minimum vieilesse*) (Gallouj and Gallouj 2008: 228).

In the access dimension, the required number of contribution years in order to attain a full pension was going to be gradually increased from 37.5 contribution years to 40 contribution years by 2008. The goal was to foster longer labour market activity without increasing the highly defended retirement age, which would have introduced a more definite change for all insured. As a consequence, the access to full pension benefits was exacerbated, reducing the benefit level especially for those with shorter or interrupted employment histories, emphasising the employment focus of the system (Bonoli and Palier 2007; Marier 2002; Schludi 2003; Wischeropp 1999).

Second, in response to the demands of the unions, who were only willing to accept the introduction of cut back measures in exchange for a clear separation between the financing of social insurance benefits and solidarity benefits, an Old Age Solidarity Fund (FSV) was established to finance non-contribution benefits. The FSV was fed by revenues from the CSG. The goal of this measure was to maintain the social insurance part of the *régime général* by freeing it from the financial burdens of non-contribution benefits, which would not be financed by contributions anymore but through taxes (Bonoli and Palier 2007: 137). As a consequence, the CSG was increased from 1.1 per cent to 2.4 per cent, slowly gaining in importance as a financing tool in the public pension pillar.

All changes introduced by the Balladur Reform were mainly first order changes of levels without directly altering the existing logic of the system. However, while the changes helped to preserve the existing social insurance features of the general pension scheme, they also released a second dynamic: first, due to the cut back measures in the *régime général* increasingly, the insured will be increasingly divided into "social insurance insiders" and a growing number of "assisted outsiders", strengthening minimum security features besides the social insurance system (Palier 2010a: 98);

second, while the separation of contribution financed insurance benefits and tax financed solidarity benefits had been intended as a strategy by the social partners to preserve their position in the public pension pillar, it also extended the possibilities for the state to expand its influence in the financing dimension by gradually increasing the share of taxes, especially in combination with a growing number of persons relying on tax financed solidarity benefits.

Only two years after the successful Balladur Reform, the conservative Prime Minister Alain Juppé tried to transfer the cut back measures applied to the *régime général* on to the *régime spéciaux* of the public sector. This time the government followed a unilateral strategy largely keeping the unions and other interest groups out of the policy-making process, as the political-institutional conditions (weak veto possibilities) and the functional pressures for reform (high) seemed to provide a very favourable environment for changes. The government held the absolute majority in parliament, it was a situation of no co-habitation and the next general as well as presidential elections were far enough away, reducing the electoral competition. Moreover, besides the demographic and economic pressures, the requirement by the European Monetary Union provided additional reasoning to justify retrenchment (Bonoli 2000: 143).

But despite this favourable combination of political conditions and functional pressures, most of the proposed measures had to be withdrawn due to massive strikes and protests initiated by the public sector unions, who did not only have a great stake in maintaining the privileges of their special schemes but they also had the highest mobilisation power among the diversity of French unions, forming a strong informal veto power against reform (Bouget 1998: 164; Marier 2002: 117; Schludi 2005: 200; Bonoli and Palier 2007: 140). Thus, the institutional barriers with regards to the régime spéciaux in combination with the rage of the public sector unions and their high mobilisation capacity hindered the transfer of the retrenchment measures of the régime général to the régime spéciaux.

However, in contrast to the relatively blunt attempt to introduce cut backs in the highly privileged public sectors schemes, a second, much more subtle development took place at the same time, gradually breaking through other institutional barriers. The state's financial control in the public pension pillar was gradually extended during the second half of the 1990s slowly diminishing the power of the unions in the institutional structures of the public pension pillar by three developments: First, the CSG was further increased to 3.4, gradually advancing the share of tax financing, further augmenting the role of the state as financier. Second, another special tax (RDS) of 0.5 per cent on all income was introduced in 1996 in order to reduce social security debts (Marier 2002). Third, after the government had accused the social partners of not accepting their responsibility for the financial sustainability of the general social security system and the social partners had accused the government for trying to prevent any further retrenchment because of electoral reasons, a constitutional amendment was passed (Social Security Financing Law) in 1996 giving the Parliament the right to determine the financial equilibrium, the pension indexation and the contribution rate of the general public pension scheme, weakening the power of the social partners (Palier 2005: 133; Bonoli and Palier 2007: 140; Bouget 1998: 164; Marier 2002: 117; Schludi 2005: 200; Veil 2002: 56).

The economic recovery during the second half of the 1990s, the improvement of public finances and falling unemployment, allowed the new left-wing government coalition, which had been elected in 1997, to take a short breather. Negotiations, concertations and the seeking of more expertise had once again priority over the introduction of far reaching cut backs and the preferred strategy was first of all to continue the financial consolidation process by increasing the CSG to 7.5 per cent, falling back into old patterns of non-decision.

However, the retrenchment of the general pension scheme, the failure to reform the public sector schemes, and the ongoing discussions about the threats to the future sustainability of the public pension system, had created a climate of insecurity and the feeling of a "pension crisis" amongst the French population. In this context the pension policy debate shifted towards the topics of capitalisation and individualisation of pension savings (Coceicao-Heldt 2007: 185; Häusermann 2007: 199; Bonoli and Palier 2007: 570) (see final part on the privatisation, capitalisation and individualisation of pensions). But despite the fact that further public pension cut backs and a higher degree of capitalisation were perceived as unavoidable, they were also considered as highly delicate and polarizing topics. Thus, when a second round of expert reports was published at the end of the 1990s and two reports (Teulade Report 1999, Taddei Report 1999) had a more optimistic stance, the left-wing government took this as a welcome opportunity to further avoid or procrastinate over any unpopular pension reforms.

During the early 2000s, the incremental retrenchment efforts that had been started with the Balladur Reform almost ten years ago were finally intensified, introducing the the **third phase** of the pension reform process in France (see Table 4.6 Chronology). When the centre-right coalition under Prime Minister Jean-Pierre Raffarin regained governmental power in 2002, further changes to the public pension pillar were enacted with the "*Loi Fillon*[13]" (also called Raffarin Reform) in 2003. One aspect of the reform was to finally pursue the harmonisation between the public and the private sector pension schemes, extending the measures of the Balladur Reform to the civil servants' scheme in 2003 and to the other public sector schemes in 2007 increasing the required contribution period for full pension benefits (37.5 to 40) and changing the benefit indexation to the development of prices. Moreover, based on the development of the life expectancy, further increases of the required contribution period for both private and public sector schemes were going to be discussed by the Pension Orientation Council on a regular basis[14], establishing a demographic element in the benefit calculation. Finally, a new instrument was set up to discourage early retirement and encourage the postponement of retirement through actuarial deductions (*décote*) of 1.25 per cent per missing trimester in the case of earlier retirement, and supplements (*surcote*) of 3 per cent per postponed years in the case of later retirement, for all schemes of the public pension pillar (Dixon 2008: 253; Lechevalier 2007: 169; Palier and Naczyk 2011: 98).

The harmonisation of the public sector schemes with the *régime général* could now be successfully advanced for several reasons. First, ten years after the Balladur Reform, the consequences of the retrenchment efforts with regards to the *régime général* became more visible and the growing concern over deepening inequalities between private and public sector employees as well as the discernment that cut backs might be necessary to maintain the pay-as-you-go financed insurance system, weakened the resistance of the more moderate unions. Second, the measures in the benefit and access dimension were already familiar from the reform in the *régime général* and the long phasing-in periods as well as the concessions made to the unions helped to facilitate the changes

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[13] Named after the Minister of Social Affairs and Employment at that time Francois Fillon.
[14] Based on estimations by the French National Institute of Statistics and Economic Studies (INSEE) the required contribution period for full pension benefits would increase to 41.5 years by 2020.

(Natali and Rhodes 2004: 17 et sqq.; Vail 2004: 165). Third, the previously strong role of the unions engrained in the institutional structures of the public pension system has been progressively weakened since the mid-1990s preparing a greater space for the state to act. Furthermore, during the preparation period of the Fillon Reform the unions have been divided over the reform plans which additionally weakened their position (Conceição-Heldt 2007: 188).

The Raffarin Reform largely continued the process of gradual and parametric changes in levels and instruments, preserving the typical social insurance features while contributing to the increasing exclusion of some groups from social insurance benefits through the extension of the required contribution period. However, the adaptations in the special public sector schemes reduce the traditionall socio-professional fragmentation of the French old age security system. Furthermore, they open the room for further cut backs under the guise of harmonisation. The reduction of the benefit level in the *régime spéciaux* might increasingly erode the traditional income maintenance function of the first pillar for public sector employees. In the long-term, the gradual convergence of the different pension schemes of the public pension pillar towards the parameters of the general pension scheme may foster a greater shift in the pension system structure for public sector employees away from the dominant public pillar design towards a dual or multi-pillar structure respectively.

The public pension pillar retrenchment efforts in combination with the harmonisation of the different schemes were advanced under the conservative Sarkozy government during the late 2000s. Nicolas Sarkozy was the first politician to publicly campaign against the status quo of the French social model setting the highly defended retirement age on top of the most recent reform agenda (Levy 2011: 11). At first, the planned increase of the retirement age from 60 to 62, as presented in the reform proposal from June 2010, met with massive union mobilisation and several months of protests and demonstrations. But despite the protests, the reform was passed in Parliament in October 2010 after a long consultation process with the *Conseil d'Orientation des Retraites,* the social partners and the Parliament, and after the integration of a number of concessions. (Französische Botschaft 2010a).

In the general public pension scheme the minimum retirement age will be gradually raised from 60 to 62 by 2018 and the retirement age, which allows receipt of full pension benefits without fulfilling the required number of contribution years, will be increased from 65 to 67. In the special schemes, too, the various retirement ages will be increased, with 52 being the lowest and 62 being the highest retirement age. Employees with physically challenging work and those who started working before the age of 18, can retire before the standard retirement age.

Besides the changes in the retirement age, the convergence of the special public sector pension schemes towards the general pension scheme was further advanced by gradually increasing the contribution rate to 10 per cent over the next 10 years, as well as a range of other smaller changes (Französische Botschaft 2010b).

Tab. 4.6: Chronology of pension reforms and changes in France, 1980 - 2010

Phase	Year	Reforms/ measures
Phase 1 No retrenchment Expansion of revenues Bringing future sustainability into public debate	1986	- Tabah Report
	1987	- Schopflin Report - Report of the Commission of the Wise - Change of pension indexation (régime général) from wage to price indexation
	1988	- Report of the Commission on Social Protection
	1991	- White Report (*Livre Blanc*) - Introduction of tax like social contribution (CSG) of 1.1%
	1992	- Cottave Report
Phase 2 Moderate retrenchment Creation of climate of insecurity Incentives for some to look at private alternatives	1993	**Pension Reform Act 1993 (Balladur Reform)** - Focus: schemes for private sector employees - Increase of reference period for benefit calculation from best 10 to best 25 years (by 2008) - Increase of required contribution years from 37.5 to 40 years (by 2008) - Introduction of Old Age Solidarity Fund (FSV) - Increase of CSG from 1.1 per cent to 2.4 per cent **AGIRC/ ARRCO** - Increase of contribution rate - Abolishment of flexible *contractal* contribution rate
	1994	**Madelin Law** - Introduction of tax exemption on contribution to private pension plans for self-employed
	1995	**Pension Reform Act 1995 (Juppé Plan)** - Transfer of Balladur reform measures on schemes for public sector employees (**defeated!**) - Change of the composition of the managing boards of the social security schemes - Introduction of temporary special tax (RDS) to reduce social security deficits
	1996	**Social Security Financing Law 1996** - Parliament receives right to determine financial equilibrium of social security budget **AGIRC/ ARRCO** - Merging of numerous individual schemes under ARRCO into single scheme - Increase of pension point price and moderation of pension point value
	1997	**Thomas Law** - Introduction of voluntary DC occupational and personal pension plans for private sector employees (**defeated!**)
	1998	**AGIRC/ ARRCO** - Agreement to comply with EU regulation EEC 1408/71

	1999	- Increase of CSG to 7.5% - Extension of RDS tax to 2004 - Charpin Report - Teulade Report - Taddei Report **Social Security Financing Law 1999** - Introduction of statutory fund (FRR) to finance future public pension costs
	2001	**Law on employees' savings plans** - Introduction of two new types of employee savings schemes (PEI, PPESV) **AGIRC/ ARRCO** - Reduction of number of pension funds - Further improvement and strengthening of cooperation between two federations
Phase 3 More radical retrenchment Less people are solely dependent on pay-as-you-go benefits Introduction of funded pension element in order to replace income losses from public pension	2003	**Pension Reform Act 2003 (Raffarin Reform)** - Gradual harmonisation between *régime général* and *régime speciaux* (contribution period, indexation method) - Increase of required contribution period for full benefits with life expectancy - Introduction of actuarial deductions for early retirement and supplements for postponed retirement for all schemes - Introduction of mandatory occupational pension schemes for civil servants (RAFP), self-employed and farmers - Introduction of voluntary occupational pension plan (PERCO) for private sector employees replacing employee savings schemes - Introduction of voluntary tax deductible personal pension plan (PERP) (from 2004)
	2006	**Plan Senior 2006** - Improvement of supplements for postponing retirement - Replacement of *minimum vieillesse* by new *allocation de solidarité aux personnes agées*
	2010	**Pension Reform Act 2010** - Increase of retirement age from 60 to 62 with required contribution period and from 65 to 67 without required contribution period (by 2018) - Increase of required contribution period to 41.5 (by 2020)

Source: (Conceição-Heldt 2007; Häusermann 2007)

4.4.2 The "first-pillarisation" of AGIRC/ ARRCO and the expansion of the mandatory dual pillar concept

Parallel to the first moderate retrenchment efforts in the public pillar, the occupational pillar had also come under closer scrutiny during the 1990s (see Table 4.6 Chronology). As the mandatory occupational schemes AGIRC/ ARRCO shared many of the public pension system's features, most notably the pay-as-you-go financing principle, they had been challenged by similar financial problems (Schludi 2005: 205/206). Expenditures had been growing due to demographic ageing while the revenue base had been crumbling away as new companies increasingly chose to pay contributions at the minimum rate of 4 per cent for ARRCO and 12 per cent for AGIRC (Reynaud 1997: 89).

Similar to the measures taken to solve the financial issues of the public pension system, one reaction was to expand the revenue base. Based on a collective agreement from 1993 the contribution rate was gradually increased. The *actual* rate (i.e. the rate at which contribution payments were collected) was raised to 7.5 per cent of gross earnings (up to the social security ceiling) for ARRCO and 20.3 per cent for AGIRC (ARRCO 2011). The flexible *contractual* contribution rate (i.e. the contribution rate for which benefit entitlements were earned) was replace by a fixed rate for all new members which was set at the mandatory minimum and progressively increased by 0.5 per cent per year from 1995 onwards, reaching a maximum level of 6 per cent for ARRCO in 1999 and 16.24 per cent for AGIRC in 2003 (Reynaud 1997: 44/45; Schludi 2005: 205). The changes with regards the contribution rates had two major consequencey. First, the steeper increase of the *actual* contribution rate above the *contractual* rate allowed for the expansion of contribution payments without granting higher benefit entitlements, helping to restore the balance between revenues and expenditures. Pension benefits were indirectly cut back by weakening the link between contribution payments and benefits to the disadvantage of the beneficiary

Second, before the introduction of the fixed *contractual* rate, the flexible maximum had allowed for further contribution payments based on voluntary negotiations with the employer to earn additional benefit entitlements in order to top up the mandatory part. By adopting a single *contractual* contribution rate, optional pension arrangements above the mandatory part are going to be gradually phased out, leaving the topping up function solely to voluntary private pension arrangements (Reynaud 1997: 24). This measure strengthened the role of AGIRC and ARRCO as part of the mandatory social insurance and it drew a clearer boundary between pay-as-you-go financed mandatory occupational supplements and voluntary funded topping-up pensions.

When it became clear that the changes introduced in the financing dimension would not be sufficient to fix the growing deficits in AGIRC and ARRCO, the pressure to control expenditures intensified. In contrast to the public pension system, the social partners could not hope for the government to introduce or increase taxes to finance deficits and the increase of the contribution rate quickly reached its limit due to its negative impact on non-wage labour costs (Schludi 2005: 205/206). Thus, several cost reducing measures were introduced during the second half of the 1990s with regards to the management dimension and the benefit dimension. First, the numerous individual schemes under ARRCO were gradually transformed from 46 into one single scheme, and the cooperation between AGIRC and ARRCO was improved in order to reduce administrative costs. Second, the purchasing price for pension points was increased, while the value of pension points has been moderated, leading to a significant reduction in future benefit levels. (Palier and Naczyk 2011: 112; Schludi 2005: 205).

Both measures remained within the existing institutional framework, changing instruments without altering the underlying principles just yet. But while the changes in the management dimension helped to preserve the existing institutional features of the mandatory occupational schemes in the long term, the changes in the benefit dimension might contribute to the gradual erosion of the income maintenance function of AGIRC and ARRCO, opening up more development space for private funded pension plans.

Finally, in 1998 the social partners agreed to comply with the EU regulation EEC 1408/71. The regulation coordinates the conditions for receiving pension benefits from social insurance institutions in the different EU member states, safeguarding the pension rights of employed and self-employed persons moving within the European Community. The inclusion of AGIRC and ARRCO under this EU regulation advanced their quasi "first-pillarisation" as both federations agreed to implement the same rules as statutory social insurance schemes (Palier and Naczyk 2011: 112). At the same time it limited their potential as a competitor in the European market for private pension provision. The distinction between AGIRC and ARRCO as retirement pension institution, with legal obligations from the Social Security Code on the one hand, and other occupational pension providers equivalent to insurance companies offering voluntary funded pension plans on the other hand, has been fortified (Reynaud 1997: 86).

Besides the "first-pillarisation" with regards to AGIRC and ARRCO, another trend can be observed within the occupational pension pillar which was induced by the state. In order to compensate for the expected public pension benefit losses due to the changes in the public sector schemes formulated in the Raffarin Reform from 2003, a mandatory fully funded occupational pension scheme (RAFP) was set up for civil servants. Moreover, mandatory pay-as-you-go financed occupational pension scheme were also introduced for the self-employed and farmers, providing for the extension of the concept of a mandatory dual pillar structure to the whole working population (Dixon 2008; Palier and Naczyk 2011: 99).

4.4.3 Increasing pension privatisation, capitalisation and individualisation

Until the early 1990s funded private occupational and personal pension plans hardly existed in the French pension system architecture. Employee-savings scheme in the occupational pension pillar and life insurance contracts in the personal pension pillar were the main forms of funded private old age provision. The encompassing coverage and provision of income maintaining benefits from the mandatory public and occupational social insurance schemes had led to a rudimentary and largely unregulated development of funded pensions. However, the numerous expert reports on pensions during the 1980s and 1990s underlining the necessity to cut back public pension expenditures, together with the reform of the general pension scheme in 1993 and the cut backs in the mandatory occupational schemes, had created a climate of insecurity during the second half of the 1990s, which found its expression in a declining expectation of a decent pension from the mandatory schemes and a growing number of people starting to save for their pensions by setting up life insurance contracts or buying property (Bonoli and Palier 2007: 570; Palier and Naczyk 2011: 98).

In this context, the only immediate statutory interventions with regards to the promotion of funded private pension provision was the improvement of the regulatory framework for voluntary funded pension plans for the self-employed by the *Loi Madelin* and for farmers by the *Exploitants Agricole* contracts in 1994 (Palier and Naczyk 2011: 101). According to these new regulations, contributions to a private pension plan could be deducted from income tax. The Madelin Law concerned about 2 million self-employed, but the success of this statutory intervention in promoting a higher take-up rate has been moderate (Lavigne 2002: 8).

During the second half of the 1990s, the pension policy debate increasingly shifted towards the issue of pension capitalisation and individualisation, which was mainly initiated by the insurance sector (Coceicao-Heldt 2007: 185; Häusermann 2007: 199). With the "Loi Thomas" in 1997 the centre-right government under Juppé tried to establish and support funded private pension plans with voluntary participation more rigorously. It was planned to establish pension funds on the basis of collective agreements at company or sector level, or the enrolment could be decided by the employer. Employees without access to a fund through their employer would have had the possibility to join a scheme of their own choice. The goal was to fill in future pension gaps and to strengthen the French equity market. However, the left-wing opposition, together with the unions feared that the law would foster the dominance of financial over social concerns and the long-term crowding-out of the mandatory occupational schemes, which would have significantly diminished the role and power of the unions in the area of old age security (Marier 2002: 119; Schludi 2005: 207). Thus, when the left-wing parties regained governmental power in 1997 the implementation of the law was defeated.

The following years under Prime Minister Alain Jospin were largely characterised by governmental non-decision with regards to any statutory activity to promote or improve funded private pension plans. Despite the fact that a change away from the predominance of the pay-as-you-go principle was perceived as urgent, it was also considered a highly delicate topic. Hence, the only attempt made, to deal with the issue of pay-as-you-go financing in times of demographic ageing and economic distress was to introduce a public reserve fund (FRR) in order to finance the expected deficits in the public pension pillar. The fund was endowed with assets mainly allocated from 2 per cent of social taxes on estate and investment income, surpluses from the public pension system and sales of state-owned assets (Schludi 2005: 211; Bonoli and Palier 2007: 140; Dixon 2008: 254). The reserve fund was relatively easy to enforce as it was perceived as a symbolic attempt to stabilise public pension revenues, thereby maintaining the pay-as-you-go financed system. However, it significantly grew in assets and importance over time. In 2006 it was ranked sixtieth in the Watson Wyatt list of the world's largest 300 pension funds (Dixon 2008: 257), turning from an instrument to support the maintenance of the existing institutional arrangements towards a means which could change the major financing principle of the public pension pillar in the long-term, thereby increasing the individualisation and capitalisation of the French pension system architecture.

In the meantime, the fears of unemployment and an increasing scepticism against the long-term sustainability of the PAYG financed mandatory pension schemes had fuelled precautionary savings fostering a process of pension privatisation from below via *drift*. Personal savings through life insurance contracts had seen a tremendous increase over the last 20 years. While life insurance reserves represented 14.8 billion Euro, i.e. 4.3 per cent of the French households' financial wealth in 1980, these reserves had increased to 650 billion Euro by 2000, representing 33 per cent of the households' financial wealth. The households' savings rate amounted to 16.4 per cent of the gross disposable household income in 2002 (Lavigne 2002: 9; Dixon 2008: 253). Of course this development cannot only be explained by an increase in the number of insurance contracts but also by an increase in payments on already existing contracts and the value appreciation of insurance fund assets, as well as more attractive fiscal treatment of life insurance savings (Lavigne 2002: 9).

The expansion of funded savings plans through the state was advanced in 2001 when the left-wing government introduced two new types of employee-savings schemes as a strategy to bypass potential opposition to pension funds by fostering savings scheme that are not exclusively pension oriented but perceived as a close substitute similar to life insurance contracts. Furthermore, the development of employee-savings schemes also served to capitalise French firms and improve the ratio of domestic versus non-resident ownership of French companies (Lavigne 2002: 13; Veil 2002: 105).

The institutionalisation of funded savings plans as old age security instruments was finally progressed with the Raffarin Reform 2003 which introduced two voluntary funded pension savings instruments: the *Plan d'épargne retraite populaire* (PERP) as an individual pension scheme and the *Plan d'épargne retraite collectif* (PERCO) as an occupational scheme (Bode 2007; Dixon 2008). But even though these new pension savings instruments were the first successful governmental attempt to foster and further institutionalise funded private pension plans through a strategy of *institutional layering*, the take-up rates have been relatively moderate until today. In 2008 only about 360,000 employees paid contributions into a PERCO plan, while two million insured were covered by a PERP plan in 2007 (AFG 2008; DREES 2009).

4.5 The French pension system today: the beginning of a transformation

Pension schemes and management

While the original pension schemes in the public pension pillar, as well as their administrative structures, have been largely maintained until today, two major differences stand out in comparison to the institutional settings of the late 1970s. First, since the early 2000s the general pension scheme for private sector employees increasingly functions as a blueprint and reference point for reforms in the special schemes for the public sector. Even though there is no unified single public pension system yet, the increasing convergence towards the benefit and financing rules of the *régime général* for civil servants and public sector employees is slowly watering down status differences and special privileges within the public pension pillar, paving the way for a more universal system.

The second significant difference concerns the management of the general public pension scheme. While the involvement of the state was traditionally limited to a supervisory role in the management of the general scheme, newly established supervisory councils, composed of members from the Parliament, experts and national fund directors designated by the state, are now in charge of the appointment of the directors of the local and regional pension agencies (*'caisses'*), providing a channel for more statutory influence. Furthermore, an amendment to the Constitution gives the French parliament the right to determine the financial equilibrium of the social security system, assigning an important financial management function to the statutory level. The predominance of the social partners and the rather subordinated role of the state in the management and control of the statutory pension have been challenged by these changes, providing gateways to more statutory power (Natali and Rhodes 2004: 15; Palier 2005: 140).

Tab. 4.7: The design of the French pension system, 2010

	Public Pillar	Occupational Pillar	Personal Pillar
Third tier		Voluntary collective pension scheme (PERCO) - Funding - NDC, DC, topping-up Mandatory pension schemes for: - Civil servants - Self-employed - Farmers	Voluntary personal pension plans for all indviduals (PERP) - Funding - DC, topping-up Quasi-mandatory personal pension plans for: - Self-employed (*Loi Madelin*) - Agricultural sector (*Exploitants agricole*)
Second tier	Public sector employees (*régime spéciaux*) - Harmonisation of rules with *régime général* Farmers (*régime agricole*) Self-employed (*régime non-salariés*)	Mandatory occupational schemes for private sector employees (*régime complémentaire obligatoire*)	
First tier	Mandatory scheme for private sector employees (*régime général*) - Higher degree of statutory involvement in administration - Increased share of taxes financing non-contribution benefits Minimum pension scheme (ASPA)		

Source: Based on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007)

Looking at the scheme and management dimension of the occupational and personal pension pillar, changes can be detected with regards to the mandatory as well as the voluntary parts of private pension provision. The rules of the various mandatory occupational schemes under ARRCO have been harmonised and the decision-making and administrative governance has been rationalised and centralised. Furthermore, the cooperation between the two occupational pension federations has been improved and intensified. Both federations have also agreed to implement a set of rules similar to those applied to public pension schemes in order to comply with EU Regulation EEC 1408/71 regulating the social protection for migrant workers. On the one hand, the reduction of administrative costs and the increasing cooperation between the two umbrella organisations, provided for the stability of AGIRC and ARRCO in the emerging private pension market, with an increasing competition through insurance companies and other financial service actors. On the other hand, both federations had agreed to implement a set of rules similar to those applied to public pension schemes in response to pressures coming from the EU, separating their commercial activities in the area of private pension provision from their management of the compulsory supplementary pension schemes. Palier (Palier and Naczyk 2011: 111) sees this development as a quasi 'first-pillarization' of AGIRC and ARRCO. Second, mandatory occupational pension schemes have been introduced for civil servants (RAFP), the self-employed and farmers who had not been included in any mandatory occupational scheme before (Palier and Naczyk 2011: 101).

The settings of voluntary occupational plans also show some significant changes. A new occupational pension plan has been established (PERCO). In contrast to the diversity of ways to set up *article 39* or *article 83* schemes, PERCO plans are more regulated and defined. PERCO plans are usually run by fund managers. As a group pension product, PERCO offers access to currently three investment funds, and the insured is encouraged to make their own investment decisions. However, it is also possible to be automatically allocated to a default fund. The latter is the more conservative way to manage a PERCO plan, accounting for the potentially low degree of financial literacy among employees who have been relying on mandatory plans for a long time (AFG 2008; Palier and Naczyk 2011: 112).

In the personal pension pillar, funded pension savings plans have been introduced for different professional groups, with a defined regulatory framework and generous tax incentives managed either by insurance companies, mutual aid societies or provident institutions. PERP is the new personal pension plan for all individuals while the *Loi Madelin* and the *Exploitants agricole* are targeted at the self-employed and the agricultural sector respectively (Palier and Naczyk 2011: 106, 113; Veil 2000).

Financing

Looking at the French pension system today, two major changes with regard to the financing dimension can be found in the general scheme of the public pillar, altering some essential parts of the traditional Bismarckian logic. First, there are two new financing instruments changing the ratio between contributions and other financing sources in the public pension pillar. One new instrument is a general social security tax (CSG) on all income (wage, income from capital, welfare benefits), with a variable rate between 6.6 and 8.2 per cent, [15] which has been introduced to finance non-contributory pension benefits such as pension supplements for old age or child care, pension credits for periods of unemployment, military service or sickness and the minimum pension (ASPA). The other new means of financing is a statutory reserve fund (FRR) with assets stemming from taxes and the privatisation of national properties. The FRR has been created in order to finance future pension costs due to demographic ageing (Wischeropp 1999: 43, Marier 2002: 98).

The CSG provides more than 20 per cent of all social protection resources today. Even though contributions still account for the larger part of revenues, the meaning of taxes and other financial sources have gained in importance by the continuous increase of the social tax CSG as well as by the introduction of the reserve fund which is managed by the state, providing for a stronger involvement of the state in the financing dimension, while the principle of contribution financing is losing its primacy. Furthermore, the separation between non-contributory pension benefits that are financed by taxes and benefits that are financed by contributions is more pronounced today (Joël 2000: 22, 23; Lechevalier 2007: 150; Wischeropp 1999: 169). On the one hand, it tightens the link between contributions and benefits supporting the Bismarckian logic of equivalence. On the other hand, an increased share of tax financing reduces the legitimate basis for the social partners to take part in the management and decision making with regards to public pension benefits, leading to a decrease in their influence in the public pension system, especially with an increasing population being in need of non-contributory benefits due to atypical employment and unemployment (Palier 2005: 140).

The integration of the reserve fund does not only foster a higher degree of state involvement and a shift away from employer-employee contribution financing, but it also activates a shift away from the exclusive reliance on the pay-as-you-go-principle. FRR fund assets are invested in the international capital market (Bode 2007: 36). The

[15] 6.6 per cent on pensions, 7.5 on wages, 8.2 per cent on income from rent, investments, capital gains etc.

FRR investment strategies are modelled based on other global pension funds, and in the P&I/ Watson Wyatt list of the world's largest pension funds the FRR is ranked 60th (Dixon 2008: 257). Despite the fact that fund assets in the French public pension pillar are still relatively low in comparison to pension fund assets in the Netherlands or Switzerland, the FRR has quickly gained in importance since its introduction in 1999. Furthermore, it is planned to use the accumulated funds from 2020 onwards to partially finance the different mandatory pension schemes of the public pillar (Dixon 2008: 254).

The second difference in comparison to the pre-reform system concerns the distribution of the financial burden. While the contribution rate for employers has been maintained at a constant level since the 1980s, the contribution rate for employees augmented from 4.7 to 6.65 per cent in 2010 (with a peak of 7.6 per cent in 1990), indicating a shift in the financial responsibility towards the employee. Between the 1970s and 1995 the employee share in contribution payments has increased by 10 per cent (Bouget 1998: 159). Furthermore, the introduction of the social tax CSG transferred parts of the financial burden of the public pension system from the insured members towards all citizens (Wischeropp 1999: 169). At the same time, an additional employer contribution rate has been set up of 1.6 per cent on gross wages above the social security ceiling, which could be interpreted as an indirect increase in the employers' contribution rate as well as the beginning of the corrosion of the contribution ceiling in general.

In the mandatory part of the occupational pension pillar, the previously flexible contribution rate has been replaced by a single contribution rate for all new members of 6 per cent for ARRCO schemes and 16 per cent for AGIRC schemes (Reynaud 1997: 44/45). By doing so the social partners agreed on the progressive withdrawal of optional arrangements beyond the compulsory coverage, providing more scope for the development of funded schemes and limiting the extent of PAYG financed occupational pension provision (Reynaud 1997: 44, 88). As a consequence, institutions offering voluntary funded pension supplements are more distinct from institutions offering supplementary retirement benefits under legal obligations based on the pay-as-you-go principle. It stabilises and clarifies the main function of AGIRC and ARRCO, but also opens possibilities for funded private plans outside of the main occupational institutions (Reynaud 1997: 86).

The trend towards a higher level of funding within the occupational and personal pension pillar has also been fostered by the introduction of the funding principle in the new mandatory occupational scheme for civil servants, as well as by the establishment of the voluntary company pension scheme PERCO and the individual pension savings plan PERP, which are both fully funded pension savings vehicles. Furthermore, tax incentives have been improved for all types of voluntary funded pension plans. Employers' contributions to a defined-benefit plan are tax deductible up to 6 per cent of the employees' income if the plan complies with certain regulations, and payments to a defined-contribution plan (*article 83*, PERCO, PERP) are exempt from tax up to 10 per cent of the employees' income up to a maximum of eight times the social security ceiling (Palier and Naczyk 2011).

Another new development within the financing dimension of voluntary private pension plans is a shift away from the employer-only financing principle. PERCO plans are financed by employees' contributions, while the employer has the possibility to contribute to the plan on a voluntary basis. The individual savings scheme PERP is solely financed by contributions of the insured, as are the funded private plans for the self-employed and farmers (*Loi Madelin*; *Exploitants agricoles*), strengthening the individual financing principle (Palier and Naczyk 2011: 105).

Access

The almost universal coverage with public pensions through the different schemes has been maintained until today. However, the access rules for public pensions from the general scheme have been tightened. First, early retirement options have been decreased by raising the legal minimum retirement age from 60 to 62 for those people born after 1956. Only workers with a long career or those who have entered the labour market before the age of 17, as well as disabled workers and those performing physically heavy work, will still be able to retire before the new minimum retirement age. Second, the two conditions required to receive full pension benefits have also been changed. The retirement age for full pension benefits has been increased from 65 to 67 for those people born after 1956 while the number of contribution years, which are required in order to receive a full pension, have been gradually increased from 37.5

years to 40 years today, and will be further raised to 41.5 by 2020. From 2020 it is planned to raise the number of contribution years according to changes in the life expectancy (European Commission 2010: 55).

The broad coverage with mandatory occupational pensions among private sector employees still characterises the French pension system today, but besides private sector employees, those professional groups who have traditionally not been part of any mandatory occupational scheme are now subject to mandatory occupational insurance. Since 2003 self-employed and farmers are covered by a newly established pay-as-you-go financed occupational points scheme similar to those under AGIRC and ARRCO, while civil servants are obliged to pay contributions into a mandatory funded occupational scheme supplementing their special public scheme (Palier and Naczyk 2011: 101).

Another difference in the access dimension of the occupational pension pillar is the increasing coverage with voluntary funded occupational and personal pensions. With regard to the already existing *article 39* DB plans and *article 83* DC schemes, the former has been closed to new entrants, but the number of people covered by the latter scheme has been growing from about 2.3 million in 2005 to 3.2 million by the end of 2007 (see Table 4.8). However, access to *article 83* schemes is still not open to every employee, as they require a minimum length of service in the company (e.g. 12 month). As a consequence workers with interrupted employment histories are less likely to be covered by these schemes. In contrast to this, the newly introduced voluntary company pension plan, PERCO, is open to all employees of a company or branch respectively and also more accessible to atypical workers, as the required minimum length of service is only three months (Palier and Naczyk 2011: 103). Furthermore, PERCO plans have to be based on an agreement with the unions or the work council, or they have to be approved by the employees of the firm through a referendum (Palier and Naczyk 2011: 112). This means that once a PERCO plan has been set up, all workers have to be included. Between 2004 and 2007 the number of employees covered by PERCO increased rapidly from 38,000 to 334,000. According to a press release by the French Asset Management Association (AFG) 359,818 employees had paid contributions into a PERCO plan in 2008, while almost 61,000 companies were operating such a scheme (AFG 2008).

The number of self-employed as well as farmers covered by funded pension plans has also increased since the state promoted the possibility to join voluntary funded pension schemes (*Loi Madelin* and *Exploitant agricoles*) under the same conditions as the new personal pension scheme PERP. In 2007 about 1.3 million self-employed and farmers were covered by *Loi Madelin'* or *Exploitants agricoles* contracts, in comparison to 997,000 members in 2004. The new personal pension plan, PERP, provides access to everyone independent of their occupational or employment status. Since 2004 the number of people covered by PERP increased from about 1.2 million to almost 2 million by the end of 2007 (DREES 2009: 2).

Tab. 4.8: Number of persons covered by voluntary private pension plans (in thousands)

		2004	2005	2006	2007
Occupational	*Dependent employees*				
	PERCO	38	102	201	334
	Article 83	-	2300 - 2500	2700 - 2800	3000 - 3200
	Article 39				
	Self-employed				
	"Madelin"	740	808	940	1037
	"Exploitants agricole"	257	265	269	270
Personal	PERP	1235	1672	1876	1994

Source: (DREES 2009)

Benefits

The benefit dimension of the public pension system today shows both continuity and changes in comparison to the late 1970s. The basic parameters of the benefit formula have been maintained, but the benefit level has been gradually decreased, especially for future pensioners. This is due to changes within the parameters that define the benefit level. The biggest differences can be found in the benefit calculation for private sector employees.

Benefits from the general scheme are now calculated based on the average annual wage of the best 25 years, strengthening the link between lifetime earnings and benefits, and by doing so including phases of low or no income which can significantly decrease pension benefits. Next to the less favourable reference salary, the minimum number of contribution years was gradually increased to 40 years (160 trimester) by 2009, and will be further increased to 41 years by 2012 in order to receive the full amount of benefits, i.e. 50 per cent of the reference salary.

Moreover, the required contribution period for both private and public sector schemes has been made dependent on the development of the life expectancy. Based on this, another extension of the contribution period to 42 years by 2016 is expected and further increases beyond 2016 are likely. The extension of the contribution period will be discussed and prepared by the Pension Orientation Council every four years (Jeger and Lelievre 2005: 78). Another change concerns the indexation of benefits. In contrast to the early 1980s, benefits are now indexed to inflation rather than the wage development, increasing the gap between pension benefits and wages.

Besides these reductive measures, there have also been some favourable changes. The actuarial deductions made in case of less contribution years have been gradually lowered since 2004 and should be only 1.25 per cent per missing trimester (5 per cent per year) by 2013. Furthermore, the postponement of retirement beyond 60 or any additional contribution year to the required number is now rewarded with increases by 3 per cent for the first year, 4 per cent for the second and 5 per cent for every subsequent year (Lechevalier 2007: 169).

Occupational pension benefits from AGIRC and ARRCO still play a major role for the old age income mix, but similar to public pension benefits significant, cut backs have lowered the benefit level. The basic benefit calculation principles are also still the same in AGIRC and ARRCO schemes, but the "price" for pension points has been increased by indexing it to a higher level than the price or wage development (between 2003 and 2008 it was indexed to wages again) whereas the value of pension points has been decreased by indexing it to prices rather than the wage development. As a consequence the purchasing power of occupational pension benefits is significantly lower today in comparison to the late 1970s (Palier and Naczyk 2011: 106/107).

Even though funded voluntary pension plans still play a very minor role for old age income today, a decrease in the benefit level of mandatory occupational pensions, especially in the long-term, opens more space for the development of funded alternatives, as can be observed by the increasing number of subscribers to PERCO and

PERP. Besides the growing importance of private pension benefits beyond AGIRC and ARRCO, there has also been a change with regards to the nature of voluntary private pension benefits. Defined-benefit schemes have been closed to new members, while the popularity of defined-contribution schemes (*article 83*, PERCO, PERP) has been growing (Palier and Naczyk 2011: 103), shifting financial risks towards the individual. At the same time the attractiveness of defined-contribution plans has been improved by the automatic vesting of entitlements and a high degree of portability. Moreover, some of the schemes provide credits for non-contribution periods due to illness, maternity or parental leave. The indexation of benefits is guaranteed by contract or based on the fund performance (Palier and Naczyk 2011: 108).

4.6 Conclusions

The before and after comparison of the institutional structures of the French old age security system shows both the persistence of some parts of the original pension system architecture and goals and the departure from some institutional structures and principles (see Figure 4.3).

On the one hand, the mandatory contribution based, pay-as-you-go financed social insurance system consisting of the statutory *régime général* and the complementary occupational schemes under AGIRC and ARRCO still constitutes the core of the French old age security system. First, the equivalence of contributions and benefits (equivalence principle) as well as the emphasis on employment as precondition for the access to full pension benefits (employment based access) have been strengthened through the reform measures in the statutory system. Second, the character of the occupational complementary pension system as quasi-statutory social insurance has been expanded, which Naczyk and Palier (Naczyk and Palier 2010: 6) refer to as "first-pillarisation". AGIRC and ARRCO have been harmonised and the decision-making and administrative governance has been rationalised, improving their sustainability and affirming their position as an essential part in the overall pension system architecture in France in an environment of increasing financial pressures and competition.

On the other hand, there have been a range of smaller changes in all three pension pillars, which point towards the beginning of a substantial transformation towards a higher degree of privatisation, capitalisation and individualisation. Four changes stand out with regards to the mandatory public and occupational social insurance system, setting incentives for a greater institutional transformation.

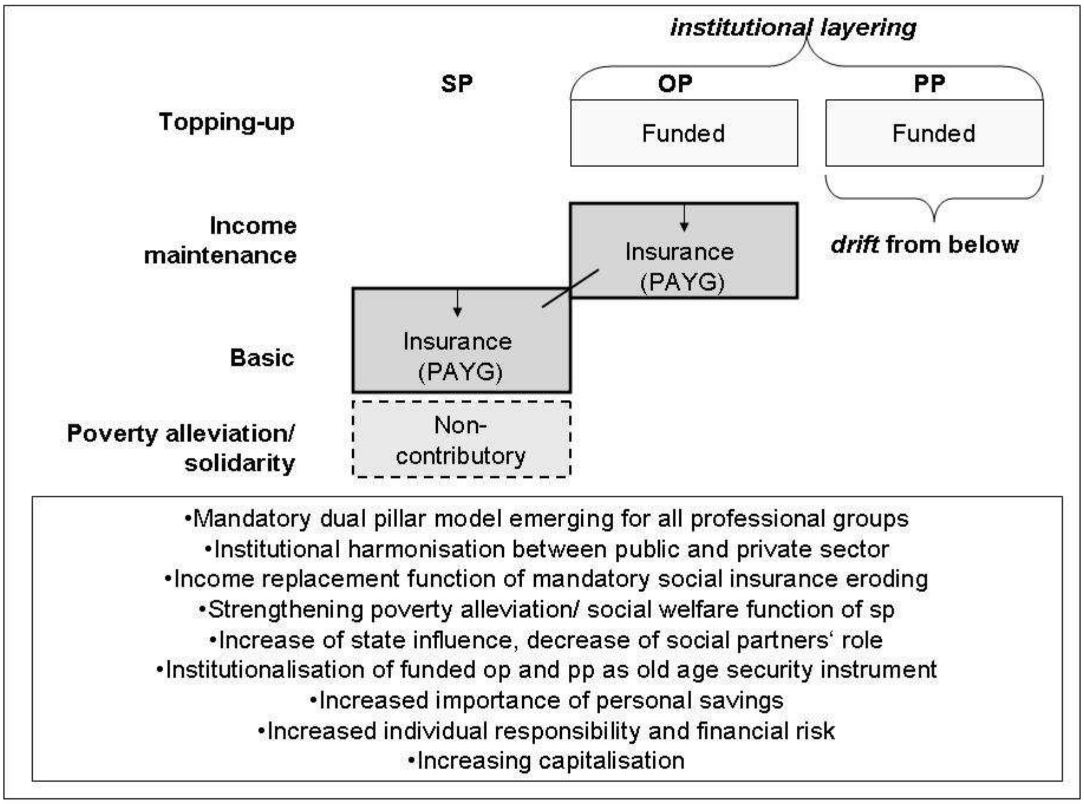

Figure 4.3: The French public-private architecture and goals, 2010

First, the gradual reduction of public pension benefits as a result of stricter eligibility criteria and a tighter link between benefits and contributions together with the decrease in occupational pension benefits (AGIRC/ ARRCO) is increasing the space but also the need for the development of additional private pension provision. The combined replacement rate for an average production worker in the private sector for instance is assumed to decline from 71.2 per cent in 2000 to 59.9 per cent in 2020 and 57.2 per cent in 2040 (Conseil d'Orientation des Retraites 2001).

Second, taking the general pension scheme for private sector employees as a reference point for the reform of the public sector schemes does not only contribute to the withering away of the traditional status differences between professional groups, but it also fosters the gradual decline of the public pension level in the *régime speciaux*, which might, especially in the long-term, create a greater need for private supplementary pensions among those groups of professionals who have formerly been mainly reliant on the public pension pillar. The introduction of mandatory occupational schemes for civil servants, the self-employed and farmers support the trend towards an expansion of the mandatory dual pillar concept from private sector employees to the whole working population.

Third, the tightening of the link between contributions and benefits as well as the stricter employment focus in the public pension pillar schemes enforces the division between those people with sufficient contribution years and long careers who are covered by contribution financed social insurance benefits, and those insured with lower earnings and interrupted contribution periods who are going to be increasingly reliant on the tax financed solidarity benefits and the means-tested minimum scheme (ASPA) (Gallouj and Gallouj 2008: 228). Palier (2010a: 96) describes this as the development of “two worlds of welfare” within the public pension system. With the tax financed solidarity system becoming increasingly important, the character of the public pension pillar might further change towards social welfare, departing from the dominance of the social insurance concept in the long-term. Moreover, due to the growing share of tax financing the legitimacy of the social partners’ management role in the public pension pillar has started to erode, while the power of the state as financier has been increased. This trend has been strengthened by the assignment of the arbitrament over pension expenditures to the Parliament, which expanded the power of the state beyond its legal and supervisory role (Gallouj and Gallouj 2008: 221, 230).

The changes in the mandatory public and occupational pension schems were complemented by a shift towards a higher degree of funding and privatisation. This development has been fostered by three developments. First, a new funded financing element, the reserve fund (FRR), was introduced in the public pension pillar. As the FRR has quickly gained in importance as a source of financing through its rapidly growing assets, it can be considered as an important element to weaken the pre-dominance of the pay-as-you-go principle in the public pension pillar in the future. Second, state regulated private pension plans were established. The development and institutionalisation of voluntary private funded pensions for all professional groups was advanced by the introduction of new schemes in the occupational (PERCO) and personal pension pillar (PERP, ‘Loi Madelin’, ‘Exploitants agricoles’) with a regulated framework and generous tax incentives. All of the newly introduced voluntary private (occupational and personal) schemes (PERCO, PERP, 'Loi Madelin', 'Exploitants agricole') are DC plans, which are mainly financed by the individual, shifting financial risks and responsibilties from the employer to the employee. Furthermore, many of the old *article 39* DB funded occupational pension schemes have been closed to new entrants and are now increasingly replaced by *article 83* DC schemes, supporting the trend away from collectively shared risks and responsibilities towards a higher degree of individualisation. Finally, besides the statutory attempts to foster a shift towards a higher degree of capitalisation, the number and volume of personal savings plans has been growing since the late 1970s, contributing to an increasing individualisation and capitalisation of old age provision from below.

Summing up, the comparison of the instiutional arrangements and overarching goals of the French old age security system before the reform process and today, reveals the **beginning of an institutional transformation** towards a more harmonised (i.e. less professionally fragmented) system of a mandatory pay-as-you-go financed public and occupational social insurance supplemented by various forms of voluntary funded pensions and personal savings for those with steady careers and medium to high earnings ("insurance insiders") while a system of minimum and solidarity benefits is provided by the state for those with low earnings, atypical careers and an insufficient number of contribution years ("assisted or activated outsiders") (Palier 2010a: 98).

The analysis of the reform process in France reveals that the retrenchment of the public pension pillar has started relatively late and was pursued through the introduction of smaller modifications within the exitsing institutional frame with long phasing-in periods focussing first on the private sector scheme and leaving a break of ten years before successfully tackling the public sector schemes. The shift towards a higher degree of privatisation and capitalisation was also gradually progressed, partly as a result of the viscous process of state induced changes in the context of increasing financial pressures and insecurity, which had led to an increase of personal savings from below representing a form of **institutional drift** and partly through the **layering** of voluntary funded occupational and personal pension schemes on top of the existing institutional structures. However, the take-up rates of these new pension plans are still comparatively moderate. Thus, the future development of the various institutionalises and less institutionalised forms of old age provision will show more clearly which pattern of change will dominate the shift towards privatisation.

5 Germany: The classic case

The German pension system has long represented the prototype of the Bismarckian social insurance tradition even though the complex set of institutiuonal rules, as it had developed before the last wave of reforms, was not only the result of Bismarck's historical decision to establish a public insurance against old age and invalidity but it was also the product of a range of subsequent pension policy decisions and the dynamic between public and private pension arrangements. The general architecture has been characterised by a generous pay-as-you-go financed public pension pillar with a strong employment focus and a tight link between benefits and previous contribution payments while funded occupational and personal pensions were hardly institutionalised as part of the old age security system playing a subordinate role.

Augmenting financial pressures in the light of demographic changes, an expanding labour market crisis and the costs of the German unification fostered a relatively pessimistic outlook for the future sustainability of the existing pension system structure in Germany, triggering a process of pension system restructuring since the early 1980s (Bonoli and Palier 2008; Hinrichs 2010).

The process as well as the outcome of three decades of pension reforms and changes, have been examined and controversially dicussed in the literature, however, without giving a clear answer to the question whether the German pension system is a case of institutional change or stability with some adjustments. Three major changes can be identified, which give reason to assume that the German pension system architecture has indeed been going through a major transformation: a) the departure from the income maintenance function of the public pension pillar and the establishment of basic security elements b) a shift towards increasing private pension provision and c) a higher degree of individualisation and marketisation of old age security on the one hand and increased state regulation and collective efforts in private pensions on the other hand.

The following chapter analyses the development process of the German pension system archiecture over the last three decades focussing on the role of the specific institutional preconditions as well as the sequence of changes in order to highlight the institutional mechanisms helping to facilitate changes. Furthermore, it systematically examines the degree of change in the German pension system architecture.

5.1 The German pension system before the reform process

5.1.1 Historical origins and maturation

With the end of old feudalist structures and the preceding industrialisation process in Germany during the second half of the 19th century, a range of new social risks had occurred while previous forms of social protection through the family and/ or the guilds, had been eroding, creating a number of social problems. In reaction to this, the first mandatory public pension scheme was established under *Reichskanzler* Bismarck in 1889[16]. Bismarck was pursuing a twofold strategy. On the one hand, originating in a paternalistic perception of the state as an instrument of educative coercion for the well-being of society, a statutory solution was provided to improve the miserable social conditions of industrial workers (Hartig 2002: 146; Hohn 2004: 35). On the other hand, Bismarck was following a political strategy by offering statutory social protection, in order to appease the growing working class movement, which was a threat to the political hegemony of Bismarck and the conservative forces around him (Ebbinghaus and Schulze 2007: 271; Hohn 2004: 35).

Not long after the introduction of the Old Age and Invalidity Insurance Act for blue-collar workers, a separate public pension scheme for white-collar employees was established in 1911. The organisational separation between the two professional groups was partly a result of white-collar employees' pressing for a separate scheme given the very low benefit level of the blue-collar workers' pension scheme, and partly a strategic decision of the Bismarck government, to maintain status group differences, thereby preventing cross-class solidarity (Ebbinghaus and Schulze 2007: 271; Hohn 2004: 42). Further, separate pension schemes with mandatory membership developed during the following years for free professions (e.g. physicians, architects, lawyers, pharmacists) and after the Second World War for farmers. Given the special status of civil servants as government employees, a privileged special pension scheme for civil servants had already been established during the late 18th century, ensuring their loyalty to the state (Ebbinghhaus, Gronwald and Wiß 2011; Hartig 2002: 52).

Occupational pension schemes had been set up sporadically long before the introduction of the first statutory pension schemes under Bismarck, but it was only

[16] For a more detailed overview of the early historical development of private and public old age provision see Hartig 2002; Haerendel 2001; Hohn 2004. .

during the second half of the 19th century, when the industrialisation process had gained momentum, that the number of occupational pension schemes had increased significantly - particularly in the metal, mining and chemical industries (e.g. Siemens 1872; BASF 1879) (von Maydell 1983a: 249). Offering occupational pensions was one way to secure the firm's influence on its employees and to bind them to the company. At the same time life insurance contracts were introduced as a form of private old age provision and by the end of the 19th century an increasing number of firms offered life insurance contracts to certain parts of their staff (Hartig 2002: 69, 73, 84).

The development of a public system of old age provision had been perceived with mixed feelings by the employers in Germany. Representatives of a liberal economic position had been opposed to this form of state intervention, criticising it as state socialism and competition to the already existing private forms of old age provision. Other employers had supported the idea of a public social insurance system as it removed the employers' responsibility to provide for their employees in old age while their influence was largely maintained by the bi-partite self-administration and parity contribution financing of the public system (Hartig 2002: 189; Hohn 2004: 70, 71). Moreover, even though public pension benefits were linked to previous contribution payments, the level of benefits was relatively low until the Second World War, being no more than a basic security, thus leaving enough space for the development of occupational pensions as a human resource tool and for higher income earners (Döring 2000).

The next mile stone in the development of the typical German pension system architecture was taken after WWII (Ebbinghhaus, Gronwald and Wiß 2011).. Most of the major principles (professional fragmentation, self-administration, contribution financing) which had been established under Bismarck were revived after World War II, but as pension benefits were neither indexed to inflation nor wages, public pension benefits in the early 1950s were not sufficient for the majority of pensioners in the context of increasing prices and economic growth (Schulze and Jochem 2007: 671). This led to an encompassing pension reform in 1957 under the conservative Adenauer government as part of the electoral campaign having the power of a large elderly constituency in mind.

Based on the goal to let pensioners take part in economic growth, a dynamic indexation formula was introduced. The subsequent increase of retirement benefits, by on average more than 60 per cent, established public pensions as wage replacement rather than basic security provisions (Ebbinghaus and Schulze 2007: 273; Hinrichs 2003: 11). Next to the improvement of the benefit level, the pay-as-you-go financing principle was introduced based on an intergenerational contract (*Generationenvertrag*). The decision to replace the former funding principle by a pay-as-you-go system was largely a consequence of the fact that two World Wars had depleted public pension reserves and individual savings. It was the shift towards the pay-as-you-go financing principle which allowed for the significant improvement of the benefit level (Ebbinghhaus, Gronwald and Wiß 2011: 125).

During the following decades, the process of expanding and improving the public pension pillar was continued, peaking with the *Pension Reform Act 1972*, which among other measures introduced a flexible retirement age (Hohn 2004: 159). The standard net replacement rate for an average production worker had risen from 38.9 to 56 per cent between 1950 and 1975 (Korpi and Palme 2008).

The continuous expansion of the public pension system covering the whole workforce except for the self-employed, and the provision of generous public benefits, made additional private occupational or personal pension provision less necessary (crowding-out). The political neglect in combination with the lack of interest among the publicly insured, led to a rather uncontrolled and patchy co-evolution of occupational pension schemes and personal savings plans (in particular life insurance contracts) during the 1950s and 1960s. The establishment of pension schemes in the occupational pillar had been mainly dependent on the employers' decisions who would offer occupational pensions as a human resource strategy to attract skilled labour or as a means to re-finance their companies after the war (Ebbinghhaus, Gronwald and Wiß 2011: 125).

The first federal regulation of occupational pensions was introduced no earlier than in 1974, in order to protect employee rights in the light of increasing firm bankruptcy and insolvency problems resulting from the first economic crisis after the "oil shock" in 1973. However, the voluntary character of occupational pensions had been maintained. While the statutory regulation improved the situation for employees, it made it less attractive for some employers to offer occupational plans leading to a decline in occupational pension coverage (Ebbinghhaus, Gronwald and Wiß 2011: 125; Schulze and Jochem 2007: 672).

5.1.2 The institutional design of German pension system by the late 1970s

Pension schemes and management

After the pension reform in 1957, the GRV (*Gesetzliche Rentenversicherung)* became the largest statutory pension scheme in Germany, covering all public and private sector employees above a certain minimum income (see Table 5.1). The GRV encompassed separate schemes for blue-collar workers and white collar employees as well as for miners, seamen and railway employees. The schemes were self-administered and managed by distinct administrative bodies[17] consisting of elected representatives from the employers and the insured employees in equal shares. The state had thus not been involved in the administration of the public pension schemes. The different administrative bodies had been aligned in the Association of German Pension Insurance Carriers (VDR), which coordinated and represented the interest of its members (Alber 2001). The involvement of the social partners in the administration of the GRV reflected strong corporatist principles fostering the social partners' interest and support for the public pension system as well as the ambition for a consensus oriented harmonic relationship with regards to public social policies. Besides the GRV, a number of independent semi-occupational second-tier schemes existed, such as the system for farmers (*Alterssicherung der Landwirte*), a scheme for civil servants (*Beamtemversorgung*), and a self-governing compulsory insurance for certain groups of self-employed[18] (*Berufsständische Versorgungswerke*) (Rothenbacher 2001).

[17] 23 administrative bodies on *Länder* level have been responsible for blue-collar employees (*Landesversicherungsanstalten*) and two separate institutes administered pension schemes for railway employees (*Bundesbahnversicherungsanstalt*) and seamen (*Seekasse)* while the federal insurance institute has been in charge of white-collar employees (Bundesversicherungsanstalt für Angesellte). Another administrative body governed the pension schemes for miners (knappschaftliche Rentenversicherung).

[18] Physicians, architects, lawyers, pharmacists

Tab. 5.1: The design of the German pension system, 1980

	Public Pillar	**Occupational Pillar**	**Personal Pillar**
Third tier		Private sector schemes: - Employer only contributions, internal funding - Voluntary, employer commitment - DB, topping-up Public sector scheme (VBL): - Employer only contributions, PAYG - Quasi-mandatory collective scheme - DB, topping-up	Different types of personal asset formation - External funding - Voluntary, individual - DC, topping-up
Second tier	Public and private sector employees (GRV) - Self-administration - Parity contributions, PAYG - Mandatory - Earnings-/contribution related, DB, income replacement Separate semi-occupational schemes for: - Civil servants (*Beamtenversorgung*) - Farmers - Free professions (*Berufsständische Versorgungswerke)* **		
First tier			

Notes: ** in the case of insufficient pension benefit entitlements, the general assistance scheme was the last safety net

Source: Based on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007)

The historically grown fragmentation of the public pension pillar along occupational lines strongly supported the maintenance of status group differences creating within-group solidarity and avoiding cross-class alliances. However, despite the separate schemes of the GRV and the independence of the other professional schemes, the benefit and financing rules had been increasingly harmonised between the different schemes by the end of the 1970s, diminishing actual status differentiations but maintaining a symbolic separation on the administrative level. Only the civil servants scheme remained more privileged in comparison to the other professional schemes.

A particularity of the German public pension pillar was that it did not have a distinct first tier scheme providing a minimum protection for the elderly in the case of insufficient benefit entitlements. Hence, the principle of poverty alleviation was not pursued through the German public pension pillar. Instead, the prevention of old age poverty was seen as the task of the general means-tested social assistance scheme (Viebrok 2004: 11).

By the end of the 1970s the occupational pension pillar consisted mainly of occupational pension schemes provided by the employer on a voluntary basis. Only a few collective schemes had been established for certain industries in the private sector (e.g. building and construction since 1969) and a collective quasi-mandatory occupational scheme had been introduced for public sector employees in 1966/1967 (Schaub, Schusinski and Ströer 1976: 17/54) (see Table 5.1).

Occupational pension schemes could be organised using one of four types of funding vehicles: Direct pension commitments financed by book reserves (*Direktzusage*), legally independent support funds (*Unterstützungskasse*), direct insurances (*Direktversicherung*) where the employer pays into a life insurance contract for his employees, and superannuation funds (*Pensionskasse*), which were independent funds but with the possibility of employee fund membership (aba 2005: 23; Ricken 2007: 371).

Since the 1950s, the most popular form of occupational pension was the direct employer commitment (Berner 2007: 244). The popularity of the direct commitment underlined the paternalistic approach and firm-based character of occupational pension provision in Germany, with the employer being the main person responsible for his/ her employee's occupational pensions. It also enforced a stronger attachment of the employee to the firm than the externalised forms of occupational pensions as the employees' pension was to a certain degree reliant on the firms performance. Finally, as pension contributions were invested in the firm rather than in the capital market, it represented an attractive financing tool for many employers.

The management and administration of occupational pension schemes in the private sector was generally carried out either by the firm (direct commitment), the fund members or their elected representatives respectively (superannuation fund; support fund), or by an external insurance company (direct insurance). Traditionally, the employer or the workers' council were the negotiation partners for external providers of financial services (Berner 2007: 248). In the case of collective agreements the scheme was usually self-administered by the social partners whose tasks ranged from consulting with regard to asset development, investments, and pension plan design, to negotiating, controlling, and the termination of contracts with financial service companies (Schaub, Schusinski and Ströer 1976: 9 et sqq) (von Maydell 1983a: 255 et sqq.). In the public sector, occupational pension schemes were administered by a public administrative body with bipartite representation of employers and employees (VBL)[19] similar to the schemes of the public pension pillar.

The personal pension pillar offered different possibilities for individual pension provision through private insurers on a purely voluntary basis. There was no institutionalised differentiation between the various forms of asset formation and for old age provision in particular. The most common products used as personal pension plans were life insurance contracts (*Versicherungsverträge*), bank savings contracts (*Banksparpläne*) or investment fund contracts (*Investmentfondsverträge*). These private savings plans were usually administered and managed by the respective financial service provider (Ebbinghhaus, Gronwald and Wiß 2011: 125).

Financing

Public pension benefits were mainly financed by contributions paid in equal shares by the employer and the insured employee and to a smaller extent by general tax revenues. The contribution rate in 1980 amounted to 18 per cent of gross wages between a lower income ceiling of 390 DM and an upper income ceiling of 4200 DM, which was the equivalent of the average wage. About 84 per cent of the overall expenditure for public pension benefits (*ca.* 67.6 million Euro) were generated from contributions (*ca.* 56.9 million Euro revenues), while only 15 per cent were financed from federal grants (*ca.* 10.8 million Euro revenues) (DRV 2009). The strong reliance on employers and employees contributions rather than statutory grants provided for a strong role of the social partners within the public pension system. Furthermore, the dependence on earmarked contributions rather than general taxes emphasised the insurance character of the public pension pillar.

The contributions of the current working population were directly transferred to pay for the pension benefits of the retirees according to the pay-as-you-go principle.

[19] As the VBL is the biggest carrier within the public sector, other smaller carriers are not mentioned separately. The executive board of the VBL consisted of a chairman and 6 members of which some have been appointed by the supervisory authority in consultation with the participating states (*Länder*) and some have been appointed by the administrative council (*Verwaltungsrat*). The administrative council consisted of a chairman and 12 members. Half of the members have been appointed by the supervisory authority and the other half has been appointed by the unions (Schaub, Schusinski and Ströer 1976).

The pay-as-you-go principle promoted the redistribution between generations supporting the goal of inter-generational equity. A pension reserve fund introduced in 1968/1969 only covered one month of pension expenditure. Hence, the financial reserves to support the system in times of economic downturn and demographic change were relatively modest

In contrast to the pay-as-you-go financing of the public pension pillar, occupational pensions were mainly funded except for those plans financed through book reserves and the schemes of the public sector (Von Maydell 1983b). The principle of intergenerational equity and solidarity was therefore less pronounced. Occupational pension contributions were usually paid by the employer only, with the exception of some types of schemes where contributions could be paid optionally by the employer and employee (e.g. superannuation fund, direct insurance). The contribution rate was set by the employer or through collective agreement and could vary across companies and sectors. The dominance of employer financing reflected the responsibility of the employer as well as his power and role as the patron. Since the early 1980s, employees could also convert part of their earnings into an occupational pension scheme in which case they mostly carried the costs by themselves, however this option was rarely used (von Maydell 1983a: 273). Contributions to direct insurances, superannuation funds and support funds were usually invested in the capital market through an external provider (external financing), while those schemes based on a direct commitment were financed by company book reserves (internal financing) (Berner 2007: 243). Employers' contributions to superannuation funds and direct insurances were exempt from income tax, setting incentives for the employer to carry out occupational pensions through one of these external funding vehicles (von Maydell 1983a: 273). Personal savings and life insurance contracts were generally based on the funding principle and contributions were paid by the individual insurance holder.

Access

Over time the statutory pension system had been extended to ever more groups of the working population, covering all public and private sector employees, farmers, civil servants and certain categories of self-employed. Employees with very low earnings (390 DM or below in 1980) as well as most self-employed were not subject to mandatory insurance but have been eligible for voluntary membership in the statutory system since 1972 (Pension reform law 1972) (DRV 2006: 179). By 1983 more than 22 million of the working population (ca. 27 million including the self-employed) were covered by the statutory pension system[20], which was a coverage rate of more than 81 per cent (DRV 2009). The unemployed have also been covered by the public pension system with contributions automatically paid through the unemployment insurance, though at a reduced level. The mandatory coverage of almost the whole workforce demonstrated the importance of the public pension pillar and its understanding as the self-evident provider of old age security. At the same time, the restriction of the mandate to the working population emphasised the strong employment focus of the public pension system.

The employment based access to public benefits was also reflected in the eligibility criteria. In order to receive old age pension benefits from the GRV, two criteria had to be met. First, pension benefits could only be claimed after a certain waiting period (*Wartezeit*). The waiting period referred to the number of contribution years (and some specified non-contribution periods[21]) (Döring 1980: 46). In the early 1980s at least fifteen contribution years (including acknowledged non-contribution periods) had to be fulfilled in order to be eligible for public pension benefits, which usually meant fifteen years of employment. Second, benefits could only be withdrawn after reaching a certain retirement age. The standard retirement age was 65 years for men and 60 years for women but with the pension reform law in 1972 and the 5th pension insurance law in 1978, favourable early retirement options were introduced allowing unemployed[22] and disabled persons to retire at age 60 and long-term insured to retire at age 63 without any benefit reductions, after a waiting period of 35 insurance years (Döring 1980: 46; DRV 2006: 202; Herfeld 2001: 149f.).

In contrast to the mandatory character of the statutory pension system, there had not been any formalised obligation for employers in the private sector to offer

[20] Only includes actively insured, i.e. people who are currently paying contributions. Together with all passively insured the number of people covered increases to almost 35 million people.
[21] Non-contribution periods due to military service, war banishment, war captivity and subsequent disability or unemployment (*Ersatzzeiten*), the incapacity to work due to disability (*Zurechnungszeiten*) and since 1965 periods of sickness, unemployment, pregnancy and education (*Anrechnungszeiten*) (Döring 1980).
[22] Persons who have been unemployed for one year during the last 1 ½ years before retirement.

occupational pension plans. Access to private sector occupational pensions was mainly dependent on the voluntary commitment by the employer. These commitments were either based on an individual agreement between the employer and the employee, on a company internal agreement through codetermination, or in some cases on a collective agreement. Only employees who worked in industries or companies that offered occupational pension plans could thus acquire occupational pension rights. The employer also had the possibility to offer occupational pension plans only to certain groups of his employees. The voluntary character and the dependence on the employer's good will underlined the role of occupational pensions as human resource tool rather than social policy element. Furthermore, it was another expression of the paternalistic character of occupational pensions in Germany.

Collective agreements were a lot less common except for some sectors such as the construction industry and the public sector. In the public sector the number of employees covered by occupational pensions had steadily grown since the introduction of the sector wide collective agreement in 1967. In 1982 almost 1.4 million public sector employees were covered by occupational pension plans in comparison to about 490 000 in 1957 (Heppt 1994; Kaukewitsch 1978).

However, in the private sector occupational pension plans, the coverage rate was also relatively high. During the economic boom of the 1960s many employers established occupational pension schemes in order to attract and bind skilled personnel to the company. In 1976 66.5 per cent of all employees in the private sector were covered by occupational pension plans. But a closer look reveals that there have been differences in coverage depending on company size and industry, with coverage rates among bigger companies and in the industrial sector being higher than those in smaller companies and the service sector (Heppt 1994: 185; TNS Infratest Sozialforschung 1990; von Maydell 1983a: 250 et sqq.).

Employers had relatively large flexibility in defining the eligibility criteria for occupational pension benefits. Hence, they could vary between different companies and sectors. The waiting period generally differed between five and fifteen years and it could be calculated either from the beginning of the employment contract or from a certain age. The public standard retirement age of 65 years for men and 60 years for women mostly served as a guideline for the payout of occupational pension benefits but there were no legally binding rules. Generally, pension benefits were not paid before the age of 60 (von Maydell 1983a: 266 et sqq.).

Benefit entitlements were only vested after three years membership in an occupational scheme with at least 12 years of company service or after ten years membership in an occupational pension scheme. Otherwise the accrued benefit entitlements would expire (§ 1 BetrAVG 1974). This practice underlined the function of occupational pensions as human resource tool rather than a social policy as employees were indirectly forced to commit to the company in the long-term to make their occupational pension worth while. Moreover, in the case of job change, vested entitlements from certain occupational schemes could be transferred in accordance with the new employer but there were no binding rules.

The differences between sectors and companies with regards to coverage and eligibility rules demonstrated the political neglect and disinterest in occupational pensions as part of a general old age security system. The relatively unfavourable conditions for employees also underline the lack of interest in occupational pension provision and its limited importance in the employees’ as well as the unions’ perspective at this stage.

The access to personal pension plans was the least regulated and defined among the three spheres of pension provision. The coverage rate for personal pension plans is also a lot harder to define as there have been many different options for individual old age provision and not much available data. The most dominant form of personal pension provision was the life insurance contract. About 66 million life insurance contracts existed in 1980 but this number also included direct insurances from occupational pension plans through the employer (GDV 2009: 6; Von Maydell 1983b). It is also difficult to establish how many of these contracts were intended and actually used for old age provision, as they could have been paid out before retirement. Furthermore one person could have more than one insurance contract, which could distort the calculation of the number of people covered with personal pension plans. But due to the mandatory coverage with generous statutory pension and the broad coverage with occupational pensions, it can be assumed that the personal pension coverage was comparatively low except among those self-employed who were not covered by the statutory nor any occupational pension scheme.

Benefits

The GRV scheme was based on the defined benefit (DB) principle, which means that the pension benefit level was targeted at a certain pre-determined replacement rate (percentage of former earnings). However, the GRV was not a pure DB system as the calculation of pension benefits was also linked to previous contribution payments.

The benefit formula consisted of the calculation of personal pension entitlements, the pension type and the benefit indexation formula. Pension entitlements were calculated based on the number of contribution years multiplied by the 'personal assessment base' (*persönliche Bemessungsgrundlage*), which is the percentage of the insured person's gross wage in relation to the average wage of all insured. The more contribution years and the higher the earnings level during employment, the higher pension benefit entitlements would be emphasising the equivalence principle. The individual pension entitlements were multiplied by a factor for the type of pension, which was set at 1.5 (*Steigerungssatz*) for old age and disability pensions. The indexation of benefits was annual according to the 'general assessment base' (*allgemeine Bemessungsgrundlage*), i.e. the development of the average gross wage of all insured (Döring 1980: 69; Schaub, Schusinski and Ströer 1976: 8). The dynamic indexation of benefits to the gross wage development allowed pensioners to take part in economic growth and maintain their purchasing power. It expressed the strong commitment of the public pension system to provide a stable income replacement as well as the goal to avoid an income gap between the working population and the elderly. In the early 1980s the net replacement rate was about 70 per cent (Ebbinghhaus, Gronwald and Wiß 2011: 129). Another feature that enhanced the generosity of public pension benefits was that there were no actuarial deductions in the case of early retirement (flexible retirement age, but the benefit level was increased by 0.6 per cent for each deferred month after the age of 65 up to the age of 67 (Döring 1980).

The income maintenance goal as well as the equivalence principle meant that status differences were reproduced during retirement limiting the redistribution between different income groups. However, the strict application of the equivalence principle was modified by a number of measures increasing the level of intra-generational redistribution. First, certain non-contribution periods[23] were credited and pension entitlements could be gained, for instance, during periods of sickness, unemployment, pregnancy and education (*Anrechnungszeiten*). Entitlements for non-contribution periods were generally assessed based on the average of all contribution payments (*Gesamtleistungsbewertung*). Furthermore, low-income earners' pension assessment base was raised by increasing their wage by 50 per cent if they had paid pension contributions for at least 35 years (*Rente nach Mindesteinkommen*) (DRV 2006). Finally, married couples had the option to split accumulated pension entitlements in case of divorce, which was especially favourable for women who mostly had not accumulated as many entitlements as their husbands.

The calculation and type of occupational pension benefits varied. The employer or sponsor either guaranteed a certain replacement rate of former earnings in the case of a defined-benefit (DB) scheme or pension benefits were calculated based on contribution payments plus investment returns in defined-contribution (DC) schemes. Another possibility was a defined-contribution system with a minimum guarantee. Depending on the type of benefit calculation, the investment risk was either mainly carried by the employer (DB), left to the individual employee (DC), or shared between the two (DC with minimum guarantee) (Berner 2007: 242; Ebbinghhaus, Gronwald and Wiß 2011: 134). The majority of private sector occupational pensions (e.g. direct pension commitments, support funds) as well as public sector occupational pensions were based on the defined-benefit principle (Berner 2007: 242; von Maydell 1983a: 260 et sqq.). Thus, investment risks and the responsibility to provide a certain benefit level were ascribed to the employer or sponsor rather than the individual.

The indexation method, the degree of redistribution, as well as the tax treatment also varied greatly, but especially between the private sector and the public sector schemes. First, the indexation of occupational pension benefits was rather unregulated in the private sector. In some schemes benefits were indexed dynamically, but in others the contribution rate was adjusted if future benefits were expected to be inadequately low compared to the price or wage development. The employer was required to revise

[23] There are also contribution reduced periods (*beitragsgeminderte Zeiten*) which will not be considered in depth in this analysis as they are assessed in a similar way as the non-contribution periods.

the benefit indexation every three years but only if feasible with regard to the employers' economic situation[24]. In contrast to this, occupational pension benefits in the public sector scheme were dynamically adjusted in reference to the public pension system. The goal was to reach a similar benefit level to the civil servants pensions when combining occupational and public pension benefits (Gesamtversorgung)[25].

Second, the degree of redistribution was limited in private sector schemes. Non-contribution times due to sickness, maternity etc. were very rarely considered as pension creditable periods, diminishing redistributive effects. However, many DB schemes did not account for sex, health, age or marital status in their benefit calculations, creating a less obvious element of redistribution (von Maydell 1983a: 260 et sqq.). In the public sector, non-contribution times during sickness, unemployment, pregnancy or education were credited for the calculation of pension benefits similar to the public pension system (Schneider 1983: 237).

Finally, an important determinant of the benefit level was the taxation. In the private sector, occupational pension benefits from direct commitments and support funds were taxed (40 per cent or a maximum of 4800 DM were tax exempt), whereas only the interest gains were taxed if occupational pension benefits came from superannuation funds or direct insurances (von Maydell 1983a: 274). Occupational pension benefits from public sector schemes on the other hand were not taxed at all. Only health insurance contributions had to be paid since 1983 (Schneider 1983: 218, 229).

The differences between the public and the private sector schemes were the most pronounced in the benefit dimension. The role and design of occupational pension benefits in the private sector was completely independent from the public pension system and largely uncontrolled by the state, except for the regulation through taxes, whereas public sector occupational pensions were characterised by a much stronger reference to the public pension system.

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[24] According to Kortmann (1992: 47) the three year indexation is rather exceptional. No indexation or only in greater intervals seem to be more common (Kortmann 1992; .Kaukewitsch 1978).

[25] Changes in statutory pension contributions and taxes sometimes led to an oversupply reaching a net replacement rate of 120 per cent. Thus, in 1983 the social partners agreed to introduce a new calculation formula which made an oversupply impossible (Schneider 1983).

Pension benefits from all occupational pension schemes, as well as vested benefit entitlements from direct commitments, support funds and some direct insurances, were protected against insolvency risks and losses through the Pension Protection Fund (PSV), which had been founded by the employers' associations and life insurance companies in the framework of the Occupational Pension Law 1974. Benefit entitlements from superannuation funds and life insurances have not been protected through the PSV, but these schemes were subject to the Federal Supervisory Authority for the Insurance Industry (*Bundesaufsichtsamt für das Versicherungswesen*), which had the task to provide preventative protection by strict and effective supervision. The PSV itself was also subject to this supervisory authority (Schaub, Schusinski and Ströer 1976: 271).

All personal pension plans were DC schemes. Benefit levels were dependent on contribution payments, interest gains and the duration of the insurance contract. Pension benefits were neither price nor wage indexed, instead contributions were subject to regular increases in order to keep benefit entitlements in line with increasing wages and prices (von Maydell 1983a: 421 et sqq).

The public-private pension architecture and goals

As Figure 5.1 shows, the mandatory character of the public pension pillar covering the majority of the working population and the provision of generous public pension benefits based on the income maintenance principle fostered the dominance of the public pension pillar as major income source in old age (Ebbinghhaus, Gronwald and Wiß 2011: 125; Heidler 2009: 12). In the early 1980s more than 80 per cent of the disposable old age income[26] for the age group 65 to 80 was derived from the public pension pillar, while 10 per cent came from the occupational pension pillar[27] and only 3 per cent from the personal pension pillar (Pedersen 2004: 12 et sqq).

[26] Disposable old age income = public transfers + occupational pensions + earnings + capital income – tax and social security contributions (Pedersen 2004).
[27] Pedersen (2004) points out that the share received from the occupational pensions is somewhat inflated while the percentage for the public pension is underestimated because the civil servants pension is calculated as part of the occupational pillar and not as part of the public pillar.

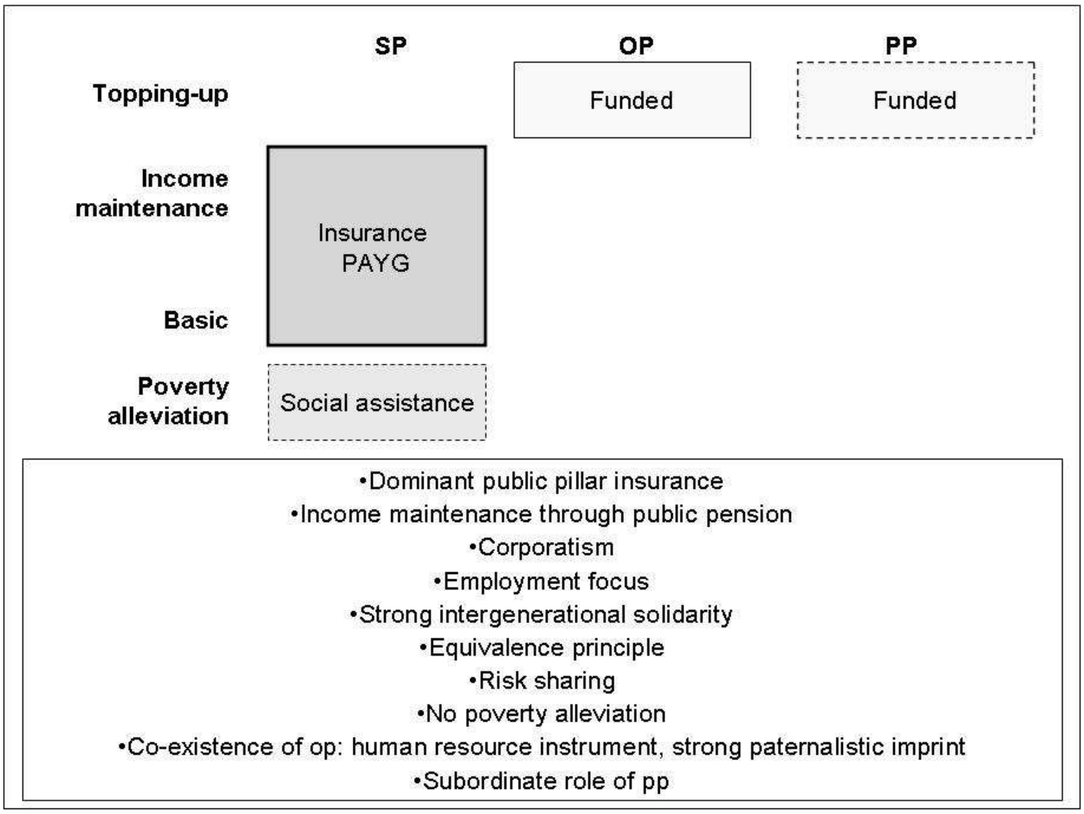

Figure 5.1: The German public-private pension architecture and goals, 1980

The expectation of secure and sufficient public pension benefits limited the need for additional private pension provision. Occupational and personal pension schemes were mainly serving as a topping up, especially for high income groups with earnings above the statutory contribution ceiling (Ebbinghhaus, Gronwald and Wiß 2011: 125). The state interest in occupational or personal forms of pension provision was also reduced. Besides the relatively loose legal framework for occupational pensions, the tax law was the major regulatory instrument of the state applied to shape the development of the two private pension pillars (Berner 2007: 76).

But not only the lack of interest on the part of the insured or the government led to the relatively uncontrolled co-evolution of the private pension pillars. The involvement of the social partners in the self-administration of the public pension system, as well as the parity contribution financing, endowed the unions with a certain degree of institutionalised power to shape pension policies within the public pension pillar, limiting their interest and engagement within the occupational pension pillar. The participation in private sector occupational pension schemes was voluntary and dependent on the employer's commitment, who was in turn financing the schemes and bearing the financial risks, enforcing the paternalistic imprint of the occupational pension pillar. Rather than serving social or pension policy goals as pursued by the statutory system, occupational pensions mainly served the employer as human resource or company financing tool, or they were an expression of paternalistic welfare (Berner 2007: 77; Ebbinghhaus, Gronwald and Wiß 2011). The only exception to this was the quasi-mandatory collective scheme in the public sector, which was a lot more adapted to the institutional rules of the statutory pension system. The social policy goal was to provide a similar replacement rate to the civil servants scheme when combining statutory and occupational benefits (*Gesamtversorgung)*.

However, in the overall architecture of the German pension system, private funded pensions were especially crowded-out and reduced to the topping-up function. This was also reflected in the personal pension pillar which was virtually non-existent as part of the old age security system in the late 1970s. The differentiation between general asset formation and pension provision was blurred, demonstrating the subordinate interest in individualised forms of old age security. The dominance of the public pension pillar also meant that the policy principles connected to the public pension system dominated the overall pension system architecture. Old age security was mainly public pension policy in Germany. Occupational and personal pension provision co-existed next to the public pension system but there was no coordination between the three pillars in terms of a multi-pillar approach except for the concept of *Gesamtversorgung* with regards to public sector employees (Berner 2007: 146).

5.2 Problem pressures: Population ageing and the costs of the German unification

The improvement of public pension benefits, the constant expansion of public pension coverage since the late 1950s and the growing number of pension beneficiaries due to increasing longevity, had led to steadily growing public pension expenditures in Germany. Similar to most other social insurance countries, the German pension system was heavily dependent on the active population, financing public pension benefits through pay-roll contributions. Full employment and increasing wages in a context of economic growth as well as a favourable ratio between contributors and beneficiaries had helped to finance growing public expenditures during the "golden years" of welfare state expansion. However, the balance between revenues and expenditures had started to tilt from the early 1970s and the German pension system was confronted with increasing financial pressures threatening its long-term sustainability for several reasons.

First, the rapid decline in birth rates since the mid-1960s from about 2.5 to below 1.5 in the early 1980s accelerated the process of population ageing more dramatically than in other countries (DRV 2009). The share of persons aged 65 and older in the population, increased from 13.2 per cent in 1970 to more than 15 per cent in 1980, and to 20.4 per cent in 2010 (see Table 5.2).

Tab. 5.2: Problem pressures in Germany – indicators, 1970 - 2010

		1970*	1975*	1980*	1985*	1990*	1995	2000	2005	2010
Public social expenditures % GDP (cash benefits + benefits in kind)		…	…	22.1	22.5	21.7	26.8	26.6	27.2	…
Public revenues** % GDP		9.6	11.7	12.5	13.2	13	14.5	14.6	14.0	14.2
Real GDP growth %		…	-0.9	1.4	2.3	5.3	1.9	3.2	0.8	3.6
Unemployment % labour force		…	…	3.3	8.2	6.4	9.4	9.6	11.7	7.7
Labour force participation rate of persons aged 55-64 % labour force	Total	50.3	43.5	44.5	38.2	39.8	42.4	42.9	52.1	62.5
	Male	80.2	69.8	67.3	57.9	55.9	53.9	52.4	61.3	70.7
	Female	28.5	25.4	28.9	22.7	24.7	31.1	33.5	43.2	54.5
Persons 65 + % population		13.2	14.5	15.5	14.8	15.3	15.5	16.4	18.9	20.4

Notes: *West Germany only, ** only compulsory social security contributions, contributions which are either voluntary or not payable to the general government are not included

Source: Data extracted from OECD.Stat, http://stats.oecd.org, [accessed 15.12.2011], Datasets: LFS by Sex and Age - Indicators; Demographic References; Revenue Statistics - Comparative Tables; Country Statistical Profile 2011; Social Expenditure - Aggregated Data; (Bundesagentur für Arbeit 2012)

Projections for future demographic trends estimate, that by 2060 more than a third of the population will be 60 years and older (Statistisches Bundesamt 2009). The strong reliance of the German old age security system on the pay-as-you-go principle means that a decreasing share of younger workers is financing and will have to finance a quickly growing number of pensioners, threatening the intergenerational fairness and financial sustainability of the German pension system in the near future.

Second, slow economic growth and a strongly increasing number of unemployed during the 1980s, had set an end to the post-war economic boom in Germany contributing to the further erosion of the contribution base (see Table 5.2). Similar to France, generous early retirement options were used in Germany during the late 1970s and early 1980s as a labour market instrument to enable firms to restructure their workforce in a socially accepted manner and as a political strategy to solve the employment problem by reducing the labour supply (Alber 2001)(Ebbinghaus 2006). As a consequence, the labour force participation rate of older workers aged between 55 and 64 years dropped from 50.3 per cent in 1970 to 38.2 per cent in 1985 (see Table 5.2). But instead of a significant reduction in unemployment, the expansive use of early retirement measures mainly contributed to the increase in the number of pensioners. In 1980 the level of public pension expenditures had reached about 9.5 per cent of GDP, ranging among one of the highest rates within the OECD world (OECD 2010b). In order to cover the growing pension costs, the contribution rate had been constantly increased from 14 per cent in the mid-1960s to 18 per cent by the early 1980s (DRV 2009: 239).

The strained financial situation of the public pension system was further aggravated during the 1990s when the second economic recession hit the country accompanied by the unexpected costs of the German unification in 1990. One third of the costs of the unification were financed out of the social security fund (Hassel 2006). These costs included the accommodation of pensioners from the former GDR by the West German pension system, and the granting of public benefits to the more than 1.5 million expatriates of German descent from Eastern Europe who immigrated to Germany between 1989 and 1995 before a reform act in 1996 restricted access to these benefits (Alber 2001: 13). Moreover, the disastrous economic structures in East Germany contributed to the general aggravation of the labour market crisis causing another increase in the unemployment rate (see Table 5.2). Despite further increases in the contribution rate to more than 20 per cent by 1997, the dramatic growth in public pension expenditures was outgrowing the revenue base (see Figure 5.2).

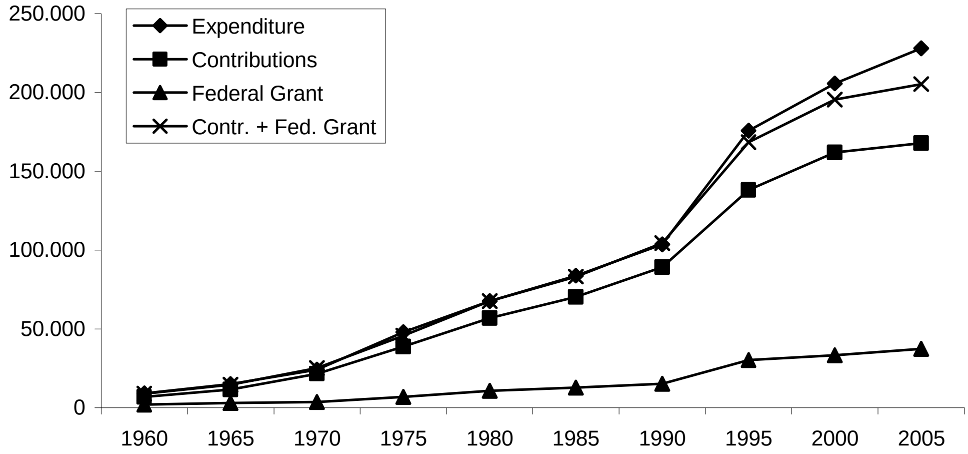

Figure 5.2: Development of public pension expenditures and revenues (in million **€)**
Source: (DRV 2009)

Furthermore, the financial discipline demanded in the context of the proceeding process of European Integration during the early 1990s as well as the concern over the negative impact of ever increasing contributions and taxes restricted the government's means to further expand the revenue base. The augmenting financial pressures, in combination with a relatively pessimistic outlook for the future sustainability of the existing pension system structure in Germany, provided the background for a turn towards the restructuring of the existing pension system architecture.

5.3 Political context: Moderate formal veto possibilities, breaking consensus orientation and increasing party competition

The political context for the pension system restructuring process over the last three decades has been characterised by a relatively constant set of moderate formal veto possibilities due to the specific set up of the three forces (legislature, executive and judiciary) on the one hand and significant changes with regards to the traditional consensus orientation among political actors and the degree of party/ electoral competition on the other hand, providing potential political barriers to encompassing reforms and changes especially since the 1990s.

The head of the government in Germany, the Chancellor (*Bundeskanzler*), is endowed with major executive powers determining the general political guidelines while the German President (*Bundespräsident),* mainly fulfils representative functions unlike the French President. Even though the German President signs legislative acts, it is merely a formal procedure without any significant veto power ascribed to it (Schulze and Jochem 2007: 662).

The legislative consists of a two chamber parliament: the *Bundestag* and the *Bundesrat*. The members of the first chamber (*Bundestag*) are elected by the constituencies for a four-year term in a mixed electoral system, while the second chamber (*Bundesrat*) consists of representatives appointed by the 16 federal state governments. Due to majority governments and a strong party discipline, the *Bundestag* is not considered as a veto point[28]. The *Bundesrat* usually has to agree with the legislation passed by the *Bundestag* and it has the option to block a bill[29]. Hence, the *Bundesrat* is endowed with strong veto powers. The Bundesrat's application of its veto power is mostly dependent on whether the respective political constellations and majorities within the two chambers differ or not (Schulze and Jochem 2007: 665/666).

The judiciary in Germany is represented by the Constitutional Court (*Bundesverfassunggericht*) which surveys the constitutionality of any legislation and has the option to reject passed laws that contradict the constitution. Furthermore, it can demand for reforms in existing policies, if a change is considered necessary to comply with the constitution. Thus, the constitutional court provides an important "post-legislative" veto point (Schulze and Jochem 2007: 664).

The German party system has been dominated by two major people's parties, the Christian Democratic Party (CDU/CSU[30]) and the Social Democratic Party (SPD), occupying the middle of the political spectrum flanked by the Liberal Party (FDP), which used to be the decisive pendulum for the respective coalition government up until the entry of the Green Party in 1982, which stepped into the political arena as an alternative coalition partner (Schulze and Jochem 2007: 669). Due to the specific set up of the political institutions and the party system, German policy-making has been characterised by coalition governments and a traditionally high degree of political consensus orientation among the different parties within a government coalition but

[28] The *Bundestag* as well as the Chancellor can call for a vote of non-confidence or confidence respectively. If the Chancellor does not receive the majority of the votes of the delegates, the President can dissolve the *Bundestag*

[29] There are two kinds of laws, one with mandatory consent and one with non-mandatory consent. In the latter case, the *Bundestag* can vote down the *Bundesrat* with an absolute majority but in the first case a bill can be blocked (Schulze and Jochem 2007).

[30] The CSU is the Bavarian sister party of the CDU

also between the government and the opposition. Policy negotiations and compromises instead of fierce party competition have been a common feature of the policy making process.

There are four major interest groups, that have been playing a dominant role in the area of old age security policies: the unions, the employers associations, the public insurance carriers with equal representation of employers and employees and the Social Council (*Sozialbeirat*) consisting of scientists, experts and representatives of the social partners (Schulze and Jochem 2007: 670; Wiß 2010: 74, 75). In contrast to France, the social partners (i.e. the umbrella organistaion of the unions and the employers associations) have traditionally been integrated in the policy making process in Germany via negotiations but also through lobbying and the integration with parties and parliaments (Wiß 2010: 74, 79). The expression of union interests via demonstrations and strikes has been a lot less important or encompassing as in France and the consensus orientation and coopertation between the state, the employers associations and the unions has been high. The industrial relations in Germany are concentrated, centralised and highly institutionalised. There is one umbrella organisation comprising the different unions (eight unions) with a traditionally close relationship with the Social Democratic Party and two umbrella organisations for the different employers' associations (Schulze and Jochem 2007: 670).

The cooperative, integrative and consensus oriented policy making in the area of old age security changed remarkedly during the 1990s. First, the east-west division of the electorate after the unification in 1990 and the entrance of the PDS, the successor of the former East German socialist party (SED), in the political arena, intensified the political party competition. Furthermore, party internal conflicts increased in the Social Demoratic Party during the 2000s, leading to the splitting off of the left-wing Group for Employment and Social Justice (WASG) in 2005 which merged into the Left Party (Die Linke) with the PDS in 2007. Second, in the light of growing unemployment, slow economic growth and increasing international competition during the 1990s, the relationship between the trade unions and the employers' associations became more tense (Busemeyer 2006:409; Schulze and Jochem 2007: 683) while the government and especially the Social Democratic Party increasingly abandoned the unions and the unions' influence on parties and parliaments decreased (Wiß 2010: 80). Third, internal conflicts and decentralisatio tendencies on the union side as well as in the employers' camp made actions as unified actor in reform policies more difficult (Schulze and Jochem 2007: 670; Wiß 2010: 80).

Summing up, the political context for the pension reform process in Germany has been charactised by moderate formal veto possibilities with the second chamber being a strong institutional veto player in the case of differing political majorities in the two chambers (see Table 5.3). Up until the 1990s the political context also featured a low degree of party competition, cooperative and integrative relations with the social partners as well as a high degree of consensus orientation. Since the 1990s the degree of party competition as well as party internal conflicts have increased and the relations between the state, labour and capital have became more tensed, breaking with the former consensus orientation accompanied by increasing union internal conflicts and differences also among the employers organisations.

Tab. 5.3: The political context in Germany, 1980 - 2012

Time	**1982 - 1991**	**1991-1998**	**1998 - 2005**		**2005 - 2009**	**2009 - 2012**
Head of government	Kohl (CDU)		Schröder (SPD)		Merkel (CDU)	
Governing parties	Conservative-liberal coalition (CDU/CSU & FDP)		Left-wing coalition (SPD & Die Grünen)		Grand coalition (CDU/CSU & SPD)	Conservative-liberal coalition (CDU/CSU & FDP)
Absolute government majority in *Bundesrat*	Yes*	No	Yes (98/99)	No	Yes* (until 2010)	No (from 2010)
Elections *Bundestag*	1982, 1986, 1990, 1994		1998, 2002		2005, 2009	
Party competition	Moderate Consensual policy making	Increasing Break with consensual policy making	Strong Increasing intra-party and government internal conflicts		Strong Confrontational	
Labour relations	Cooperative	Increasingly tense	Very tense			

Notes: * no majority for a few months in 1990 and 2009

Source: (Schulze and Jochem 2007), Handbuch des Bundesrates

5.4 The process of institutional change

5.4.1 The institutional conversion of the public pension pillar

In Germany, the first two stages of the restructuring process largely overlapped. From the late 1970s till the late 1980s, the expansion of the revenue base was combined with a series of smaller ad hoc and short term cut back measures to cover the immediate financial requirements, followed by the first pension reform introducing moderate retrenchment in 1989 (see Table 5.6 Chronology). Already during the late 1970s and early 1980s, several expert commissions (Transfer-Enquête-Commission 1977, Expert Commission on Old Age Security 1983) recommended more far reaching reform measures, and two pension reform proposals were presented between 1982 and 1984, yet without success[31]. (Schulze and Jochem 2007: 680). Instead, the contribution rate was raised during the first half of the 1980s (see Figure 5.3) while growing pension expenditures were only moderately curtailed. Most of the changes were short term solutions or smaller adjustments affecting the benefit and access dimension. First, the assessment base for the indexation of public pension benefits had been decoupled from gross wages following a predefined indexation between 1979 and1981 and the benefit indexation was postponed (see Table 5.6 Chronology). Both measures were temporarily slowing down benefit increases. Second, non-contribution periods during unemployment were no longer credited in the benefit calculation and the credits for non-contribution periods during military and civil service were decreased, lowering state costs on the one hand and future pension benefits on the other hand. Third, health insurance subsidies for pensioners were gradually decreased with the goal to further disburden the state budget. Finally, stricter eligibility criteria for disability pensions were introduced in 1984, hampering the access to early retirement options.

In contrast to these benefit reducing measures, pension credits were introduced for periods of child rearing (1 year = 0.75 pension points) in 1986, attempting to work against the trend of declining birth rates by rewarding people with children. Furthermore, the waiting period for the public pension was lowered from 15 to 5 years in 1984, facilitating easier access to public pensions (Hohn 2004: 160; Schulze and Jochem 2007: 678, 679).

The measures described above can be classified as first order adjustments attempted to maintain the basic principles of the pension system through moderate changes in the benefit level and the expansion of the contribution level. Most of the efforts to cut back public pension expenditures were temporary interventions affecting specific groups rather than the whole population such as in the case of the eligibility criteria and the

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[31] The first proposal (*Pension Reform Act 1984)* was presented by the social-liberal government coalition in 1982 and the second proposal was presented by the Social Democrats in 1984 (*Pension Reform Act 1985*) under the new conservative-liberal government coalition (Schulze and Jochem 2007).

changes in the crediting of non-contribution periods. But the focus was set on expanding the revenue base by increasing pay-roll contributions

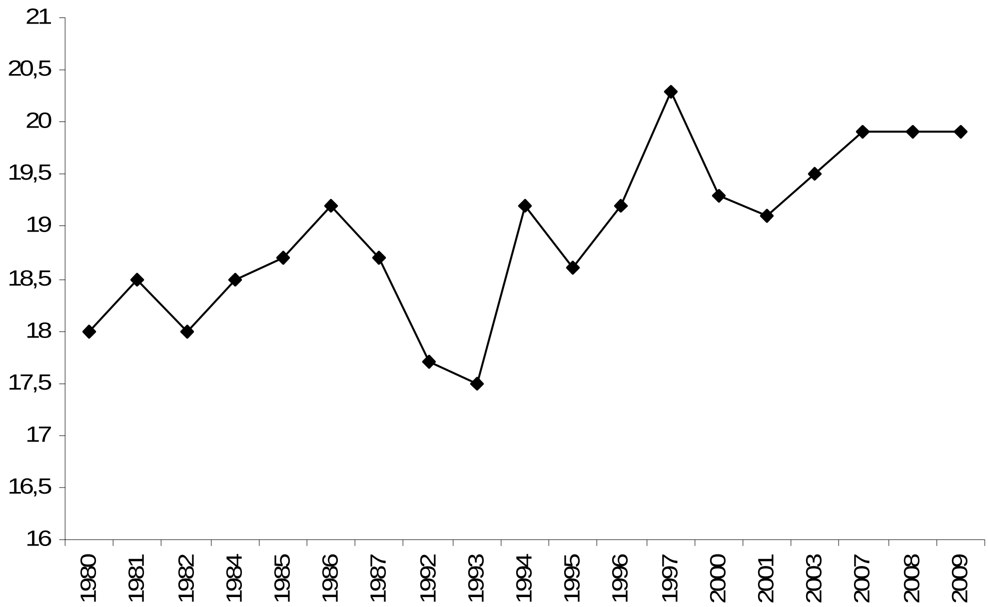

Figure 5.3: Contribution rate, GRV, 1980 – 2009 (%)
Source: (DRV 2009)

Towards the end of the 1980s, it became clear that these minor adjustments would not be sufficient to stabilise the public pension system in the long-term. In the light of an accelerating process of demographic ageing and expansive early retirement, the existing institutional structures of the public pension system were increasingly called into question. Forecasts suggested that the contribution rate would need to be raised up to almost 40 per cent in the future in order to finance accrued pension benefit entitlements (De Deken 2002: 280; Frevel and Dietz 2008: 110).

The Association of the German Pension Insurance Carriers (VDR) commissioned an expert report on the public pension system (*Prognosreport*[32]), which was published in 1987, analysing the current and future situation of the public pension system. The report emphasised two major issues: a) increasing labour costs due to steeply rising payroll-contributions and b) the demographic sustainability issues of the pay-as-you-go principle (Eckerle 1987). The report attracted the interest of the media and gained broad public attention, fostering a more intensive debate about the need for a

[32] The analysis has been carried through by Prognos a private consultancy and market research institute.

substantial pension reform. After intensive debates and consultations between the liberal-conservative government coalition and the opposition parties, a proposal was presented for the Pension Reform Act 1992. It had been agreed beforehand to keep the pension reform out of the 1990 election campaign and the bill was approved by the *Bundestag* in 1989 based on the suggestions by the VDR and in consent with the social democratic opposition and the social partners (Schulze and Jochem 2007: 681). In the meantime, the contribution rate was successively reduced between 1986 and 1993 from 19.2 to 17.5 per cent.

One major intention of the Pension Reform Act 1992 was to reduce the benefit period and curtail the rapid increase in the number of pensioners by tackling the issue of early retirement. This would not only curb public pension expenditures but also foster a longer contribution period and thus increase revenues. But instead of immediately abolishing early retirement options, three different approaches were combined to gradually reverse early retirement and push for an extended contribution phase by introducing first and second order changes in the access and benefit dimension of the public pension system:

First, the retirement age for women, unemployed and long-term insured was going to be gradually increased to age 65 (the standard retirement age for men) by 2001. The gradual increase over almost 10 years and the fact that it only affected women and unemployed to begin with helped to avoid the potential electoral punishment for raising the retirement age. Furthermore, the increase of the retirement age was also justified on the grounds of the retirement age harmonisation efforts by the EU. Second, the slow phasing out of early retirement options was supported by the introduction of a part time pension which provided the possibility to combine income from employment up to a certain level with a part time pension, setting incentives to stay at least partially in the labour market (Alber 2001; DRV 2009). Finally, the benefit formula was modified by the integration of an "access factor" (*Zugangsfaktor*), which applied actuarial deductions in the case of early retirement from 1997 creating a disincentive for early retirement and curtailing future expenditures.

Besides the cut down of early retirement options, the benefit formula was the second target of the reform to curb public pension expenditures. The integration of actuarial deductions in the benefit formula was not the only measure to modify the generous benefit calculation of the 1970s. It was complemented by the establishment of a new benefit indexation method, adjusting pension benefits to the development of net wages instead of gross wages so that rising taxes and social contributions would not lead to higher pensions curtailing the annual increase of the general benefit level. Furthermore, the reductions in the crediting and acknowledgement of certain non-contribution periods (education) was continued, lowering pension benefits for some people and extending the period of employment based contributions (De Deken 2002: 282). Similar to the strategy during the 1980s, benefit reductions on the one hand were accompanied by the improvement of benefits on the other hand for those people with children, by extending child care credits up to three years (Alber 2001).

The Pension Reform 1992 introduced a range of measures affecting the benefit and access dimension. In contrast to the ad hoc measures of the early 1980s, the changes were taken one step further pursuing long-term alterations and focussing on instruments such as the benefit calculation formula and early retirement options. The enactment of the reform measures set the course for more structural reforms, the prelude to the second stage of the restructuring process. It reversed many of the expansive measures established in 1972, most importantly, early retirement options (De Deken 2002: 282). Furthermore, the reform went beyond previous retrenchment measures by reducing pension expenditures more systematically. However, despite the hindsight impetus for some major changes, the reform measures were incremental, moving the 'adjustment screws' within the boundaries of the institutional design, maintaining the basic principles of the pension system (Ebbinghhaus, Gronwald and Wiß 2011: 128; Schulze and Jochem 2007: 682).

The third phase of the pension restructuring process in Germany started during the mid-1990s and was characterised by the intensification of retrenchment efforts with the explicit goal to compress non-wage labour costs. Furthermore, it exhibited a break with the traditionally consensus-oriented politics of reform, increased party competition and unilateral reform decisions (Schulze and Jochem 2007: 679).

The unexpected costs of the German unification in 1990 had drastically increased the financial pressures of the public pension system. Rising mass unemployment and the large scale financing of the social transfers to the new East German regions, raised the level of public social expenditures. Consequently, the contribution rate had to be raised again reaching 20.3 per cent in 1999 (see Figure 5.3). In order to avoid more drastic increases in the contribution rate, the federal grant had also been gradually augmented since 1986 and was coupled with the development of contributions from 1992. But the monetarist targets of the EU convergence criteria during the early 1990s required a stricter public budget control limiting the scope for social contribution as well as tax increases. Furthermore, the growing concern over ever-rising non-wage labour costs impeding the creation of jobs, especially in the low-skilled industry and the increasing public deficit led to a rethinking of pension policy measures. The primary goal was to compress non-wage labour costs and stabilise pension expenditures (De Deken 2002: 280; Egle 2006: 183; Schmähl 1998: 143; Schulze and Jochem 2007: 863).

Several reports (e.g. report by "Roland Berger" in 1994; Prognos Report in 1995) and expert commissions (e.g. Blüm-Commission[33] in 1996) brought different pension reform proposals to the public debate (see Table 5.6 Chronology). But instead of the traditional political consensus, deep disagreement among experts and political actors about the causes and the extent of the "pension crisis", as well as the potential policy solutions, characterised the debate during the 1990s (Hans-Böckler-Stiftung 1997). The installation of an 'Alliance for Jobs' with the social partners to discuss and frame a consensus based reform package failed. This was the prelude to a major break with the former practices of political consensus in pension policies and the attempt to push for a more drastic change within the public pension pillar based on unilateral decisions (Schulze and Jochem 2007: 683).

The Growth and Employment Act from 1996 advanced the changes in the access and benefit dimension. First, the gradual increase of the retirement age for unemployed, women and long-term insured was advanced from 2001 to 1997 and 2000 respectively. Furthermore, the retirement age was raised for disabled people from 60 to 63. Finally, the credits for non-contribution periods during education were lowered once again. In the financing dimension the turn towards a higher share of tax financing was advanced by the establishment of an additional federal grant in 1997, mainly financing non-contribution benefits. The goal was to avoid another increase of the

[33] Norbert Blüm has been the Minister of Employment and Social Affairs under the liberal-conservative government coalition from 1982 to 1998.

contribution rate to 21 per cent. The additional grant was refinanced by an increase in the value added tax from 15 to 16 per cent.

The Pension Reform Act 1999, which was passed by the Parliament in 1997 against the profound criticism of the opposition and the unions, continued the public pension restructuruing process with some more drastic cut back measures. First, the possibility for women and unemployed to withdraw public pension benefits before the standard retirement age was going to be abolished from 2000 for persons born after 1951, finally ending the options for early retirement. Second, the revision of disability pensions would tighten eligibility rules and lower benefits. Third, a new demographic factor was going to be integrated in the benefit indexation formula, intended to lower the net standard pension level from 70 to 64 per cent (Hinrichs 2003: 14). Together with the previous adjustments and gradual changes in the benefit formula, it would have moved the public pension scheme further towards a basic rather than income maintaining old age pension.

The demographic factor was the most innovative reform element so far, representing a more explicit departure from the income maintenance function while the other elements of the reform were mostly a continuation of already approved measures. However, the cumulative effect of the latter would also mean a significant reduction of the benefit level.

But before the Pension Reform Act 1999 could take effect, the newly elected red-green government revoked or moderated most of the controversial reform elements with the Pension Reform Revision Law 1998, as promised before the elections (Ebbinghhaus, Gronwald and Wiß 2011: 129; Leisering et al. 2002; Schulze and Jochem 2007: 686). The demographic factor was abandoned and public benefits were to be indexed to inflation in 2000 and 2001 instead. Most of the other cut back measures were attenuated or deferred as well. What followed was the introduction of a few less provocative measures to stabilise the contribution such as the integration of employee like self-employed in the obligatory pension insurance and the obligation of employers to pay flat-rate contributions for low wage earners who were not subject to mandatory public insurance. Both measures extended the group of contributors and thus the revenue base. At the same time it advanced a change in the access dimension towards a more universal public insurance. Second, after the increase of the value added tax to support the federal grant, another step was taken to disburden contributions as the main financial source. In 1999 a new ecological tax was introduced. The tax revenues were used to finance public pension benefits (especially non-contribution benefits, for instance for child rearing periods) advancing a shift in the financing dimension from contributions towards a higher level of tax financing.

The backpedalling on the cut back measures reversing the 1999 Pension Reform and the turn back towards expanding the revenue base demonstrated a short moment of political stalemate, but only a couple of years later, the reform efforts of the red-green government became a lot more aggressive, going far beyond the attempts of the previous Kohl government to restructure the public pension pillar.

It began with the nomination of another commission (Riester Commission) consisting of seven experts under the leadership of the Minister of Social Affairs, Walter Riester. Besides the retrenchment of the public pension pillar, the commission also discussed the option of mandatory private pension provision. After the objection against the first Riester proposal by some unions, the opposition as well as by some actors from within the coalition parties and further controversial debates, a revised reform proposal finally passed in 2001. Together with the cumulative effect of the previous changes, the reform measures of the Old Age Savings Act fostered the paradigmatic shift in Germany pension policies (Berner 2007: 126 et sqq; Ebbinghhaus, Gronwald and Wiß 2011. 129; Hinrichs 2003: 14 et sqq).

The Old Age Savings Act was split into two parts: a main reform (*Altersvermögensgesetz*) and an amendment (*Altersvermögensergänzungsgesetz*). The amendment was targeted at the restructuring of the statutory pension system. The separate enactment of the two parts enabled the government to pass further retrenchment measures in the public pillar, circumventing the second chamber (*Bundesrat*) as a potential veto player (Schulze and Jochem 2007: 693).

Besides the reduction of the widows' pension benefits, a new indexation method significantly reduces the general pension benefit level advancing the departure from the income maintenance function towards basic security in the long-term (Hinrichs 2003: 15). According to the new method, benefits are adapted to the development of gross wages modified by a factor (*Riesterfaktor*) which subtracts public pension contributions as well as a simulated amount of contributions for private pension provision (*Altersvorsorgeanteil*) from gross wages. As a consequence, each time pension contributions are raised, a simultaneous slow down of public benefit increases occurs.

The simulated share of contributions towards personal pension provision has been gradually increased since 2002 (*"Riestertreppe"*), targeting a maximum rate of 4 per cent by 2014, assuming that the lowering of public pension benefits will be compensated by private pension provision.

The new indexation method distributed the financial burden of the public system more equally between contributors and beneficiaries. According to the calculations of the Ministry of Social Affairs the public pension contribution rate should be kept below 22 per cent and the net replacement rate would drop from about 70 per cent in 2000 to 68 per cent by 2030 (see Table 5.4). However, this calculation of the replacement rate accounts for personal pension contributions lowering the net income even though it is not certain that everyone will contribute 4 per cent into a voluntary personal pension plan. Without the consideration of potential personal pension contributions, the net replacement rate would be significantly lower with 64.5 per cent (Deutscher Bundestag 2001: 146).

Tab. 5.4: Future projections of public pension contribution rate and net replacement rate

	2000	2005	2010	2015	2020	2025	2030
Contribution rate	19.3	18.6*	18.3*	18.8*	19.4*	20.4*	21.8*
Net replacement rate**	70.8	68.3*	69.0*	69.8*	69.2*	68.4*	68.0*

Notes: *estimated numbers; **Net standard pension in relation to net earnings in % (45 contribution years)

Source: (Deutscher Bundestag 2001: 145)

Another important part of the reform amendment was the establishment of a new means-tested minimum protection scheme for old age and disability in 2003. Even though the scheme is affiliated to the social assistance institution and not institutionalised as part of the public pension system yet, it was especially designed as a minimum protection for the elderly and distinct from the general social assistance creating a quasi first tier scheme in the public pension system.

Besides the changes fostered by the Old Age Savings Act, a few ad hoc measures have been introduced in the financing dimension in order to avoid further contribution increases. The assets of the buffer fund were reduced between 2001 and 2004 and the contribution ceiling has been increased from about one to two times the average wage as part of the government's efforts to secure a stable contribution rate by extra revenues (see Table 5.6 Chronology). Together with the accumulated effect of two decades of gradual cut backs and the retrenchment measures of the Pension Savings Act 2001, the contribution rate could be stabilised, which prepared the ground for the introduction of a fixed maximum contribution rate in 2002, finalising the shift from an expenditure oriented revenue policy towards a revenue oriented expenditure policy. The fourth phase in the process of pension system change was entered immediately after.

The fourth stage in the process of institutional change was characterised by the strengthening of funded private pensions. One method was the continuation of the gradual conversion of the public pension pillar towards basic security, increasing the necessity for private pension provision. In 2004 the Pension Sustainability Law was passed, based on and supported by the expertise of different expert commissions (e.g. Rürup Commission 2002, Herzog Commission 2003) set up by the government. The Pension Sustainability complemented the new indexation formula from 2001 by another modification. A sustainability factor was introduced, accounting for the consequences of demographic changes slowing down pension benefit increases (BMAS 2007d). How strongly the sustainability factor is assessed depends on the parameter alpha, which has been set at 0.25. The higher the value for alpha, the bigger the impact of the sustainability factor will be.

The parameter alpha provides the government with a very effective element to limit benefit increases in the future, without the need for further reform. Furthermore, the downgrading of certain non-contribution periods for the benefit calculation was advanced. The reform also increased the earliest possible retirement age to 63 from 2006, further increasing the contribution period while reducing the benefit period. The shift away from the income maintenance goal also becomes obvious by the formulation of a minimum pension benefit level of 46 per cent by 2020 and 43 per cent by 2030, which comes closer to a basic pension level (DRV 2009: 293). Meanwhile, the continuous increase of the federal grant since the mid-1980s had augmented the share of taxes financing public pension benefits to almost a quarter, gradually expanding the role of the state as financier (see Table 5.5).

Tab. 5.5: Share of public pension contributions and federal grant on total public pension expenditures (%), 1980 - 2008

	1980	1985	1991	1995	2000	2005	2008
Contributions	84.2	83.9	84.9	78.6	78.8	73.7	76.6
Federal grant	16.0	15.4	15.6	17.3	20.6*	24.0*	24.1*

Notes: *including additional federal grant

Source: (DRV 2009: 222/ 223), own calculation

After the various changes in the access, financing and benefits dimension of the public pension pillar, it was finally the organisational structure of the GRV that came under revision in order to save costs. The organisational reform from 2005 pushed towards a more efficient and less bureaucratic administration of the public pension system. The organisational differentiation between different schemes was significantly reduced, with the establishment of one organisational body for blue- and white-collar employees (DRV) and one organisation for miners, railway employees and seamen. Finally, the last reform step in this process of institutional reform in the public pension pillar was the gradual increase of the standard retirement age from 65 to 67 between 2012 and 2029, which was approved in 2007 (DRV 2009: 297).

Tab. 5.6: Chronology of pension reforms and measures in Germany, 1980 - 2010

Phase	Year	Reforms/ measures
Phase 1 Expansion of revenues Ad hoc & short term cut backs	1977	- Transfer-Enquête-Commission (1977-1981) **20th Pension Indexation Law** - Postponement of benefit indexation from July to December - Restriction of assessing educational times for pension credits - Introduction of pensioners' contributions to health insurance (from 1982)
	1978	**21st Pension Indexation Law** - Predefined benefit indexation (1979 – 1981) **Changes in 5th Pension Insurance Law** - Decrease of retirement age for disabled to 60 by1980
	1983	- Expert Commission on Old Age Security **Public Budget Law 1984** - Lowering of required contribution period for pension benefits from 15 to 5 years - Tightening eligibility for disability pension **Accompanying Public Budget Law 1984** - Postponement of benefit indexation from December to July - Reduction of credits for certain non-contribution periods
	1985	**Law on widows' pension and child care periods** - Equality between men and women with regards to survivors' pension - Introduction of pension credits for child care periods - Increase of federal grant
Phase 2 Moderate retrenchment Bringing future sustainability into public	1986	- Study on old age security in Germany (ASID), first wave
	1987	- Prognos Report
	1989	**Pension Reform Act 1992** - Change from gross to net wage indexation - Increase of credited child care period from one to three years - Coupling of federal grant with contribution rate - Gradual increase of retirement age for women, unemployed and long-term insured to age 65 by 2001

debate Creation of climate of insecurity Incentives for some to look at private alternatives		- Introduction of actuarial deductions for early retirement - No law but decree on yearly pension indexation
Phase 3 More radical retrenchment Less people are solely dependent on pay-as-you-go benefits Introduction of funded pension element in order to replace income losses from public pension	1994	- Report by Roland Berger
	1995	- Prognos Report
	1996	- Study on old age provision in Germany (AVID), first wave - Blüm Commission **Growth and Employment Act** - Reduction of pension credits during education - Increase of retirement age for women and unemployed to 65 by 1997 and for long-term insured by 2000 - Increase of retirement age for disabled to 63
	1997	**Pension Reform Act 1999** - Introduction of demographic factor in indexation formula - Cut backs in disability pension - Increase of child care credits - Improvement of child care credits **Occupational Pension Act** - Introduction of tax free earnings conversion up to 4 per cent of earnings below the ceiling - Possibility to set up DC schemes
	1998	- Prognos Report **Law on additional federal grant** - Increase of VAT by 1 per cent to finance increase in federal subsidy to pension system **Revised Pension Reform Act 1999** - Abolishment of demographic factor - Postponement of cut backs in disability pension - Inclusion of more groups of self-employed in mandatory insurance
	1999	- Riester Commission **Household Consolidation Law** - Pension indexation to inflation for 2000 and 2001 - Introduction of ecological tax to finance federal subsidy to pension system
	2000	**Disability Pension Reform Act** - Tightening eligibility rules - Reduction of benefits
	2001	**Old Age Income Provision Act Part I (Riester Reform)** - Introduction of voluntary, state subsidised personal pension plans (Riester Pension) - Changes in Occupational Pension Law: right to earnings conversion, introduction of pension fund, improvement of vesting and portability - Introduction of means-tested minimum assistance for elderly (from 2003) **Old Age Income Provision Act Part II** - Introduction of "Riester factor" in pension indexation formula - Change from net wage to modified gross wage indexation - Increase of child care credits - Cut backs in survivors' pension - Improvement of GRV information service
	2002	- Rürup Commission **Law on the contribution rate stability** - Increase of contribution ceiling to two times average wage - Change in lower limit of buffer fund to 0.5 times monthly expenditure **Decree on the Revision of BAFin** - Merging of single institutes into one federal agency for the supervision of financial services
Phase 4 Continuation with systematic changes in public pension	2003	- Herzog Commission **Changes in 2nd and 3rd Pension Insurance Law** - Suspension of indexation for 2004 - Abolishment of subsidies for care insurance contributions - Decrease of lower limit of buffer fund from 0.5 to 0.2 times monthly expenditures (from 2004)

pillar Strengthening of funded elements by stronger incentives	2004	**Pension Sustainability Law (Rürup Reform)** - Introduction of sustainability factor in indexation formula - Increase of earliest possible retirement age to 63 (from 2006) - Abolishment of pension credits for higher education - Fixation of maximum contribution rate (20 per cent up to 2020; 22 per cent up to 2030) - Fixation of minimum benefit level before tax (46 per cent up to 2020; 43 per cent up to 2030) **Old Age Income Law** - Gradual change to deferred taxation for all types of old age income - Weakening of tax privileges for life insurance contracts - Simplification of certification rules for Riester Pension **GRV Organisational Reform** - Abolishment of administrative separation (from 2005) - Introduction of new public management instruments (e.g. benchmarking, budget controls etc.)
	2007	**Retirement Age Adaptation Law** - Gradual increase of standard retirement age from 65 to 67 between 2012 and 2029

Source: (DRV 2009; Ebbinghhaus, Gronwald and Wiß 2011; Schulze and Jochem 2007)

5.4.2 The improvement of occupational pensions and the institutional layering of personal pensions

The gradual institutional conversion of the public pension pillar from income maintenance towards basic security played a significant role for the increasing importance of private pension provision fostering many of the developments within the occupational and personal pension pillar. In order to compensate for a declining public pension level, occupational, as well as personal pension benefits, gained in importance to close the growing gap between retirement income and former earnings. The "multipillarisation" of the German pension system, i.e. the integration of and the shift towards higher degrees of private pension provision within the overall public-private architecture, was the result of a combination of statutory interventions in the public and private pension pillars and the activities of non-state actors (Berner 2007: 76).

Besides the indirect push for private pension provision through the institutional transformation of the public pension pillar, private pensions had not been a significant part of publicly framed pension policies (except for the Occupational Pension Law 1974) until the late 1990s (Leisering et al. 2002: 86). The first statutory attempts to draw attention towards the possibility and also the necessity of private pension provision, was on a purely informational level in the context of the retrenchment efforts in the public pension pillar.

Since the end of the 1980s, several statistical and expert reports have been commissioned to regularly analyse the income situation of pensioners and their patterns of old age provision (see Table 5.6 Chronology). In 1986, a longitudinal study on the general situation of old age security in German (ASID), with so far seven waves (1986, 1992, 1995, 1999, 2003; 2007, 2010) was established, collecting comprehensive information on old age security. Ten years later, another longitudinal study was developed with two waves (1996, 2005) focussing especially on the patterns of old age provision among the current working population in Germany (AVID). Both studies had been commissioned by the government and the German Pension Insurance with the goal to raise awareness about the individual old age income and the patterns of old age provision during employment including all three forms of old age security (Berner 2007: 149).

But not only the statutory efforts had been limited with regards to private pension until the late 1990s, the activities of non-state actors had also been relatively meagre. The worsening economic situation of many companies during the 1980s and early 1990s had made the employers' decisions to introduce or expand occupational schemes less likely (Schmähl 1997: 111). As defined-benefits were the common undertaking for occupational pension schemes, many employers were increasingly hesitant towards the introduction of occupational pensions because of the perceived financial risks for the employer. Furthermore, the fiscal framework for occupational pension schemes had become less favourable since the 1970s. As a consequence, the coverage with occupational pensions in the private sector was stagnating or even declining throughout the 1980s and 1990s (see Table 5.7) (aba 2005: 14; Alber and Schölkopf 1999: 19).

The reluctance against the expansion of occupational pensions could also be found on the employers' side, but also on the side of the employees and unions. The expectation of sufficient and secure pension benefits from the public system limited the employees' interest in pushing for the improvement of occupational pensions. Old age security did not play an important role in collective bargaining processes, except for the public sector. Only 28 per cent of occupational pensions received in the private sector were based on collective agreements in 1986 (TNS Infratest 1990: 21, 27).

Tab. 5.7: Occupational pension coverage, private sector, 1976 – 2007 (%)

1976	1990	2001	2002	2003	2004	2005	2006	2007
66.5	49.3	42.0	45.0	47.0	48.0	55.0	55.0	55.0

Note: Numbers refer to West Germany, only companies with 10 or more employees included
Source: (Heppt 1994: 185; TNS Infratest Sozialforschung 2008: 11)

The state started to take on a more proactive role in promoting and improving private pension provision towards the end of the 1990s. The first step was to integrate the possibility of earnings conversions as form of occupational pension into the Occupational Pension Law (Pension Reform 1999) and to introduce tax deductions for converted earnings up to 4 per cent of the gross wage in order to animate more employees to ask for this type of occupational pension (TNS Infratest Sozialforschung 2008: 60). This moderate intervention to foster the expansion of occupational pension provision was followed by a more ambitious political effort to improve occupational pensions and to establish funded personal pension savings as part of a state regulated public-private mix with the Old Age Savings Act in 2001.

With regards to the occupational pension pillar, several smaller measures were introduced staying within the existing institutional framework. First, the possibility to convert earnings into an occupational pension scheme was now converted into a legal right, abolishing the arbitrary employers' consent and facilitating easier access for employees to occupational pension plans. Furthermore, vesting rules became more favourable, especially for less-skilled and short-term employees, increasing the attractiveness of occupational pensions (Börsch-Supan, Reil-Held and Wilke 2007: 11; Ebbinghhaus, Gronwald and Wiß 2011: 135/136). Finally, with the introduction of the pension fund, the variety of occupational pension vehicles was expanded. In contrast to the strict requirements of already existing forms of occupational pension vehicles, pension funds offer occupational pensions across national boundaries and allow for a more risky investment portfolio (Dixon and Sorsa 2008: 25), attracting new parts of the population to consider occupational pension provision. All three measures were targeted at introducing changes in the existing instruments (earnings conversion, vesting rules) or at introducing new instruments (pension fund) without explicitly altering the overall goals but providing for a higher take-up rate of occupational pensions.

Concerning the personal pension pillar, a more radical attempt was pursued at the beginning of the 2000s to push for more private pension provision, when the expert group under the leadership of the then Minister of Social Affairs, Walter Riester, discussed the option of a mandatory personal pension scheme. At the end the institutional barriers and especially the double-payment problem were too strong, impeding such a radical change, but they could be circumvented by establishing the 'Riester Pension' as a voluntary personal pension, layered on top of the existing institutional structures. This way it was less intrusive. Generous state subsidies and favourable tax deductions amounting to about 10 million Euro per year were introduced to incentivise people to voluntarily subscribe to a certified personal pension plan providing for a beneficial environment for the personal pension to grow (Bulmahn 2003: 31).

The shift towards both occupational and personal pension provision was also supported by the improvement of the information service of the GRV, providing regular information for each insured on his or her public benefit level, raising the public awareness about the necessity for private pension provision. Furthermore, in the context of the first financial crisis 2001/2, the supervision and protection of financial market products was improved, creating important preconditions for an environment in which occupational and personal pension plans could successfully grow. A federal agency for the supervision of financial services (BaFin) was set up, unifying the three previous existing separate institutes into one agency. The goal was to improve the supervision of banks, insurance companies and pension funds and to ensure market transparency as well as to secure consumers' protection against financial market risks. BaFin is also responsible for the licensing of personal pension plans as Riester pensions (Ebbinghhaus, Gronwald and Wiß 2011: 139/40).

However, despite these state induced changes in the occupational and especially in the personal pension pillar, the expected increase in private occupational as well as personal pension coverage was relatively sluggish at first (BMAS 2009: 67, 69). Only 1.4 million Riester contracts had been concluded right after the reform in 2001 (see Table 5.8). According to a survey from October 2002, only 10 per cent of German citizens between 18 and 65 eligible for a Riester pension plan had concluded such a contract, even though the willingness to invest in private provision against social risks in general (old age, sickness, unemployment) was relatively high among the 30 to 60 year olds, with almost 50 per cent (Bulmahn 2003: 32, 38). The coverage with occupational pension plans in the private sector was also only slowly increasing after the drop during the 1980s and 1990s (see Table 5.7).

Tab. 5.8: Development of Riester pension contracts (in million, rounded)

	2001	2003	2005	2007	2009	2010	2012
Insurance contracts	1.40	3.49	4.80	8.36	9.79	10.13	10.93
Bank contracts		0.2	0.26	0.48	0.63	0.67	0.77
Investment fund contracts		0.24	0.57	1.92	2.63	2.71	2.97
Homeownership („*Wohnriester*“)					0.20	0.35	0.96
Total	1.40	3.92	5.63	10.76	13.25	13.85	15.64

Source: (BMAS 2012)

In order to advance and accelerate the degree of personal pension provision, further measures were introduced to strengthen the incentives for concluding a *Riester* contract. In 2004 the certification rules for *Riester* plans were simplified and financial service providers were obliged to regularly inform their contractors about financial developments, improving the transparency of the product (*Alterseinkünftegesetz 2004*). The incentive structure for personal pension plans was further refined during the following years. More groups became eligible for a *Riester* pension, such as civil servants and spouses of publicly insured. Moreover, child subsidies were increased from 185 Euro per child to a maximum amount of 300 Euro for children born in 2008 and later (BMAS 2007c). In contrast to the relatively slow growth of Riester contracts at the beginning, i.e. between 2001 and 2005 (growth of about 4 million contracts), the number of certified personal pension plans grew more rapidly by more than eight million contracts between 2005 and 2010, reaching a total number of almost 14 million contracts in 2010 (see Table 5.8).

Besides the intensification of measures to facilitate personal pension provision, the portability rules of occupational pensions were improved in 2004 (*Alterseinkünftegesetz*), further increasing the attractiveness of occupational pensions for employees in an environment of international and flexible labour markets (Börsch-Supan, Reil-Held and Wilke 2007: 11; Ebbinghhaus, Gronwald and Wiß 2011: 135).

Finally, the integration of the two private pension pillars in an overall concept of old age security, as well as the expansion of tax incentives for private pension provision, was advanced by the harmonisation of the tax treatment of all three forms of old age security based on a judgement by the Federal Constitutional Court. From 2005 onwards, the taxation of public as well as private pension contributions started to be gradually shifted towards "deferred taxation" (*nachgelagerte Besteuerung*) (*Alterseinkünftegesetz 2004*) (Berner 2007: 141).

5.4.3 The strengthening of individualisation, marketisation and corporate regulation

The improvement of the attractiveness of occupational pensions and the layering of a personal pension scheme as well as the general shift towards a higher degree of private pension provision have also fostered the emphasis on new pension policy goals. The responsibility of the individual as well as the commercial character of old age security gained in importance. Several changes within the occupational pension pillar supported the trend towards the individualisation and marketisation of pensions. At the same time the regulatory efforts of the state and the role of the social partners gained in importance, strengthening corporatist features (Berner 2008; Leisering and Davy 2002; Rüb 2003; Wiß 2010).

First, the incremental institutionalisation of earnings conversions supported the increase in employee financed occupational pensions fostering a higher degree of individualisation. Since the 1970s earnings conversions provided an element of employee financing next to the traditional employer-only financed schemes, but until 1990 it was not even recognised as a form of occupational pension. It was a "dormant alternative" which was finally activated by the end of the 1990s through the formal integration in the Occupational Pension Law, and the provision of generous tax incentives by the state in the case of earnings conversion, which pushed its popularity. The trend away from employer-only financed occupational pensions was further advanced by the introduction of the legal right to earnings conversions in 2001 (Börsch-Supan, Reil-Held and Wilke 2007: 10).

Between 2002 and 2004 the share of companies with employer-only financed pension schemes decreased from 54 to 38 per cent, while the share of companies with mixed employee-employer financing increased from 27 to 41 per cent (Berner 2008:

406). Thus, the paternalistic principle of employer-only financing has been withering away in exchange for an increase in the indvidual's financial responsibility. Further, the possibility to convert earnings into a superannuation fund, pension fund, or direct insurance, free from income and social taxes favoured the investment in external forms of occupational old age provision (Börsch-Supan, Reil-Held and Wilke 2007: 14; TNS Infratest Sozialforschung 2008). As a result, the number of employees covered by externally organised forms of occupational pension schemes (especially superannuation funds and pension funds) grew a lot faster between 2001 and 2006 than the number of employees covered by company internal forms of occupational pension schemes (direct commitment, support fund) (see Table 5.9). The growth of externally funded schemes supports the marketisation of occupational pensions, as contributions are invested in the capital market and not in the company.

Tab. 5.9: Private sector employees with occupational pension entitlements by funding type, in thousands

		2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
External	Super annuation fund	1,389 *(100)**	2,072 *(149.2)*	3,237 *(233.0)*	3,523 *(253.6)*	4,080 *(293.7)*	4,283 *(308.4)*	4,453 *(320.6)*
	Pension fund	-	57 *(100)*	88 *(154.4)*	98 *(171.9)*	122 *(214.0)*	287 *(503.5)*	322 *(564.9)*
	Direct insurance	4,205 *(100)*	4,161 *(99.0)*	4,155 *(98.8)*	4,174 *(99.6)*	4,140 *(98.5)*	4,239 *(100.8)*	4,359 *(103.7)*
Internal	Direct commitment/ support fund	3,861 *(100)*	3,894 *(100.9)*	4,045 *(104.8)*	4,126 *(106.9)*	4,718 *(122.2)*	4,467 *(122.4)*	-

Notes: *Numbers in brackets show development in %

Source: (TNS Infratest Sozialforschung 2008: 110)

Second, the state increased the possibilities to set up defined-contribution (DC) schemes, which allowed for a shift away from the traditional defined-benefit plans, increasingly shifting financial risks towards the individual. Until the 1990s occupational pension schemes were traditionally set up based on the "pure" defined-benefit type, where the employer agrees to provide a certain level of benefit as a percentage of former earnings, or as a fixed nominal amount (*reine Leistungszusage*). By the end of the 1990s a second type of defined-benefit scheme was approved where the employer agrees to provide a certain level of benefits which is calculated based on the expected amount of contribution payments (*beitragsorientierte Leistungszusage*). With the introduction of the pension fund a few years later, the legislator allowed for a third option to set up defined-contribution schemes where the benefit level is open until the end of the contribution phase depending on the amount of accumulated contributions and capital gains, but with a guaranteed minimum benefit level (*Beitragszusage mit Mindestleistung*). The establishment of these two new options provided the possibility for the individualisation of financial risks, shifting the burden from the employer towards the employee. As a consequence, most occupational pension plans set up in the private sector after 2002 were either contribution based defined-benefit schemes or defined-contribution schemes with minimum guarantee, enforcing the shift towards the increasing individualisation of risks (Berner 2008: 404). The trend away from defined-benefit schemes was also advanced in the public sector occupational scheme. The dramatic increase in pension costs during the 1990s, together with a tight public sector budget, had led to an agreement between the social partners to shift from a defined-benefit towards a notional defined-contribution system based on a point model (VBL 2004: 59).

The changes towards more employee financing and external funding as well as the shift form defined-benefits towards defined-contributions within the occupational pension pillar have been incremental and small. Most of the old institutional structures have not been replaced but they co-exist with the new forms. In the long-term, however, the balance could be shifted further towards employee financing, external funding and the defined-contribution principle implying a greater institutional change within the occupational pension pillar.

Besides the state induced changes, some developments which strengthened the individualisation and marketisation of the occupational pension pillar were independent from any state activities, such as the increasing outsourcing of administrative and advisory tasks to external financial service providers, the establishment of gender specific contribution rates, as well as the allocation of marketing and administration costs for occupational pension plans to the insured employee (Berner 2008: 409/410; DGB 2005: 15). These developments are a good example for changes induced by non-state actors who made use of the unregulated, undefined space of an institution.

Third, the efforts of the state to foster private pension provision were accompanied by a higher degree of statutory regulation within the occupational and personal pension pillar. Introducing cut backs in the public pension pillar on the one hand, the government had to ensure that public benefit losses could be compensated through private pension provision on the other hand. While the transformation of the public pillar had decreased the role of the state as major benefit provider, it had augmented its role as regulator (Berner 2005: 11; Leisering et al 2002: 92).

As described earlier, the newly introduced personal pension was not only state subsidised and tax regulated, but also controlled through a number of criteria set by the government, and improved supervision. A similar development can be observed with regards to occupational pensions in the increase in tax regulations, interventions in the Occupational Pension Law to improve portability and vesting rules, and the introduction of a new funding vehicle. However, the growing impact of the state as regulator was accompanied by an increasing interest of the social partners in shaping the development of the occupational pension pillar. This is reflected in the increasing role of occupational pension provision in the collective bargaining process since the late 1990s and the immediate efforts by the social partners in the mining, chemical and energy industry, as well as in the metalworking and engineering industry to set up collective occupational pension plans (*MetallRente*; *Chemiepensionsfonds*) after the pension reform in 2001 had introduced the *Tarifvorbehalt* (Berner 2007: 232; Dixon and Sorsa 2008: 26). The *Tarifvorbehalt* provided the social partners with the priority to regulate and design occupational pension plans, as any occupational pension plan is bound to the collective agreement if existent (Ebbinghhaus, Gronwald and Wiß 2011: 141). In 2004 more than 80 per cent of the employees were subject to a collective agreement, which also contained regulations on occupational pension provision (aba 2006). The increasing role of the social partners had also been pushed by the *Tarifvorbehalt*.

5.5 The German pension system today: an intermediate transformation

Pension schemes and management

There have been three major changes with respect to the pension schemes and management in the public pillar. First, a tax-financed, means-tested first-tier pension scheme (*Grundsicherung im Alter*) has been introduced, assuming the poverty alleviation function (see Table 5.10). Even though the benefit level is similar to the social assistance level and the scheme is managed under the general social assistance institution, the *Grundsicherung im Alter* institutionalises a means-tested minimum protection element for the elderly pointing towards a changed understanding of the function of public old age security by adding the poverty alleviation principle.

Second, the blue-collar and white-collar workers schemes are now administered by the same organisational body (DRV) at both the federal and regional level. The different organisational bodies for miners, railway employees and seamen have also been fused into one administrative entity (*Rentenversicherung Knappschaft-Bahn-See*). The goal was to downsize bureaucracy and improve the administrative efficiency within the GRV (Hubrich and Thusnelda 2006: 13), but it also progressed the harmonisation, further deviating from the original emphasis on professional fragmentation. Besides the administrative fusion of the different schemes within the GRV, the introduction of "New Public Management" instruments, such as internal benchmarking, points towards an increasing effort to make the public pension pillar administration more efficient and thus more compatible with other providers of old age security.

Third, the information policy and transparency has been improved by the introduction of several monitoring instruments, which help to analyse the current and future development of old age security in Germany and provide information on old age income from the three different pillars. The government is obliged to present an annual Pension Insurance Report (*Rentenversicherungsbericht*), which provides information about the future financial development of the public pension insurance during the next 15 years. The report is appraised by the *Sozialberat*, which is an independent institution giving advice on public pension insurance matters. Once during every legislative period, the pension insurance report is complemented by the Old Age Security Report (*Alterssicherungsbericht*), which provides detailed information on old age income from different sources and schemes as well as the general development and coverage of occupational and personal pension provision (BMAS 2009: 84). Several other initiatives have been set up by the German Pension Insurance (DRV) together with the government to inform and educate the general public (e.g. "*Altersvorsorge macht Schule*"; "*Der Rentenblicker*"). On the individual level each insured from age 27 with a minimum of five contribution years receives an annual letter from the *DRV* which provides detailed information about the state of individual pension entitlements, as well as projected future entitlements, in order to facilitate the sensible planning of an adequate future old age provision (BMAS 2009: 86). The new information policy and the inclusion of the second and third pillar underline a shift towards a new understanding of old age security based on multiple pillars departing from the exclusive focus on the public pension pillar (Berner 2007: 146).

Tab. 5.10: The design of the German pension system, 2010

	Public Pillar	Occupational Pillar	Personal Pillar
Third tier		Private sector: - Parity & employee only contributions - External funding - Collective agreements in metal and chemical industry - Employees' right to earnings-conversion - DC - Shift towards income replacement Public sector (VBL): - Parity contribution financing - Partial funding	Riester pension/ Rürup pension - Voluntary - State regulated - Funded, DC, - Shift towards income replacement
Second tier	Mandatory schemes for public and private sector employees (GRV) - Harmonised administration - DC - Shift towards basic security Separate semi-occupational schemes for: - Civil servants - Farmers - Free professions*)*		
First tier	Minimum income in old age (*Grundsicherung im Alter*) - Tax financed - Means-tested, - Poverty alleviation		

Source: Based on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007)

There are a few significant differences in the occupational pension pillar with respect to the schemes and management dimension affecting several underlying principles. First, the number of occupational pension schemes based on collective agreements has increased (see Table 5.10). Trade unions and employers' associations in the mining, chemical and energy industry (IG BCE and BAVC) joined to form the '*Chemiepensionfonds*', while trade unions and employers' associations in the metalworking and engineering industry (*IG Metall* and *Gesamtmetall*) joined to form the

'*MetallRente*'. These two new collective occupational pension schemes have quickly gained in importance since their introduction in 2001/2002 (Weber 2001). The expansion of collective agreements demonstrates an increasing interest and activity of the unions in shaping the occupational pension pillar. It shows a departure from the strong dependence on the employers' goodwill to offer occupational pension plans, by setting up a regulatory frame based on a common agreement rather than unilateral decisions.

Second, every employee has now the legal right to demand the conversion of part of his or her earnings into an occupational pension scheme (*Entgeltumwandlung*), which is also a step away from the dependence on the sole employers' decision, fostering individual rather than collective responsibilities. However, the *Tarifvorbehalt* stipulates the priority of existing collective regulations, binding earnings conversions to the rules of the collective scheme if applicable (Börsch-Supan, Reil-Held and Wilke 2007: 9; Ebbinghhaus, Gronwald and Wiß 2011: 141). This grants the unions the priority in shaping occupational pensions.

Third, a fifth form of occupational pension has been added, the pension fund (*Pensionsfonds*). Besides the direct insurance and the superannuation fund, the pension fund is another type of external funding vehicle. Pension funds allow for a more flexible and risky investment portfolio with potentially higher rates of return, and as they are EU-compatible they can offer occupational pensions across national boundaries. The introduction of the pension fund supports the options for an increasing externalisation and marketisation of occupational pensions (Berner 2007: 244).

Finally, there have also been some noticeable changes with regards to the management and supervision of occupational pension schemes. Whereas in the past superannuation funds were generally set up and administered by firms, today life insurance companies are increasingly setting up superannuation funds and offering their services to employers and/or the social partners (TNS Infratest Sozialforschung 2008: 58). Further, the responsibility for the asset management and product marketing of the newly created collective pension plans in the metal and chemical industry has now been taken on by private insurance companies (R+V Versicherungs AG for *Chemiepensionfonds* and a consortium of insurance companies led by Allianz for *MetallRente*) (Dixon and Sorsa 2008: 27). Thus, the management of occupational pensions is a lot more externalised today ascribing external financial actors and insurance companies a more important role. At the same time the supervision and control of occupational pension plans has been improved. All forms of occupational pension plans that are externally funded through investments in the capital market (i.e. direct insurances, superannuation funds and pension funds) are supervised by the Federal Financial Supervisory Authority (BaFin*).* BaFin was set up in reaction to the financial crisis at the beginning of the 2000s, replacing three separate authorities[34] with the goal to improve the protection against financial market risks, provide better supervision and combine the different competences in one organisation. BaFin is a federal, formally independent institution with regular consultations with the Ministry of Finance, which is represented on the supervisory board (Ebbinghhaus, Gronwald and Wiß 2011: 139; Frach 2008: 64 et sqq.).

The personal pillar, too, displays some significant changes. Two types of state regulated voluntary personal pension schemes have been established: the *Riester*[35] pension for statutory insured and the *Rürup*[36] pension for self-employed (Ebbinghhaus, Gronwald and Wiß 2011: 132), introducing for the first time a legal framework and statutory regulations within the third pillar of old age provision (see Table 5.10). Both Riester as well as Rürup contracts are supervised by BaFin, which also certifies pension plans as Riester plans if they fulfil certain criteria. The introduction of state regulated personal pension plans fostered the institutionalisation of the personal pillar as an old age security instrument in contrast to the less specified asset formation for instance through life insurance contracts (Berner 2007: 121; BMGS 2006: 39; Hubrich and Thusnelda 2006: 9).

Another difference to the late 1970s is an increased awareness about the importance of comprehensive information on private old age provision. Similar to the efforts of the public pension insurance to provide regular analyses and information about old age security to the insured, the insurance industry, too, followed this example by

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[34] Bundesaufsicht für Kreditwesen (BAKred); Bundesaufsicht für Wertpapierhandel (BAWe); Bundesaufsicht für Versicherungswesen (BAV)

[35] Named after Walter Riester (ex-union leader and Social Democrat), Federal Minister for Labour and Social Affairs between 1998 and 2002.

[36] Named after Professor Bert Rürup, chairman of the German Social Advisory Council (Sozialbeirat), of the German Council of Economic Experts and of a pension commission known under his name.

introducing an annual report on individual old age provision (“*Eigenvorsorge-Report*”). This report intends to create more transparency about the level of future pension benefits from all three forms of old age provision and potential pension shortfalls (BMAS 2009: 86 et sqq.).

Financing

The financing dimension of the public pension pillar displays two significant differences in comparison to the system before the reform process. First, the contribution rate has been turned from a flexible rate into a quasi-fixed rate in the sense that it cannot exceed 22 per cent by 2030. While the flexible contribution rate could be continuously increased if expenditures increased based on the principle of an expenditure oriented revenue policy, the fixed contribution rate means that expenditures have to be controlled in order to maintain a certain contribution level, which marks a clear shift towards a revenue oriented expenditure policy (Sesselmeier 2006).

Second, the ratio of contributions to federal grants financing public pension benefits has changed. The share of contribution financing has dropped from 84 per cent in 1980 to about 76 per cent in 2008, while the share of federal grants has increased between 1980 and 2008 by almost 10 per cent to 24 per cent (DRV 2009: 222). Especially benefit entitlements for non-contribution periods have increasingly been financed out of taxes, fostering a stricter separation between contribution financed insurance benefits and tax financed social benefits. A bigger share of taxes financing public pension benefits and a fixed contribution rate also imply a shift away from the parity employee-employer financing principle as employers benefit from a lower contribution level while the financial burden is shifted to all tax payers (De Deken 2002: 283). At the same time, the state gained in importance through an increasing share of tax financing, while the role of employers and insured is declining.

In the financing dimension of the occupational pension pillar, two bigger changes have occurred. First, the establishment of the legal right to earnings conversion as well as the favourable tax treatment of those plans with employee only or mixed financing has supported a development away from the traditional dominance of employer-only financing (Berner 2007: 240; Börsch-Supan, Reil-Held and Wilke 2007: 10).

Contributions in the case of earnings conversion as well as payments into superannuation funds, pension funds and direct insurances are excempt form tax and social contributions up to 4 per cent of the gross wage below the statutory contribution assessment ceiling. Therefore these plans have become a favoured option by many employees and also employers. Furthermore, contributions to superannuation funds and pension funds can be subsidised by the state under certain conditions (Riester-Förderung) (TNS Infratest Sozialforschung 2008: 60). As a consequence, the number of employer-only financed occupational pension plans has decreased while the schemes with mixed employer/emplyoee financing, and especially employee-only contributions, have significantly increased. In 2007, 38 per cent of private sector companies have employer only financed schemes, while the percentage was much higher only six years earlier, with 54 per cent in 2001 (BMAS 2004; TNS Infratest Sozialforschung 2008). The shift from employer only to a mixed or employee only financing of occupational pensions, indicates a change towards a higher degree of individualisation and the departure from the paternalistic principle. The financial burden and responsibility within the occupational pension pillar has been shifted more on to the shoulders of the employees.

The second change concerns the public sector scheme. While occupational pensions are still financed based on the pay-as-you-go principle in West Germany, the schemes in East Germany have been gradually transformed into funded systems. Furthermore, employer-only financing has also been abandoned in the public sector schemes. Four-fifths of contributions are paid by the employer, while one-fifth has to be contributed by the employee. The contribution rate today is 7.86[37] per cent (6.45 per cent by the employer and 1.41 per cent by the employee) (introduced in 2002) of taxable earnings. Public sector employees can also profit from tax exemptions and Riester subsidies in certain cases. (TNS Infratest Sozialforschung 2008: 94; VBL 2004: 77; VBL 2009). These changes demonstrate a new direction within the public sector occupational scheme, away from the alignment with the rules of the public pension system and towards a stronger orientation to, and harmonisation with, the settings of occupational pension schemes in the private sector.

[37] for West Germany

With the new Riester pension in the personal pension pillar, all persons who are insured in the public pension system have the option to pay up to 4 per cent of their gross earnings (up to the income ceiling) into a Riester pension plan. Similar to some forms of occupational pensions, contribution payments are exempt from income tax (but not from social insurance contributions), setting incentives, especially for high income earners, to take up a Riester pension plan. Furthermore, pension contributions are subsidised by the state, which is especially favourable for low income earners who mostly do not have any advantages from tax deductions. There are two types of state subsidies: a basic and a child allowance (since 2002). The level of the state subsidies is dependent on the amount of contributions paid. If the maximum rate of 4 per cent of earnings is invested in a Riester pension plan (possible since 2008), the subsidies can amount to 454 EUR (basic allowance: €154, child allowance: €300). The combination of different possibilities for state subsidies allows for tax free savings up to 8 % of earnings up to the contribution ceiling (Bundesregierung 2001: 149; Schmähl 2004; Wilke 2008).

In contrast to the pre-reform system, the state actively incentivises not only high income earners but also low income earners and especially families to invest in personal pension provision by signing up to a Riester contract. The forgone tax income, together with the subsidies for personal pensions, cost the state about eleven billion Euro in 2008 (0.4 per cent of GDP) (aba 2005). Even though the Riester pension is a voluntary pension scheme, the statutory efforts in the financing dimension demonstrate a new understanding for the importance of the personal pension pillar.

Access

Three major changes stand out in the access dimension for the public pension pillar. First, more parts of the working population are covered by the statutory system as a result of the extension of mandatory coverage to more types of self-employed. Furthermore, low income earners with income below the social insurance threshold are eligible to join the GRV on a voluntary basis. Hence, approximately 87 per cent of the working population are covered by public pensions today, an increase of 6 per cent to the 1983 level of coverage (DRV 2009). In comparison to the pre-reform system, public pension coverage has become even more universal, albeit only within the working population, which means that the employment based access to public pensions is still a strong feature of the system.

Second, besides the traditional employment based access to public benefits, the need based access has gained in importance through the establishment of a means-tested minimum protection scheme for the elderly (Hinrichs 2010: 66). The *Grundsicherung im Alter* can be claimed from the age of 65 in the case of no or insufficient public pension benefits. Similar to the social assistance scheme, which was the last safety net for the elderly under the pre-reform system, minimum benefits are tested against income from private pensions, employment and other income sources (e.g. rent etc.). But in contrast to social assistance scheme, the income of close relatives such as parents and/or children is not included in the means-test unless their earnings exceed more than €100,000 per year. The goal was to facilitate easier access to minimum benefits for the elderly and to reduce the stigmatisation as well as the pensioner's fear to burden his or her children (BMAS 2010).

The third change concerns the eligibility criteria in order to receive public benefits. Despite the continuous expansion of public pension coverage on the one hand, the eligibility criteria for public benefits on the other hand are tighter today, with a significantly increased retirement age and actuarial reductions in the case of early retirement. In accordance with the harmonisation efforts fostered by the EU, the standard retirement age has been increased to 65 for every insured person (i.e. women and men, long-term insured, unemployed, persons on partial retirement (*Altersteilzeit*)) and will be raised from 2012 onwards in gradual steps to the age of 67 by 2029 except for long-term insured who can retire at age 65 after a minimum of 45 contribution years (see Table 5.11). Under certain conditions the insured can retire earlier but with actuarial reductions for each month prior to the official retirement age (Heidler 2009: 19). The goal of these measures was to account for the costs of an ageing population by extending the contribution period and limiting the benefit payout phase. The expansion of public pension coverage on the one hand and the reduction of public pension benefits due to tighter eligibility criteria on the other hand, point towards a less generous, less income maintaining but increasingly inclusive public pension pillar.

Tab. 5.11: The gradual increase of the statutory retirement age

		2009	2012 - 2029
Standard (5 contribution years)		65	+2 = 67
Women (15 contribution years)	Actuarial reduction	60	*phaseing out*
	No reduction	65	*+2 = 67*
Unemployed and partially retired (15 contribution years)	Actuarial reduction	63	*phasing out*
	No reduction	65	*+2 = 67*
Long-term insured (45 contribution years)	No reduction	65	65
Disabled (35 contribution years)	Actuarial reduction	60	+2 = 62
	No reduction	63	+2 = 65

Source: (BMAS 2007a)

In the occupational pension pillar, the change in the level of coverage compared to the late 1970s was relatively small. In 2007 64.2 per cent of all public and private sector employees were covered by occupational pension plans (civil servants are not included), which is roughly the same as before the reform process. However, within the private sector alone there has been a more significant increase in coverage over the last 6 years. In West Germany 55 per cent of employees were set up with occupational pensions in 2007, in contrast to only 42 per cent in 2001. The share of companies with occupational pension schemes increased from 32 per cent in 2001 to 51 per cent in 2007. This increase is largely due to a significant number of smaller companies introducing occupational pension schemes (TNS Infratest Sozialforschung 2008: 9 et sqq). Another important aspect is, that since 2001 the coverage with occupational pension plans, which profited from tax exemptions, such as superannuation funds and the newly introduced pension fund, has increased (Börsch-Supan, Reil-Held and Wilke 2007: 14). The number of people covered by occupational pensions via a pension fund for instance rose from 1.389 million in 2001 to 3.523 million in 2004. The increasing popularity of these externally funded forms of occupational pensions fosters the marketisation and commercialisation of the occupational pension pillar (Berner 2007: 245).

Similar to the developments in the public pension pillar, the retirement age has also been increased in the occupational pension pillar. The minimum retirement age for occupational pensions in the private sector has been raised from 60 to 62 for pension commitments after 2011. If the payment of occupational pension benefits is coupled to payments from the public pension pillar it cannot be claimed before the payment of the public pension, i.e. before the age of 65 (Neise 2007). The retirement age for public sector occupational pensions has been increased, in line with the statutory pension regulations, to 65 and will be gradually increased to 67 from 2012 onwards. This development shows that adjustments in response to demographic changes have also been made in the occupational pension pillar, and that an attempt has been made to make this form of old age provision sustainable for the future.

The number of people covered by personal pension plans has significantly increased in comparison to the late 1970s. The introduction of state regulated personal pension plans and the effort to make personal pension plans attractive to a broad part of the population, through tax incentives and state subsidies, has been one decisive factor in this development. Even though the take up rates for the Riester and Rürup pension were relatively sluggish immediately after their introduction, further improvements during the following years pushed up the number of Riester contracts. Between 2004 and 2010 the number of Riester contracts increased from about 4 million to more than 14 million of about 30 million people who are eligible for a Riester pension (BMAS 2012). The number of Rürup contracts increased to about 670 000 in 2008 (BMAS 2009: 69). All mandatory insured in the statutory pension system are eligible for a Riester Pension, including public sector employees and civil servants, while self-employed are eligible for the Rürup Pension. Benefits cannot be claimed before the age of 60 and are generally paid when reaching the statutory standard retirement age (Bundesregierung 2001; Hubrich and Thusnelda 2006: 9).

But not only the regulatory interventions and incentives for personal pension provision by the state fostered the development of individual private pension provision. The number of life insurance contracts, for instance has increased from about 30 million in the early 1980s to 96.3 million in 2008, which could be interpreted as an indicator for a general trend towards more individual pension provision from below due to increasing distrust in sufficient public pension benefits, especially among younger generations (GDV 2009: 6).

Benefits

Three major differences stand out in the benefit dimension of the public pension pillar in comparison to the pre-reform system. First, the indexation formula has been substantially revised. The pension value (*aktueller Rentenwert*) (previously general assessment base), which represents the amount of a monthly pension for one pension point, is now indexed to the gross wage development modified by a newly introduced 'Riester factor'. This factor subtracts the contributions paid for the statutory pension (19.9 per cent in 2009) and the simulated amount of contributions for the private Riester pension (4 per cent since 2009) from the gross wage index curbing pension benefit increases (De Deken 2002: 284; Holzapfel 2005: 266). Another new element is the sustainability factor, which represents the ratio of contributors to pensioners and accounts for the consequences of demographic changes. If the number of contributors decreases, or the number of pensioners increases, or both, the sustainability factor will decrease and thus slow down pension benefit increases (BMAS 2007b). How strongly the sustainability factor is assessed depends on the parameter alpha, which has been set at 0.25. The higher the value for alpha, the bigger the impact of the sustainability factor is going to be.

The changes in the indexation formula lower the benefit level, especially for future generations of pensioners, as public pensions will not grow as quickly and as expansively as they have been growing under the old formula. The standard net replacement[38] has dropped by almost 8 per cent from 57.6 per cent in 1980 to 50.5 per cent in 2008, but it is expected to decrease more significantly in the future (DRV 2009: 232). The new objective is not to target a certain replacement rate in order to fulfill the income maintenance goal but to avoid the decrease of the replacement rate below a limit of 46 per cent by 2020 and 43 per cent by 2030 (Berner 2007: 139). Besides the development towards basic security, the current public pension system also exhibits more features of a defined contribution system, in contrast to the pre-reform system. The consideration of the development of the contribution rate and the sustainability factor in the benefit indexation formula are elements of a defined contribution system, which limit increases in the contribution rate at the expense of benefit levels (Wilke 2008: 66).

The second difference concerns the calculation of personal pension entitlements. The acknowledgement of non-contribution years due to education has been reduced to a maximum of three years, and the crediting of non-contribution periods due to

[38] Before tax

vocational training has also been reduced. The crediting of non-contribution periods because of war related issues have been abandoned completely since 1991 (BMAS 2007b). These modifications mainly strengthened the equivalence principle at the expense of the redistribution of resources. But while there have been some cut backs in crediting non-contribution periods, a new type of pension creditable period has been introduced for child rearing and domestic care (*Berücksichtigungszeit*), improving the status of and the redistribution towards families. Child rearing times up to ten years (from the child' birth until its 11th birthday) are acknowledged with pension points. A similar arrangement had been set up for periods of unpaid domestic care between 1992 and 1995, until they became mandatory contribution periods with the introduction of the care insurance law (*Pflegeversicherung*) (BMAS 2007d: 296). Furthermore, pension entitlements acquired during marriage can now be equally split between spouses, which should serve the further expansion of self-contained pensions for women (BMAS 2007d: 289). Third, the pension access factor (*Zugangsfaktor*) has been introduced in the calculation of pension entitlements taking into account whether pensions are claimed before or after the regular retirement age, reducing or increasing the collected pension points accordingly by 0.3 or 0.5 per month. Early retirement would thus lead to significant benefit losses while late retirement would be rewarded fostering an extended employment and contribution period.

The most striking change in the benefit dimension of the occupational pension pillar is a general trend away from defined-benefit (DB) schemes. While the traditional DB schemes in direct pension commitments and support funds in the private sector continue to exist, many of the occupational pension plans set up since 2002 are defined-contribution (DC) type schemes. Also the newly introduced pension funds are of the DC type. However, all of these DC schemes guarantee a minimum return, as "pure" DC schemes have not to date been permitted by the legislator (Berner 2007: 242; Ebbinghhaus, Gronwald and Wiß 2011: 134). The shift towards defined-contribution schemes induces a shift of the financial investment risks from the employer to the individual employee. This fosters a stronger individualisation of the occupational pension pillar and supports the trend away from the traditional employers' responsibility. The decrease in DB schemes also means that redistributive elements will largely disappear.

A similar trend away from the defined-benefit scheme can be observed in the public sector VBL scheme. The previous DB scheme has been transformed into a NDC scheme based on a point system, abolishing the previous concept of a *Gesamtversorgungssystem* in which benefits were calculated based on external reference systems, such as the public pension system or the civil servants' system, targeting a certain benefit level. Moreover, benefits are now calculated based on the average working life salary instead of the final salary, and actuarial benefit deductions are made of 3.6 per cent for each year of retirement prior to the official retirement age (Ebbinghhaus, Gronwald and Wiß 2011: 134). This development also demonstrates a stronger orientation of the public sector occupational scheme towards the private sector schemes, further dissolving traditional differences between the two sectors.

Besides the trend towards a higher degree of individualisation and the harmonisation between the public and the private sector, benefit rules in the private sector are more regulated and defined today. The benefit indexation rules have become less discretionary and more specified. The employer is obliged to index occupational pension benefits and the indexation must not be below the price index or the net wage index of comparable groups of employees. This obligation does however not apply if the employer agrees to annually increase benefits by at least one per cent (obligatory in case of earnings conversion), if interest gains (direct insurance; superannuation fund) are used to increase benefits, or if there is an agreement on a minimum benefit with defined contributions (Ebbinghhaus, Gronwald and Wiß 2011: 134). Under certain conditions, employees covered by an occupational pension (pension fund, superannuation fund, direct insurance) can profit from the Riester pension subsidies, but this option has been rarely used so far.

Portability rights and vesting rules have been improved in comparison to the late 1970s, adapting to a more flexible and internationalised labour market. Pension entitlements are now vested after five years of membership in an occupational pension scheme (as opposed to ten years previously), with a minimum age of 30 years (as opposed to 35 years). In the case of earnings conversion, occupational pension entitlements are vested with the first contribution payment, improving occupational pensions especially for less skilled and short term employees (BMGS 2006: 74; Ebbinghhaus, Gronwald and Wiß 2011: 135). Vested pension entitlements are more portable. Employees have the right to transfer their entitlements from pension funds, superannuation funds and direct insurances to the new employer in case of job change, but the value must not exceed the annual contribution ceiling of the statutory pension (ca. 65000 Euro) (§§ 1b; 4; 16 BetrAVG 2007).

Finally, whilst the *Pension Protection Fund* (PSV) is still the responsible organisation to protect pension benefit payments against the insolvency risks of those firms offering direct pension commitments and support funds, the *Protektor AG*, a new organisation founded in 2002 by the Association of German Insurance Companies (GDV), is now responsible for the financial security of benefits for superannuation funds, direct insurances and the newly introduced pension funds. All insurance companies are obligated to reinsure through this organisation (Hubrich and Thusnelda 2006: 9).

The stricter regulation of benefit indexation and the increased interest in protecting occupational benefits against insolvency risks, as well as the improvement of portability and vesting rights, express the recognition of the occupational pension benefits as an important part of old age security now in Germany.

The new Riester and Rürup pension plans are designed as DC schemes. The benefit level depends on the amount of contributions paid and the rate of return in investments. But in contrast to other personal pension plans, the once accrued pension contributions must be guaranteed, i.e. the nominal rate of return must not be negative. Both, occupational and personal pension benefits are subject to income tax (deferred taxation), but in contrast to occupational pension benefits, pension benefits from a private Riester contract are not subject to health and old age care contributions. The new personal pension plans are fully portable in case of change of employer, however, this may include a considerable benefit loss (Bundesregierung 2001; Ebbinghhaus, Gronwald and Wiß 2011; Hubrich and Thusnelda 2006: 9).

5.6 Conclusions

The comparative examination of the different institutional dimensions of the old age security system in Germany today with the system before the reform process shows a number of significant differences in each of the three pension pillars affecting several of the traditional principles and values. The changes within each pension pillar also had a substantial impact on the overarching public-private architecture and goals (see Figure 5.4).

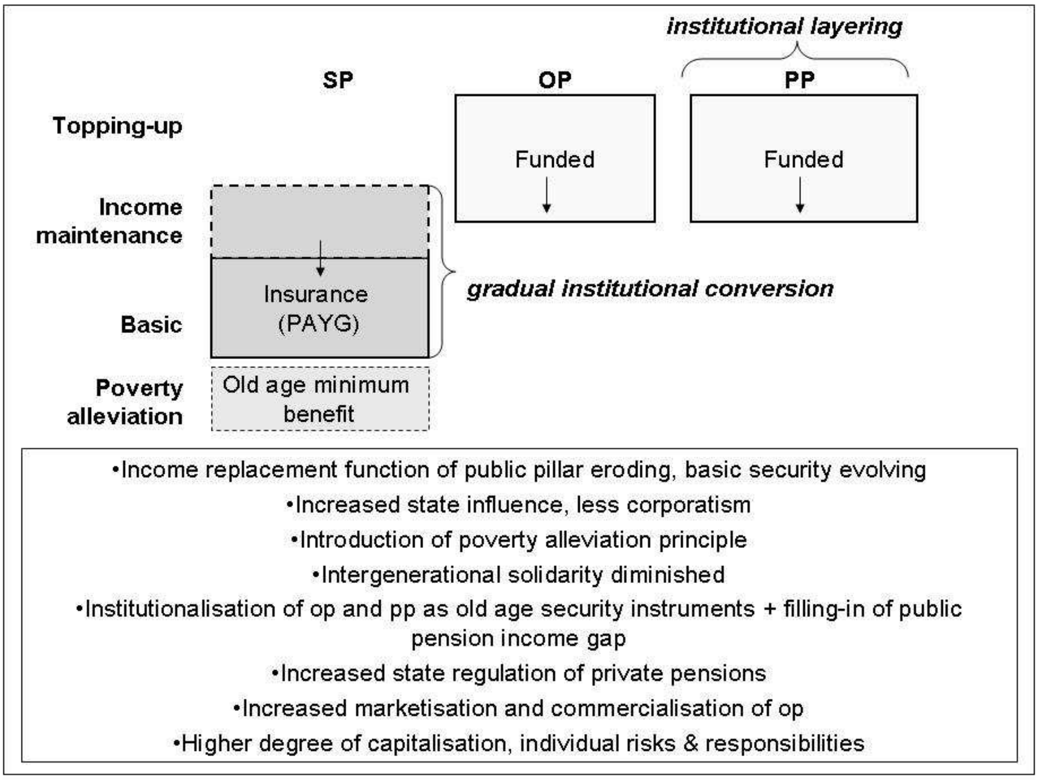

Figure 5.4: The German public-private pension architecture and goals, 2010

Three major changes stand out within the public pension pillar. First, the fusion of different organisational bodies and the introduction of "New Public Management" instruments pushing for more efficiency and less bureaucracy making the public pension system more competitive with other pension providers which demonstrates a new understanding of the public pension pillar as one of several forms of old age provision. Even though the public pension pillar is still the most important part in the pension system architecture today, the changes in the scheme and management dimension indicate a gradual departure from the dominant public pillar model towards a more integrative multi-pillar approach on the conceptual level. The development of a new information policy, seeking to create more transparency around the different forms of old age provision and their progressions, also supports a more integrative approach, including the occupational and personal pension pillar in an overall concept of *old age security* instead of *public pension policy* (Berner 2007).

Second, the introduction of a number of measures to reduce the benefit level, as well as the shift from an expenditure oriented revenue policy towards a revenue oriented expenditure policy with a fixed contribution rate, fosters the departure from the income maintenance function of the public pension pillar (Hinrichs 2010: 60). For the current generation of pensioners, the public pension pillar is still the major source of old age income, with more than 60 per cent of the gross household income (66.1 per cent for single households and 60.8 per cent for couples) stemming from public pensions (GRV), while the share of occupational pension benefits[39] of the overall gross household income is rather moderate with only 9.1 per cent (single and couple) and with 14 per cent of the overall income stemming from private personal assets (Münnich 2007: 595). However, the income situation of the current generation of pensioners mainly reflects the combined effect of past and current regulations, which is why the shift towards a new public-private pension mix in the benefit dimension is not as clearly represented when looking at the income situation of current pensioners. The full impact of the reforms enacted over the last three decades will only be visible in the far future, mainly affecting today's generation of contributors because of the time-lag between the accumulation of pension entitlements and the benefit withdrawal (Ebbinghaus and Neugschwender 2011). The estimated long-term decline of the public pension benefit level indicates a clear shift away from the income maintenance principle towards basic security. The goal is not to achieve a replacement rate, which will guarantee the maintenance of the previous living standard but to avoid the decrease of the replacement rate below a limit of 46 per cent by 2020 and 43 per cent by 2030 (Berner 2007: 139). The principle of a publicly guaranteed maintenance of the achieved living standard is on the retreat while securing a basic level has gained in importance (Hinrichs 2010: 66). The intention to establish and expand the poverty alleviation principle in the public pension pillar is further emphasised by the introduction of a means-tested minimum benefit in old age (*Grundsicherung im Alter*).

Finally, two changes have been made, which strengthened typical basic security principles in the public pension pillar. First, the shift in the financing dimension of the GRV towards a higher share of tax financing strengthened the role of the state and the welfare principle (*Fürsorgeprinzip*) and second, the establishment of the means-tested minimum benefit (*Grundsicherung im Alter)* introduced the poverty alleviation principle as well as the concept of need based access to old age benefits.

[39] This includes benefits from the "Alterssicherung für Landwirte" (farmers scheme) and the "Berufsständische Versorgungswerke" (compulsory insurance for certain groups of self-employed).

Due to the decrease in public pension benefits and the general reorientation in the public pension pillar, the occupational and personal pension pillars have gained in importance as old age income sources, which will especially in the long-term affect the overall public-private architecture and goals towards a higher degree of privatisation and capitalisation. Besides this functional crowding-in effect of private pensions, the state has also actively fostered the expansion and improvement of occupational and the institutionalisation of personal pensions, supporting the integration of private pension provision as part of a new old age security policy.

Especially, the introduction of a voluntary state regulated personal pension scheme (*Riester Rente*) marks a bigger change in the old pension system architecture. It cultivated the differentiation between general asset formation and personal pension provision (Berner 2007). Furthermore, by accounting for (potential) personal pension contributions in the public pension benefit formula, the state emphasises the integration of personal pensions as part of the old age security system. Finally, the encouragement of the voluntary take-up of certified pension plans by tax incentives and direct state subsidies demonstrates the increased importance of the personal pension pillar and the intention to close the arising pension gap by private pensions.

The encouragement for private pension provision has also affected the occupational pension pillar. The statutory engagement with regards to occupational pensions has gained in intensity, going beyond tax regulations as the only instrument of statutory influence (e.g. right to earnings conversion, establishment of pension fund, improved vesting and portability). This indicates a departure from the uncontrolled co-evolution of occupational pensions towards a more integrative and regulated approach.

But not only the state has shown a stronger interest in occupational pensions, collective efforts by the social partners have also gained in importance shaping the occupational pension pillar "from below" (Berner 2007: 232). The number of collective agreements has increased and the *Tarifvorbehalt* guarantees the priority of existing collective regulations, binding earnings conversions for instance to the rules of the collective scheme if applicable, emphasising the social partners the priority in shaping occupational pensions (Börsch-Supan, Reil-Held and Wilke 2007: 9; Ebbinghhaus, Gronwald and Wiß 2011: 141).

As a consequence of the activities of non-state actors, as well as increased state regulations, several principles have changed within the occupational pension pillar.

First, the growing number of collective pension schemes, as well as the right to earnings conversion, point towards a shift away from the dependence on the employers' goodwill and the traditional paternalistic model. Second, a trend towards a higher degree of individualisation can be observed within the occupational pension pillar. The institutionalisation and increasing popularity of earnings-conversions, the departure from employer-only financing and the shift from DB to DC schemes increasingly shift risks and responsibilities from the employer to the individual. Third, the growing dominance of externally funded (i.e. via investments in the capital market) occupational pension schemes over internally funded schemes (i.e. via company book reserves), as well as the increasing outsourcing of the administration of the schemes to external insurance companies or financial service providers, support a process of increasing marketisation within the occupational pension pillar. It also ascribes a greater role to the financial service industry as an important new actor for occupational pension provision.

Summing up, the comparison of the institutional design of the German pension system before and after the reform process reveals that many of the original principles and policy goals have been affected by the three decades of reforms and may change further in the future which is why the German penson system is a case of an **intermediate institutional transformation**. The income maintenance goal which had been pursued by the public pension pillar only, is going to be increasingly attained by all three pension pillars together, while the public pension pillar transitions towards the provision of a more basic level of old age security. The increasing importance of the occupational and personal pension pillar in the overall architecture as well as the changes within the occupational pillar have fostered a shift towards more individual self-responsibility with regards to the provision of pensions and the bearing of financial risks. It also set a trend towards an increasing marketisation and commercialisation of pensions (Hinrichs 2010: 71). Finally, the shift towards a higher degree of private pension provision strengthened the funding principle over the pay-as-you-go method in the overall architecture (Schmähl 2003: 21). As a consequence, the previously strong accentuation of the goal of intergenerational solidarity and equity has been fading.

The analysis of the reform process reveals that the institutional transformation was largely facilitated by the combination of the gradual instituional conversion of the public pension pillar from its income maintenance function towards basic security features and the subsequent institutional layering of the personal Riester pension. The gradual institutional conversion has been the result of the accumulation of a series of smaller, parametric changes introducing alterations in levels and/or instruments over a long period of time followed by the intensification and acceleration of retrenchment measures culminating in paradigmatic changes.

Later reform measures were largely faciliatetd by previous changes. While the gradual functional conversion of the public pension pillar increased the necessity for private pension provisison, the institutional layering of personal pensions as well as the improvement of the attractiveness of occupational pensions complememted the shift towards a new public-private pension mix.

6 Sweden: The technical-pragmatic case

The public-private pension architecture in Sweden as it stood by the late 1970s was the outcome of a historical development process shaped by socio-economic circumstances, political conflicts and ideological preferences. Especially from the mid-1930s onwards, the institutional design of the public pension pillar was to a large degree shaped by the hegemonic position of the Social Democratic Party (SAP) fostering the development of a universal basic security scheme supplemented by a Bismarckian-type earnings-related pay-as-you-go financed pension insurance scheme (ATP), which quickly become the centre piece of the public pension pillar, completing the social democrats' vision of an encompassing statutory old age security system pursuing the principles of solidarity, equality and income maintenance (Henkes 2006: 272). Besides the generous benefits from the public pension pillar, occupational and personal pensions only fulfilled a topping-up function. However, despite the low level of occupational benefits, the social partners were strongly engaged in the occupational pension pillar fostering a braod quasi- mandatory coverage based on collective agreements. When the model country for an expansive welfare state, securing full employment went through the heaviest post-war labour market crisis during the early 1990s, a major pension reform, the Pension Reform Act 1994/1998 was launched, restructuring the public pension system.

Many analyses examinig pension system change in Sweden focussed on this major pension reform and the profound changes within the public pension pillar, classifying Sweden not only as a case of institutional change attesting transcending public-private boundaries and the emergence of a new market-oriented paradigm but also as an example for a sudden and radical transformation (Carson 2005; Hagberg 2006; Jochem 2004; Svensson 2002). Indeed, the changes in the public pension system had an enormous impact on the overall pension system architecture and goals in Sweden, introducing a higher degree of individualisation and commercialisation within a publicly regulated framework, but the questions remain whether these changes are really as dramatic as they first seem and whether the process of change was actually as sudden and quick as suggested by the one big pension reform. Furthermore, the focus has mainly been set on the public pension pillar neglecting the processes and developments within the occupational and personal pension pillar. The following analysis of the process and outcome of pension system change in Sweden aims to add to the understanding of these particualr questions.

6.1 The Swedish pension system before the reform process

6.1.1 Historical origins and maturation

The increasing erosion of traditional, family based social security networks, and the occurrence of a range of social problems arising from the progressing industrialisation process towards the end of the 19th century, led to a general discussion among the political elite about how the social conditions in Sweden could be improved (Gould 1993: 164). In this context, the first public pension system in Sweden was established in 1913 under the rule of a conservative government. It was a mandatory, fully funded, defined-contribution system with a means-tested, defined-benefit supplement. Inspired by the Bismarckian social insurance system in Germany, the first proposal had envisaged a system targeted at industrial workers, but due to the resistance of the Swedish farmers, who still maintained a high degree of political influence, a more inclusive system was introduced covering all kinds of professional and social status groups, with the exception of state employees, who had already been covered by a quasi-statutory occupational pension scheme since the 18th century and continued to have their own program (Kangas and Palme 1996: 215; Kaufmann 2003: 183; Lindquist and Wadensjö 2011: 245).

Besides public sector employees, not many other groups of workers were covered by occupational pensions at the beginning of the 20th century, and those who were had the option to opt out of the newly established public pension system. However, when more groups of white-collar employees tried to leave the public system, the contracting-out option was restricted, driven by the general belief that particular interests had to be subordinated to the general public interest. This was a step towards universalism within the public pension system, and also an important step in the development of occupational pension schemes, as those groups with particular interests pushed for the establishment of their own occupational schemes as a supplement to the statutory scheme in order to satisfy their special needs (Köhler 2005: 94; Lindquist and Wadensjö 2011: 246).

The development of private old age provision largely paralleled the development of the state pension system. The first collective pension fund for white-collar workers in the private sector was established in 1917, and several white-collar unions, together with the employers' confederation, set up their first commonly owned insurance company (SPP) in order to administer collective insurance contracts for pension payments (Köhler 2005: 94; Olsson Hort 1993: 266). Occupational pensions for blue-collar workers were more fragmented and were mostly company based plans rather than based on a collective agreement.

In 1935 the first big pension reform of the public system was introduced by the Social Democrats, who had come into power in 1932 and maintained the political hegemony for the next four decades. The goal of the reform was to create a basic "people's pension" (*folkpension*) with fair conditions for the whole Swedish population, strengthening the social democratic principles of solidarity and equality. Accordingly, the funding principle was replaced by the pay-as-you-go financing method and the link between contributions and benefits was loosened, providing more equal benefits to the insured. The means-test was made less strict, fostering the expansion of the pension supplement. Finally, state employees were included in the system on a mandatory basis, supporting the universal approach (Kaufmann 2003: 183/184; Lindquist and Wadensjö 2011: 246; Palme 2005: 43).

After World War II, the public pension system was further developed in line with the principles of the social democratic government and inspired by the British Beveridge Report. With the support of the bourgeois parties, who were unable to find a uniform strategy to counteract the social democratic government's proposal, the means-test for the pension supplement was abolished completely and the public pension system was turned into a truly universal, tax financed, flat-rate pension (*Allmän folkpension*) accessible for all Swedish residents in 1948 (Heese 2003: 233).

After the establishment of the universal basic pension scheme by the social democrats, the next big development step in the Swedish pension system architecture occurred during the 1950s. In the face of rapid economic growth and increasing wages, the benefit level of the price indexed basic pension became increasingly insufficient to maintain an adequate living standard during retirement. The income gap between those in the labour force and those in retirement was quickly expanding. Most parties agreed on the necessity to improve the situation of the elderly, however, there was less consensus about how to solve the income maintenance issue, which led to a great political conflict referred to as the "ATP dispute" (Anderson and Immergut 2007: 360; Green-Pedersen and Lindbom 2006: 248).

The discussion revolved around three different proposals. The first proposal, which was supported by the employers' association (SAF) and the liberal and conservative parties, suggested the supplementing of the basic *folkpension* with negotiated occupational pensions and individual savings, as public sector employees as well as most white-collar employees were already covered by occupational pensions via collective agreements. In contrast to this, the second proposal, which was supported by the Centre Party and the majority of the farmers, promoted the improvement and expansion of the tax financed basic pension scheme, which could be topped up by voluntary individual savings. The Social Democratic Party (SAP), together with the blue-collar workers union (LO), facilitated a third proposal in which the public pension pillar fulfilled the income maintenance function through a public earnings-related pension (ATP) supplementing the basic pension. The social democrats were in favour of a public solution to resolve the income maintenance issue, as the provision of public earnings-related pension benefits would satisfy the needs of higher income earners (e.g. white-collar and public sector employees) thereby increasing the solidarity within the public welfare state, the "flagship" of the Social Democratic Party. The blue-collar unions supported a public solution as the employer would be likely to demand wage restraints if setting up occupational pension plans in a collective bargaining process, while a public arrangement would shift the costs to employers or tax payers (Øverbye 1996: 163).

One major criticism against the SAP proposal by the other parties was the potential decline in national savings due to more generous public pensions. In order to overcome this issue, the SAP planned to set up a statutory fund (AP) to maintain or even increase the general level of savings in Sweden and to use its assets to balance out short-term fluctuations in contributions or pension expenditures in the case of future economic and/or demographic changes. However, the idea of a state controlled fund led to new controversies as the bourgeois parties feared an implicit "pension fund socialism" (Øverbye 1996: 166).

What followed were several years of debate and a referendum with no clear result. Finally, the introduction of the ATP scheme and the AP fund was decided in parliament in 1959 with a majority of one vote (Green-Pedersen and Lindbom 2006: 248/249; Marier 2008: 106; Palmer and Erikson 2004: 86). The introduction of the ATP scheme on top of the public basic pension marked a clear shift away from the original Beveridge-inspired basic security principles, towards a dual system with Bismarckian social insurance principles (Øverbye 1996: 177; Palmer and Erikson 2004: 88). But despite the decision for a public solution to provide a generous level of income replacement in old age, the pre-existing occupational pension schemes in the public and private sector were not completely neglected, rather, they were renegotiated in 1960 and adjusted in line with the new ATP scheme in order to complement the public pension and provide adequate pension benefits for high income groups with earnings above the public benefit ceiling. In 1973 a collective occupational pension agreement was also reached for blue-collar workers, with the result that about 90 per cent of the working population were covered by sector wide occupational pension agreements by the mid-1970s (Kangas and Palme 1996: 222; Lindquist and Wadensjö 2011: 246). However, despite the broad coverage, the importance of occupational pension benefits in the overall old age income had been gradually eroding with the expansion and maturation of the earnings-related *ATP* scheme (Kangas and Palme 1996: 222).

6.1.2 The institutional design of the Swedish pension system by the late 1970s

Pension schemes and management

In the late 1970s the Swedish public pension pillar consisted of a basic flat-rate pension (AFP) and an earnings-related supplementary pension scheme (ATP) (see Table 6.1). All Swedish residents were included in the first, while all wage earners, including the self-employed and civil servants, were covered by the latter scheme, providing a high degree of inclusion in the public pension pillar, and underlining the egalitarian and universal approach of the Swedish pension system.

The AFP as well as the ATP scheme were administered by 360 local social insurance offices which were coordinated by 25 regional social insurance agencies and supervised by the Swedish Social Insurance Agency (RFV) (Heese 2003: 237). While the main responsibility for the planning of pension policies was carried by the Ministry of

Social Affairs and to some extent the Ministry of Finance, the RFV was responsible for the implementation and day-to-day administration of the public pension schemes. In contrast to the bi-partite pension administration in France and in Germany, the board of the RFV was a lot more diverse, including parliamentarians and experts who were elected every two years by the Parliament. Furthermore, with its employees being civil servants, the RFV was a state agency (Marier 2008: 110). Thus, in contrast to Germany and France, the public pension pillar was administered by the state and not self-administered by the social partners underlining, the strong role of the state with a paternalistic imprint rather than corporatist features.

Tab. 6.1: The design of the Swedish pension system, 1980

	Public Pillar	Occupational Pillar	Personal Pillar
Third tier		Collective schemes Private sector: blue collar (STP); white-collar (ITP) Public sector: central gov. (PA); local gov. (PA-KL) - Administered by social partners - Employer-only contributions, mostly internal financing, funded and PAYG, tax deductions - Quasi-mandatory, collective agreement - DB, topping up	Diversity of personal asset formation (life insurance contracts, bank savings, home ownership) - Funded, tax deductions - Voluntary - DC, topping-up
Second tier	Scheme for all professional groups (ATP) - Administered by the state - Employer-only contributions, PAYG - Earnings-related, DB, income maintenance		
First tier	Basic scheme (AFP) for all residents - No means-test - Tax and contribution financed - Flat-rate, poverty alleviation/ subsistence level		

Source: Based on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007; Lindquist and Wadensjö 2006a)

In the early 1980s the occupational pillar contained different sector wide pension schemes introduced as part of central agreements between the unions and the employers' confederation, covering almost the whole working population (see Table 6.1). There were four major occupational pension schemes: two schemes for private sector workers, being the blue-collar workers' plan STP *(Särskild tilläggspension*) and the white-collar workers' plan ITP *(Industrins och handelns tjänstepensionsavatal*), and two schemes for employees in the public sector, the PA (*Pensionsavtal*) for central government employees and the PA-KL (*Pensionsavtal kommuner och landsting*) for employees in the municipalities.

The private sector schemes were administered, designed and supervised by the social partners, completely independent from any state authority. The scheme for blue-collar workers was administered by AMF Pension, an insurance company, which had been founded by the social partners in common sponsorship in 1973. The white-collar employees' scheme was administered through PRI (*PRI Pensionstjänst AB),* which had been founded by the social partners based on the first ITP agreement reached in 1960 (FPG and PRI 2009: 17, 18).

There was no open competition between occupational pension providers as all private sector plans were automatically set up with AMF or PRI respectively. Furthermore, investment choices were not made by the individual insured but by the collective institutions limiting the individual's freedom of choice but also his or her financial responsibilties and risks. In the case of the public sector occupational schemes, it was the state or the individual employer at the level of the municipalities who concluded the contract with a private insurance provider while the scheme was run by the social partners (Köhler 2005: 97).

The configuration of schemes and the strong involvement of the social partners in the occupational pension pillar supported the collective nature of occupational pensions in Sweden, underlining the responsibility of the social partners for the provision of occupational pension benefits as well as investment decisions. Two major supervisory bodies, the Swedish Bank Inspection Board and the Private Insurance Supervisory Service, were responsible for the supervision of bank as well as insurance companies operations and the security of investments for occupational as well as personal pension plans (Lindquist and Wadensjö 2011: 258).

In contrast to the well-institutionalised collective occupational pension pillar, the personal pension pillar was less formally institutionalised and relatively unregulated by the late 1970s. Due to generous public pension benefits and the broad coverage of occupational pensions, personal pension savings were mostly of interest as a top-up on public pension benefits for individuals without access to occupational pension schemes, such as the self-employed. The most common form of personal retirement savings were life insurance contracts, home ownership, or bank savings plans, but the savings rate was not very high at this stage (Scherman 1998: 430).

Financing

The financing of the public pension system was largely based on the pay-as-you-go principle and mainly financed by earmarked employers' contributions emphasising the goal of intergenerational solidarity as well as the responsibility of the employers as financial sponsors of public benefits. Even though the basic pension (AFP) was formally financed out of taxes, in practice, large parts of the benefits were financed by employers' contributions. In 1984 only about 24 per cent of AFP expenditures were financed by taxes while 76 per cent were paid from contributions (Bußmann and Westerlund 1991: 31). The ATP pension was financed solely by contributions. The contribution rate was set to cover pension expenditures supporting the principle of an expenditure oriented revenue policy. In 1982 the contribution rate for the basic pension was 8.45 per cent on gross wages up to the contribution ceiling and for the earnings-related pension 9.4 per cent on gross earnings without contribution ceiling[40] (Riksförsäkringsverket, Socialförsäkringsfakta, various issues).

A special feature of the financing dimension was that the contributions charged were higher than necessary to finance current retirement benefits and the surpluses were invested in a statutory fund (AP fund). The fund had been set up in the early 1960s based on two goals: first, fund assets should finance ATP pension benefits in times of financial distress, and second, the fund should counteract the expected decrease in national savings due to the generous public pension (Palmer 2002: 187).

[40] The ceiling for ATP contributions was abolished in 1982. However, benefit entitlements could only be earned for contributions up to the ceiling.

All major occupational pension schemes were financed by employers-only contributions[41], similar to the public pension system, underlining the financial responsibility of the employer. In the case of the two private sector schemes, the state supported the financing by providing tax deductions on contributions up to a certain threshold. Both financing principles could be found: the pay-as-you-go method as well as the funding principle, supporting the goal of intergenerational solidarity on the one hand, but also providing a certain degree of individualisation on the other hand. The STP plan for blue-collar workers was entirely based on the pay-as-you-go financing principle and the pension contribution rate for one year was set at a rate to cover the expected pension costs for those insured who retired in the same year (expenditure-oriented revenue policy). In contrast to the STP scheme, the ITP plan for white-collar employees was a fully funded system. Pension contributions were paid into individual accounts set up for each insured. The contribution rate could differ from employer to employer depending on the insured persons' age, salary and amount of accrued rights. The two public sector schemes (PA, PA-KL) were partly based on the pay-as-you-go principle and partly funded (Abelson 1991: 74; Palme and Svensson 1997: 20 et sqq.).

There were three common ways to finance occupational pensions. Two of them were external financing methods via pension funds or pension insurances and one of them was the internal financing via book reserves. In the private sector schemes, all three methods could be found, but the most typical form for the white-collar employees' scheme was the internal financing via book reserves in combination with a credit insurance through the *Pensionsgaranti* (FPG) for securing pension liabilities. In the case of setting up occupational pensions via an insurance or pension fund, contributions were automatically paid to the mutual insurance company Alecta (FPG and PRI 2009: 12).

The dominant financing form of occupational pensions for blue-collar workers was external via the direct insurance, but the choice of the insurance company was not free. Instead, contributions were paid to the mutual insurance company AMF *(Arbesmark nadsförsäkring),* which was run by the social partners, underlining the strong collective nature of the occupational pension pillar (Köhler 2005: 87).

[41] The two public sector schemes (*PA, PA-KL*) were financed by the state as employer via taxes.

The financing of occupational pension schemes in the public sector was largely organised internally via book reserves (Lindquist and Wadensjö 2011: 255). Thus, except for the blue-collar workers scheme, a large degree of occupational pensions were based on the internal financing method. On the one hand, this provided the companies with additional financial assets until the pay out phase and on the other hand it limited the commercialisation of occupational pensions in the open market. Even in the case of the blue-collar pension scheme, the commercialisation was limited as there was only one insurance company, which was run by the social partners.

Personal savings plans were solely financed by the individual's contribution payments. The individual mostly agreed to pay a certain amount of annual contributions over a certain period of time. Sometimes the individual could also pay a single lump sum. Private life insurance premiums were deductible from income tax up to a certain ceiling offering the best after-tax return of all financial assets (Palmer 2001: 43; Scherman 1998: 430).

Access

All residents in Sweden were covered by the basic pension (residency-based access), while the access to the ATP pension scheme was more selective as it was employment-based in line with the typical Bismarckian principle. For people with no or only low pension benefits from the earnings-related ATP scheme, the basic pension scheme provided an additional means-tested pension supplement (*Pensionstillskott*).

In order to receive the full basic pension, 40 years of residency in Sweden or 30 years with ATP pensionable earnings were required. ATP pension entitlements could be gained after three years of employment with earnings above a certain minimum threshold (i.e. one base amount).

The statutory retirement age in Sweden was not fixed, but flexible. Hence, pension benefits from both the basic and the earnings-related pension schemes could be withdrawn between the age of 60 and 70. However, actuarial deductions applied if retiring before the age of 65 and full ATP pension could only be withdrawn after 30 contribution years. Pension supplements were granted if retiring after the age of 65. Even though the retirement age for a full ATP pension was comparatively high, the actual age at which people exited the labour market was a lot lower and mostly closer to 60 than to 65. Early retirement without actuarial deductions was possible, too, in the case of sickness and physical or psychological disability (Abelson 1991: 71).

Occupational pensions in Sweden were not mandatory by law, but the coverage with occupational pension plans was very broad due to sector wide collective agreements, which implied a quasi-mandatory character. By the mid-1970s about 90 per cent of the Swedish working population was covered by one of the four major occupational pension schemes, which demonstrated that the occupational pension pillar was an integral part of the old age security system (Palmer 2001: 39).

The basic eligibility criteria to receive occupational pension benefits were relatively similar between the different schemes. The employee mostly had to be insured in the scheme for at least three years between the age of 55 and 64. Similar to the regulations in the public pension pillar, full occupational pension benefits could generally be attained at age 65 (except for some smaller groups in the public sector who could retire with a full pension at age 60) and after 30 years of pensionable employment, i.e. at least 40 per cent full-time employment per year. Except for the STP pension, occupational pension benefits could also be withdrawn before the age of 65 with actuarial deductions. The withdrawal of benefits could also be postponed beyond the age of 65 up to the age of 70 with actuarial supplements in all occupational schemes (Köhler 2005: 98; Lindquist and Wadensjö 2006a: 162 et sqq.).

The coverage with personal pension savings plans was very low if looking at the percentage of people making use of the tax deductions on contribution payments. In 1980 only 4 per cent of persons aged between 18 and 64 made use of these tax deductions. Most workers did not have earnings above the public pension ceiling, which meant that their earnings were already fully covered by the public pension system and if they had earnings above the ceiling these were normally covered by the quasi-mandatory occupational pension plans. Thus, the need for additional personal pension savings, as well as the extra financial resources required to pay contributions into such a plan, were not present at this stage (Palmer 2001: 43).

Benefits

Pension benefits from the basic AFP scheme were flat rate and calculated independently from the amount of taxes and contributions paid or the level of former earnings, implying a highly redistributive character fostering the egalitarian imprint of the public pension pillar.

The basic pension was a defined benefit system (DB), with a full pension amounting to 96 per cent of the base amount[42] (*basbeloppet*) for a single person. In order to obtain a full basic pension, 40 years of residency in Sweden or 30 years of earnings between a lower and an upper threshold were required. For each missing year benefits were reduced by 1/40. Furthermore, benefits were subject to actuarial reductions of 0.5 per cent per month in the case of retirement before the age of 65 while benefits were increased by 0.7 per cent per month for the postponement of retirement beyond the age of 65 (the maximum age was 70). The AFP scheme guaranteed a basic income with the goal to alleviate old age poverty and provide the elderly with the subsistence level of benefits (Heese 2003: 241; Letzner and Tippelmann 2003: 502; Abelson 1991: 72).

The basic pension was supplemented by the ATP pension, which provided second tier earnings-related benefits. The ATP scheme, too, was a defined-benefit system (DB) with a target replacement rate of 60 per cent of the individual's former earnings, pursuing the income maintenance goal. In order to calculate the amount of retirement benefits, the individual's average earnings during the best 15 out of 30 income years between a lower threshold of one base amount and an upper ceiling of 7.5 base amounts were converted into pension points[43]. The average of the collected personal pension points at the time of retirement was then multiplied with the base amount. 60 per cent of this amount was paid out to the pensioner (Heese 2003: 243). The 15/30 rule was particularly favourable for white-collar employees who had longer education and shorter employment periods but with a steady increase of earnings during their career. A full ATP pension could be gained after 30 contribution years. For each missing contribution year benefits were proportionally reduced by 1/30 (Heese 2003: 237; Abelson 1991: 70; Bussmann 1991: 33). ATP benefits could be withdrawn before the age of 65 with actuarial reductions of 0.5 per cent per month. The postponement of pension claims beyond the age of 65 was rewarded with benefit increases of 0.7 per cent per month up until the age of 70 (Heese 2003: 241). For persons with very low or no

[42] The base amount is an actuarial measure set by the government which has usually been tied to the consumer price index (Ståhlberg 1997).

[43] ATP pension points are calculated by dividing the annual pensionable income (between 1 and 7.5 base amounts) by the base amount of that year. 6.5 points were the maximum that could be earned in one year.

benefits from the ATP scheme a pension supplement (*Pensionstillskott)* of a maximum of 50 per cent of the base amount was paid out from the basic pension scheme.

Benefits and entitlements of both the AFP and the ATP scheme were indexed to the development of the base amount, which was adapted annually to the consumer price index. The price indexation should guarantee a continuous level of purchasing power and thus the same standard of living during retirement as during the working period. Together, the basic AFP and the earnings-related ATP pension replaced about 65 per cent of an average workers wage (Abelson 1991: 71, 75; Anderson 2005: 95; Gould 2001: 90).

Both schemes only insured earnings up to a certain income ceiling (7.5 times the base amount), which meant that occupational and/or personal pension benefits were important as a topping-up, especially for higher income groups with large earnings parts above the ceiling. The calculation of contributions based on the whole wage and the calculation of benefits based on wages between a lower and an upper ceiling, supported a high degree of redistribution from higher to lower income groups after retirement. But in the late 1970s the share of the working population with earnings above the public pension threshold was relatively small.

Pension benefits from the two private sector schemes (STP, ITP) were based on the defined-benefit principle (DB) and calculated as a percentage of the final salary (mostly the average earnings of the last three to seven years before retirement) up to an income ceiling of 7.5 base amounts for the STP pension and a ceiling of 30 base amounts for the ITP pension, leaving some, but not much space, for additional personal pension plans mostly for very high income earners. In the case of the ITP pension, different replacement rates were applied according to three different earnings categories (see Table 6.2) (Abelson 1991: 74; Köhler 2005: 99; Lindquist and Wadensjö 2006a: 162, 167).

Tab. 6.2: Benefit level according to earnings categories, ITP scheme

Earnings (in base amounts)	**ITP benefits** (in % of former income)
0 - 7.5	10
7.5 – 20	65
20 – 30	32.5

Source: (Abelson 1991: 74)

White-collar employees with a salary higher than ten base amounts could select an alternative defined-contribution (DC) pension solution for those parts of their salary between 7.5 and 30 base amounts. The size of this part of their pension was thus determined by the contribution payments plus investment gains (FPG and PRI 2009: 11; Lindquist and Wadensjö 2006a: 167).

Occupational pension benefits from the two public sector schemes (PA, PA-KL) were also of the defined-benefit (DB) final salary type, with differing replacement rates according to different earnings categories up to a ceiling of 30 base amounts. The scheme for central government employees (PA) also offered a defined-contribution supplement (*Kapan Tjänste*), which could be withdrawn as a lifelong or temporary occupational pension supplement (Lindquist and Wadensjö 2006a: 171). Despite these selective DC elements, the DB principle dominated the occupational pension pillar, implying a high distribution of financial risks away from the insured individual.

Similar to the public pension schemes, occupational pension benefit claims made before the age of 65 were reduced by a certain percentage per month, while the postponement of benefit claims beyond the age of 65 led to proportional increases in the benefit level (Palme and Svensson 1997: 21 et sqq.). Benefits were either indexed to prices, or adjustments were made depending on investment returns achieved by the insurance company. Similar to the public pension pillar, all occupational pension benefits were subject to income tax (Bußmann 1991: 39; Köhler 2005: 99).

In all occupational pension schemes benefits were credited for non-contribution periods due to sickness or parental leave, providing further redistributive elements besides the pay-as-you-go financing (Lindquist and Wadensjö 2006a: 163 et sqq). Furthermore, pension entitlements were portable and could be maintained in the case of changing the workplace within a sector covered by the same collective agreement or when changing jobs between the public and the private sector, as they had a mutual acceptance of accomplished insurance years. If the change of employers led to the termination of the occupational pension scheme, the employee could continue to pay contributions voluntarily. According to the Pension Safeguarding Act from 1967, every national occupational pension plan had to have protection against insolvency risks etc., through the credit insurance system provided by FPG (Pension Gurantee Mutual Insurance Company), which guaranteed pension benefits if an employer was not able to meet his obligations. Besides the solvency requirements, there were no specific investment restrictions with regards to any of the occupational pension schemes except for the "Prudent Person Rule" (Köhler 2005: 104). These regulations facilitated the attractiveness of occupational pension benefits for employees and underlined the role of occupational pensions as an integral part in the overall old age security system in Sweden.

Personal pension benefits were of the defined-contribution type and generally calculated based on the amount of contributions paid plus investment gains. Benefits were usually paid out as a singular lump sum or an annual amount (Scherman 1998: 430). However, relatively few people had personal pension savings, supporting the hypothesis of the crowding-out effect (Palmer 2001: 43; Scherman 1998: 430).

The public-private pension architecture and goals

The Swedish pension system architecture of the late 1970s was dominated by the public pension pillar, fulfilling the income maintenance function by the provision of generous earnings-related benefits to the whole working population (see Figure 6.1). The public pension system was complemented by the quasi-mandatory occupational pension pillar, which covered almost the whole working population, offering collective occupational pensions mainly to top up public pension benefits or to fill in the gap for high income groups with earnings above the public benefit ceiling. The personal pension pillar played a marginal role in the overall architecture and was hardly institutionalised as an old age security instrument (Lindquist and Wadensjö 2011: 244).

The universal coverage and the provision of generous public benefits to the whole working population had fostered the dominance of the public pension pillar as the major source of old age income. During the early 1980s between 75 and 80 per cent of the income package of old age pensioners aged between 65 and 80 stemmed from the public pension pillar while about 10 per cent of the old age income came from the occupational pension pillar. The rest stemmed from other private sources, including income from employment (Pedersen 2004: 12 et sqq).

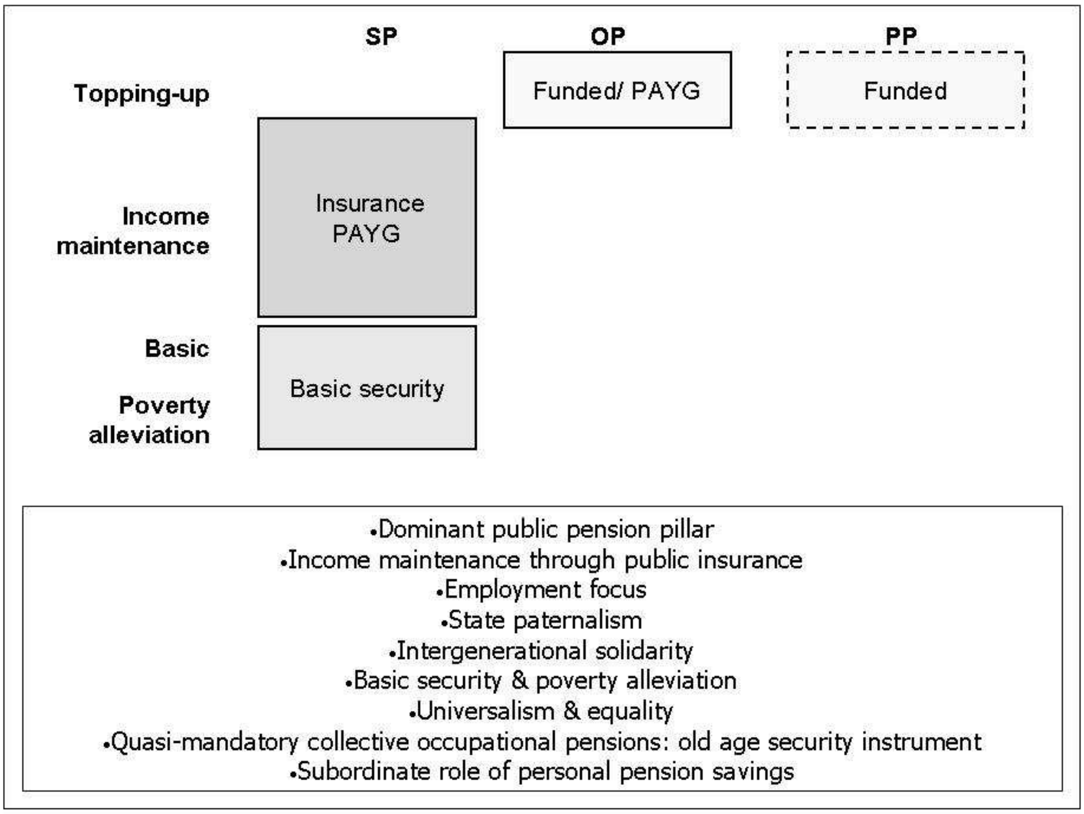

Figure 6.1: The Swedish public-private pension architecture and goals, 1980

Despite the relatively marginal share of occupational pension benefits in the overall old age income, the occupational pension pillar was an integral part of the Swedish pension system architecture due to its broad, quasi-mandatory coverage via collective agreements. Furthermore, many of the regulations, for instance the flexible retirement age, the actuarial deductions and supplements, and the taxation of benefits, were aligned with the arrangements in the public pension pillar. Finally, the occupational pension pillar did not only provide a nation-wide negotiated topping up of public pension benefits, it also provided an opportunity for the social partners to get engaged in the management and administration of old age security, as they were not involved in the management of public pensions. As Marier (2008: 114) points out, the unions and employers associations were generally referred to as “labour market partners” rather than “social partners” with labour market institutions and issues as their main area of interest. Hence, the unions and employers associations had a bigger interest in establishing occupational pensions as part of their wage bargaining processes, rather than pursuing the involvement in the administration of the public pension pillars such as in France or Germany.

Public pension benefits, together with the benefits from the quasi-mandatory occupational schemes, provided a replacement rate of 65 to 75 per cent of former earnings, reducing the necessity for personal pension plans (Palmer 2001: 39). Despite favourable tax deductions on contributions invested in a personal savings plan, only 4 per cent of the population aged between 18 and 64 had dome so in 1980 (Palmer 2001: 42/43). Only very high income earners exceeding the occupational pensions benefit ceiling or those who were not covered by any occupational pension, such as the self-employed, had a greater interest in additional personal retirement savings through general household savings, investments in home ownership, the stock market, or a life insurance contract. As the composition of portfolios had been heavily regulated by the government until the mid-1980s, the available options for personal savings plans were restricted additionally decreasing the incentives for personal retirement savings. Moreover, occupational pensions were a lot more popular than individual solutions because of their collective nature, a better distribution of risks and lower administration costs (Lindquist and Wadensjö 2011: 244).

The specific configuration and design of the three pillars underlined certain overarching goals. First, the combination of public and quasi-mandatory collective occupational pensions emphasised a high degree of statutory and collective responsibility for old age security in Sweden. Second, while the public pension pillar was the domain of the state, the social partners focussed on the occupational pension pillar. However, even though corporatism was relatively limited with regard to the management of pensions, important pension policy decisions were mostly based on extensive negotiations between the government, business, and labour representing the Swedish way of corporatism. Third, the pay-as-you-go principle and thus the goal of intergenerational solidarity was strongly pronounced within the overall pension system architecture. Fourth, the employer-only financing was also a strong characteristic of both the public and the occupational pension pillar, supporting a paternalistic perception of the employer as main financial sponsor. Finally, public as well as occupational pension benefits were mainly of the defined-benefit type. Thus, pension benefits were guaranteed by the sponsor (i.e. the state or the employer), who carried the financial risks, for instance in the case of underfunding or demographic changes, emphasising the principle of collective risk sharing (Ebbinghaus and Wiß 2011: 372). Privatised and funded forms of old age security played a marginal role in the overall pension system architecture in Sweden, reducing the degree of individual responsibility and individual risk taking.

6.2 Problem pressures: Employment crisis, public deficits and population ageing

The issues of the Swedish pension system architecture, with its dominant pay-as-you-go financed public pension pillar, became apparent for the first time in the aftermath of the oil price shock during the early 1970s. The export oriented Swedish industry suffered heavily from the decline in international business activity and by the end of the 1970s many observers referred to the economic situation as a serious crisis (Caprio 1982: 19).

As the financing of the public pension system in Sweden was strongly reliant on wage based contributions of the current working population (pay-as-you-go principle), a favourable ratio between the working population and the number of retirees, along with economic growth, were two necessary preconditions for the smooth functioning of the system. Both of these conditions had come under strain by the late 1970s.

First, the economic deteriorations during the 1970s had led to the most signficant increase in the unemployment rate in Sweden since the Second World War. The unemployment rate, even though it was still low in comparison to other countries, had reached 2.2 per cent in 1978 and continued to grow during the following years (Caprio 1982: 15) (see Table 6.3). Besides a range of fiscal policy measures in order to stimulate economic growth, one of the most important objectives was to restore full employment. But in contrast to France and Germany, who had suffered even more heavily from increasing unemployment rates and who were shedding elder workers from the labour market through early retirement in order to solve the unemployment crisis, Sweden pursued an active labour market strategy, trying to create jobs especially in the public sector. On the one hand, the decline in the labour force participation of men aged 55 to 64 was less dramatic and the female labour force participation in the same age group even increased during this time in contrats to the developments in France and Germany. However, the expansion of employment in the public sector further increased the level of public expenditures (see Table 6.3).

Tab. 6.3: Problem pressures in Sweden – indicators, 1970 - 2010

		1970	1975	1980	1985	1990	1995	2000	2005	2010
Public social expenditures (cash benefits + benefits in kind) % GDP		…	…	27.2	29.5	30.2	32.0	28.4	29.1	…
Public pension expenditures (cash benefits) % GDP		…	…	6.5	7.0	7.0	7.4	6.6	7.0	…
Public revenues* % GDP		5.7	8.1	13.4	11.8	14.2	13.1	13.6	13.1	11.4
Real GDP growth %		6.5	2.6	1.7	2.2	1.0	3.9	4.5	3.2	5.7
Unemployment % labour force		1.5	1.6	2.1	2.9	1.7	8.8	5.6	7.7	8.4
Labour force participation rate of persons aged 55-64 % labour force	Total	64.7	65.5	66.9	67.8	70.5	67.4	69.3	72.8	74.6
	Male	85.4	82.0	78.9	76.0	75.5	70.9	72.6	76.4	79.2
	Female	44.5	49.6	55.4	60.0	65.8	63.9	65.9	69.2	69.9
Persons 65 and older % total population		13.7	15.1	16.3	17.2	17.8	17.5	17.3	17.3	18.3

Notes: *only compulsory social security contributions, contributions which are either voluntary or not payable to the general government are not included

Source: Data extracted from OECD.Stat, http://stats.oecd.org, [accessed 15.12.2011], Datasets: LFS by Sex and Age - Indicators; Demographic References; Revenue Statistics - Comparative Tables; Country Statistical Profile 2011; Social Expenditure - Aggregated Data

Second, similar to Germany, the demographic ageing process had been accelerated in Sweden with the declining fertility rate since the 1960s. The number of public pension beneficiaries was growing at a constant pace. The share of the population aged 65 and older had grown from 13.7 per cent in 1970 to more than 17 per cent by the mid-1980s (Myles and Quadagno 1991: 4). Together with the maturation of the generous earnings-related ATP scheme, this led to a significant increase in public pension expenditures reaching about 7 per cent in 1985 (see Table 6.3). Meanwhile, the contribution rate of the ATP scheme had been raised from 1.9 per cent in 1960 when the system was introduced to about 11 per cent during the late 1970s (Anderson 2005: 96; Bussmann 1991: 31).

From 1983 the economy recovered and growth returned to Sweden (Palmer 2002: 187). But despite this short period of relief, the public pension system had become the focus of a general debate about its future sustainability. First, in the long-term, the contribution base would not be able to grow rapidly enough to pay for the expected increase in the number of pensioners due to the ongoing process of demographic ageing and especially with the retirement of the baby boomers from 2010 onwards (Anderson 2005: 96; Palmer 2002: 185). Second, it became clear that low economic growth and high unemployment would heavily impact on the revenue base of the public pension system. Thus, a growing number of retirees expecting generous public pension benefits would stand against a shrinking number of contributors financing the system. Under these conditions, the financial balance could only be maintained by massive tax and contribution increases, which were perceived as unfavourable for the economic competitiveness as well as unfair with regards to the working population, carrying the financial burden. Moreover, the existing practice of indexing public pension benefits to prices meant that in times of low economic growth, pensioners' standard of living would overtake that of the working generation while the latter had to carry the burden of higher contributions. A positive economic growth rate, however, would lead to the opposite result where pensioners would fall behind the living standard of the working generation.

The trust in the public pension system was crumbling, especially amongst younger workers, who were sceptical about the future prospects of the system (Palmer 2000: 1) and the economic stabilisation only lasted until the early 1990s, when Sweden was hit by the second economic recession. The unemployment rate increased most dramatically during the 1990s, settling at a relatively high rate throughout the following years (see Table 6.3). Hence, fewer people financed the public pension system by taxes and payroll contributions while more persons became dependent on public social benefits. The public budget went from surpluses to a deficit of 12.3 per cent of GDP between 1990 and1993, constraining the financing of growing public pension expenditures from the state budget (OECD 2010c; Anderson 2005: 96; Bussmann 1991: 31). The gap between social expenditures on the one hand and revenues on the other hand continued to grow. The National Social Insurance Board estimated the necessity for a considerable increase of contributions and taxes, if the long-term real economic growth fell below 2 per cent (Palmer 2002: 187). However, the combined ATP and AFP contribution rate had already reached 20.45 per cent by the early 1990s, so that further contribution increases were considered an unfeasible burden to the working population. Furthermore, Sweden had just applied to become a member of the European Community in 1991 and the Swedish currency was connected to the development of the ECU, imposing additional restrictions on public spendings (Jochem 2004: 246). Against this background the reform of the existing pension system had become one of the top issues on the political agenda in Sweden.

6.3 Political context: Many partisan veto players, high electoral competition, decreasing corporatism

The political context framing the pension system restructuring process from the early 1980s till the late 2000s features many partisan veto players, high electoral competition and decreasing corporatism (see Table 6.4). The political system in Sweden is characterised by a parliamentary democracy with a unicameral Parliament, the *Riksdag*. The members of the Riksdag are elected for a four year term. The speaker of the Parliament nominates a candidate for Prime Minister, who is then elected by the Riskdag. The proposed candidate is considered elected if no more than half of the members voted against him or her. The Prime Minister selects the ministers and forms the government without any complicated coalition agreements such as in Germany (Anderson and Immergut 2007: 353; Svenska Institutet 2007).

The Swedish Prime Minister and his government have become less powerful and more vulnerable to partisan veto players since the constitutional reform in 1969 which replaced the former bicameral Parliament by a unicameral Parliament and introduced a more proportional electoral system. As a consequence, smaller parties started to play a stronger role and changes in the government have become more likely, undermining the unilaterally controlled policy-making of the Social Democratic Party (SAP) during the previous decades. Furthermore, after the traditionally strong class-based voting, voters started to switch between different parties more frequently, signficantly increasing the electoral competition and the fragmentation of the party system (Anderson and Immergut 2007: 357, 359). Minority governments have become a more common feature in the government formations in Sweden, providing the Riksdag (opposition parties) with strong veto possibilities. Furthermore, there are two types of referenda, a consultative referendum which can be called for by a Riksdag majority but which is not binding for the government to follow and a constitutional referendum which is binding, but which has not been held so far. The Riksdag also has the possibility to unseat the whole parliament by a vote of no confidence based on an absolute majority (Anderson and Immergut 2007: 353).

Tab. 6.4: The political context in Sweden, 1982 - 2012

Years	1982-1991	1991-1994	1994-2006	2006-2010	2010-2012
Head of government	Palme (S) Carlsson (S)	Bildt (M)	Carlsson (S) Persson (S)	Reinfeldt (M)	
Governing parties	Social Democratic Party (S)	Centre-right coalition (M; Fp; C; Kd)	Social Democratic Party (S)	Centre-right coalition (M; Fp; C; Kd)	
Governemt majority in *Riksdag*	Relative	Relative	Relative	Absolute	Relative
Elections *Riksdag*	1981, 1985, 1988	1991	1994, 1998, 2002	2006	2010
Party competition	Strong				
Labour relations	Increasingly tensed Declining influence of unions on decision-making process			Recovery	

Notes: S = Social Democratic Party, V = Left Party, M = Moderate Party, Fp = Liberal Party, C = Centre Party, Kd = Christian Democratic Party, Mp = Green Party, Nyd = New Democracy

Source: (Immergut, Anderson and Schulze 2007; Svenska Institutet 2007)

The classic five party system in Sweden consisting of the Social Democratic Party and the Left Party on the left side of the political spectrum and the Moderate Party, the Liberal Party and the Centre Party on the centre-right side of the political spectrum has been expanded since the mid-1970s by the Christian Democratic Party 1980s, the Green Party and for a shorter period during the early 1990s by the the right-wing populist party New Democracy (Svenska Institutet 2007). Despite, the rough categorisation into a left-wing party spectrum and a bourgeois party spectrum, the political parties in Sweden do not conform with the same clear cut separation into two ideological blocs such as in France. Thus, the possibility of partisan veto players within coalition governments is high (Anderson and Immergut 2007: 359).

Besides the many political parties and the Riskdag providing strong veto possibilities, there are no other signficant formal veto options built into the Swedish political system. There is no Constitutional Court such as in Germany or France but a Law Council (*Lagradet*) as part of the Judical, which fulfils an advisory function and has therefore no veto power. The Swedish monarch as head of the state is discharged from any political functions and does not have any political power. He is therefore not endowed with any veto power and fulfils mainly ceremonial functions (Anderson and Immergut 2007: 353; Svenska Institutet 2007).

The integration of interest groups in the policy making process in Sweden has generally been very strong. Historically the Swedish state has encouraged the participation of labour and employers in social affairs since the early 20th century by representatives of both unions and employers sitting on national boards (Marier 2008: 107). The interest organisation in Sweden is highly centralised. There are three peak organisations to represent the interest of the employee side, the LO for blue-collar workers, the TCO for white-collar workers and the SACO for academics and professionals and the SAF which represents employers' interests. In contrast to France, there is no division along socio-professional lines or public verus private, but along economic sectors (Marier 2008: 111). While the LO has been closely connected with the Social Democratic Party, the latter two have not been affiliated with any political party. The relations between the employers' association and the unions as well as the social partners and the state have been cooperative, trusting and less competitive than in Germany or France. Furthermore, the trade unions and the LO in particular could indirectly influence political decision making processes through their link with the Social Democratic Party (Marier 2008: 111; Schludi 2003: 216).

Negotiations between the government and the different representatives of society, labour and business via Offical Commissions of Inquiry have become a common feature of Swedish corporatism (Anderson and Immergut 2007: 359, 370). Government bills are usually based on the findings of the Offical Commissions of Inquiry which consist of experts, public officials and parlamentarians. The commissions' report is sent out to interest groups, local governments, etc. for comments before the government formulates the final draft of a bill. This procedure is considered as a useful instrument for the government to gain information about different stakeholders support for a bill (Anderson and Immergut 2007: 355; Marier 2008: 108).

During the 1980s and 1990s, the unions' influence as well as the participation and integration of labour and business into the decision-making process declined, corporatist institutions became weaker and the relations between the unions, the state and the employers became more tensed (Anderson and Immergut 2007: 359; Marier 2008: 112 et sqq). Especially the traditional cooperation between the Social Democratic Party and the LO showed some deep cracks, but also union internal conflicts increased the tensions during the 1990s. It became increasingly difficult for the unions to lobby for their interest by approaching the Social Democratic Party. It was only during the 2000s that the relation between the unions and the SAP began to recover (Bengtsson 2008: 10/11).

Summing up, the political context for the pension reform process in Sweden is characterised by strong veto possibilities through many partisan veto players, high electoral competition, a great influence of expert commissions and public officals as well as a declining corporate institutions and unions' influence in decision making processes (see Table 6.4).

6.4 The process of institutional change

6.4.1 The gradual institutional displacement of the public pension system

The first phase of pension system restructuring in Swedne started after the first economic recession during the late 1970s and early 1980s, when the link between the Swedish economy and the welfare state had come under closer inspection. It was characterised by the effort to expand the revenue base in combination with some minor cut back measures in order to restore the financial balance of the system without disturbing the existing institutional framework (see Table 6.6 Chronology). One measure was to calculate contribution payments as a percentage of the whole gross wage from 1982 onwards, abolishing the former contribution ceiling, increasing revenues by including higher income parts. Moreover, the assets of statutory buffer funds, which had been introduced together with the ATP scheme in 1960, were now used to maintain the system's financial sustainability. Thus, the financial balance of the existing system could be maintained without needing to raise the contribution rate significantly during the following years avoiding the issue of increasing non-wage labour costs (see Table 6.5). At the same time, the devaluation of the Swedish currency, which had been pursued with the goal to increase the competitive advantage of the export oriented Swedish industry, was also indirectly slowing down pension benefit increases - a welcome short term effect to control public pension expenditures (Anderson and Immergut 2007: 367; Feltenius 2007: 143).

Tab. 6.5: Public pension contribution rate (%), Sweden, 1980 - 1998

	1980	1981	1982*	1983	1984	1986	1988	1990	1995	1998**
ATP	12.00	12.25	9.40	9.60	10.00	10.00	10.60	13.00	13.00	13.00
AFP	8.30	8.40	8.45	9.45	9.45	9.45	9.45	7.45	5.86	5.86
Total	20.30	20.65	17.85	19.05	19.45	19.45	20.05	20.45	18.86	18.86

Notes: * Since 1982 ATP contributions were also paid on incomes above the public pension ceiling; ** From 1999 the contribution rate is fixed at 18.5 per cent paid to the new system

Source: Riksförsäkringsverket, Socialförsäkringsfakta, various issues

The urgency of immediate pension reforms and retrenchment was softened, but an increasing awareness that more substantial changes would be needed to maintain the systems long-term sustainability led the Social Democratic government to appoint a Pension Commission in 1984 with the task to examine the pension system with regards to its future financial stability and its interaction with the economy (Palmer 2002: 190; Palmer and Erikson 2004: 92; Feltenius 2007: 144).

The Pension Commission consisted of representatives from the different political parties, the unions and employers associations, as well as technocrats from the National Social Insurance Board and independent experts. Negotiations between the government and the different representatives of society, labour and business via special commissions were a common feature of Swedish corporatism (Anderson and Immergut 2007: 359, 370). The work of the commission inspired a greater debate about the sustainability of the Swedish public pension system, but no major pension reform could be agreed on, except for two smaller parametric changes in the existing instruments. First, the widows' pension was going to be gradually phased out by 1990 and second, the eligibility criteria for claiming disability pensions were tightened in 1988 (Palmer 2002: 190). As a consequence public spendings would be moderately reduced without introducing any major alterations. Furthermore, both cost cutting initiatives were targeted at particular groups (women and disabled) avoiding the resentment of a broader public. In the case of the widow's pension, most women already earned their own pension entitlements due to the massive increase in female labour market participation, which allowed for the easy enforcement of this change.

Besides the smaller cut backs during the 1980s, the second outcome of the Pension Commissions work was a comprehensive report about the status of the statutory pension system, which was presented after six years of discussion in 1990, representing the prelude to the second phase of restructuring, which was characterised by further moderate public pension retrenchment and in particular by the increasing sentisation of the public for the problems of the existing pension institutions.

The Pension Commission's report came to the conclusion that in the face of population ageing and low economic growth, the contribution base would not grow rapidly enough to support continuously increasing pension costs. But the existing pension system was not only financially unsustainable but also unfair (Palmer 2002: 190). Hence, many of the suggested reform measures were related to the lack of fairness rather than the need for retrenchmet. For instance, it was recommended that benefits should be calculated based on the whole working career instead of the best fifteen income years. This would set an end to the unfair redistribution from blue-collar workers with a lower income and longer working careers to high income white-collar employees with shorter working careers but it would also strengthen the equivalence between contributions and benefits and set a strong incentive to work full-time as atypical or part-time employment with lower contributions would lead to lower benefits. Furthermore, the Pension Commission argued, that the weak link between contributions and benefits threatened the public confidence in the earnings-related ATP system (Palme 2003: 149; Anderson 2005: 97/ 98; Lawson 2005: 82; Kruse 2005: 11; Anderson and Immergut 2007: 373).

Even though the Pension Commission had not suggested any tangible reform, it managed to initiate a more critical discussion about the design of the public pension pillar and in particular its centre piece, the ATP pension scheme, challenging its deep-seated popularity (Abelson 1991: 88). The animation of a new more critical perception of the existing system was an important step in the gradual institutional transformation of the public pension system, preparing the ground for greater changes.

Just before the elections in 1991 Sweden was confronted with the second economic downward spiral due to a crisis in the banking sector. The tax and contribution base to finance public pension expenditures was dramatically weakened, and the assets of the AP fund, which had been used to balance out financial shortcomings were estimated to be depleted by 2020 (Anderson 2005: 96; Bußmann and Westerlund 1991: 31; Palmer 2002: 185). The trust in the Social Democrats' capability to solve the perceived crisis had dropped significantly prior to the elections and 86 per cent of the population favoured a change of government. Furthermore, the dissension between the SAP and the LO in wage policy concertations, which had been smouldering since the mid-1980s, had escalated, leading to the leadership crisis of the SAP (Gould 2001: 39; Anderson and Immergut 2007: 370). As a consequence, the SAP fell below the 40 per cent threshold of the vote in the elections, providing the different bourgeois parties with the opportunity to form a minority government under the leadership of Prime Minister Carl Bildt from the Moderate Party (*Moderata*) who planned to radically modernise the welfare state. The restructuring of the pension system became a central reform project of the bourgeois incumbency from 1991 to 1994.

However, despite the new government's aspiration to radically change the pension system, no substantial reforms measures were introduced during the first few years of its incumbency. This was partly due to the unfavourable governing conditions. First, the different bourgeois parties could only form a minority government, so despite being in the opposition, the social democrats still maintained their position as the largest party in the *Riksdag.* Second, the coalition was dependent on the support of the new right-wing party New Democracy (*Ny Demokrati*), which had just entered the Parliament and turned out to be an unreliable partner. Finally, the parties within the government coalition were deeply fragmented impeding bigger reforms (Anderson and Immergut 2007: 370 et sqq; Henkes 2006: 273/274). As a result only a few ad hoc changes were introduced such as the reduction of the base amount in the indexation formula, which immediately slowed down pension benefit increases and the moderate retrenchment of benefits from the partial pension. In the access dimension the rules to claim disability pensions were further tightened. As these changes were smaller, less visible cuts, they did not cause any greater resistance. But they did not solve the sustainability issues of the system either (Anderson and Immergut 2007: 371; Palmer and Erikson 2004: 95).

However, parallel to the struggle for smaller retrenchment measures, the government coalition had appointed a new Working Group in 1991 with the goal to develop a pension reform proposal that all parties could agree on before the next elections. Hence, the time pressure to find a compromise was very high. The Working Group was chaired by the Minister of Health and Social Affairs, Bo Könberg, from the Liberal Party and against the corporatist tradition, it only consisted of representatives from the different political parties, excluding any direct representation of the unions or other interest groups (Anderson 2005: 100; Anderson and Immergut 2007: 375).

The first reform proposal released by the Working Group was cast into to the public arena for debate by the end of 1992. While the Working Group raised similar issues to the ones outlined in the Pension Commission's report from 1990, it also initiated a whole new debate about a stronger integration of private funded pension plans and a more drastic reduction of public benefits (Gould 1993: 173). The SAP and Left Party had favoured the maintenance of a large earnings-related pay-as-you-go financed scheme but with a tighter link between contributions and benefits. Furthermore the SAP preferred to retain a large reserve fund managed by the state. The Centre Party together with the Christian Democrats had been pleading for an improved flat-rate scheme while the Liberals and the Moderate Party had argued in favour of a limited pay-as-you-go financed earnings-related scheme supplemented by privately managed individual accounts and the existing occupational pension schemes (Palmer and Erikson 2004: 87).

Despite, or perhaps because of, the exclusion of other interest groups from the Pension Working Group, a lively debate outside of the exclusive circle of partisan actors accompanied the work of the government commission. Several think tanks representing business interests had initiated a major academic project on the welfare state ("Social state project" or Zettelberg Commission), with the goal to re-think the goals, methods and effects of the existing welfare policies in a more radical way. A number of reports and books were published during the first half of the 1990s, promoting a status securing conservative welfare model based on the subsidiary principle (Olsson-Hort 2005: 154/155). The counterpart to this commission was a welfare reform project initiated by the LO. The "Committee of Inquiry and Justice" consisted of a group of researchers, intellectuals and activists in the tradition of the labour movement, defending the status quo and the uniqueness of the Swedish model (Olsson-Hort 2005: 156). In 1993 the government appointed a second commission led by the economist Assar Lindbeck with the task to examine the state of the economy and its relation to the welfare state, introducing a new neo-liberal rhetoric by stating that the welfare state was no longer the solution but the source of the prevailing economic problems (Olsson-Hort 2005: 152).

After three years of intensive debate within and outside of the Working Group, the third stage of pension system change began with the publication of the final pension reform proposal by the Pension Working Group in January 1994 reflecting a five-party compromise. The third phase in the process of pension system restructuring featured the legal passage and implementation of more far reaching retrenchment measures as well as the introduction of funded pension elements. According to the final reform proposal, the ATP pension scheme was going to be replaced by a combination of an earnings-related pay-as-you-go financed NDC scheme (*Inkomstpension*) and a funded DC individual pension scheme (*Premiepension*) with a contribution rate of 18.5 per cent. In the new system pension contributions were planned to be paid by both the employer (on all income) and the employee (up to the ceiling). In the new Income Pension, the link between contributions and benefits were going to be tightened by switching from the best-15-out-of-30 income years to the life-time earnings principle, supporting a shift towards contributions as the determinant for the accumulation of pension rights (NDC). Moreover, pension entitlements were going to be adjusted to the general development of wages (wage base amount) instead of prices (price base amount) and pension benefits were going to be adjusted to the demographic and economic development. Finally, the former basic pension (including the supplements) was going to be replaced by a new means-tested minimum pension (*Garantiepension*). Based on these changes, it was projected that the contribution rate could be kept stable at 18.5 per cent (Scherman 2011: 13, 19).

During the following months the unions and other interest groups had the opportunity to comment the proposal. At first, the unions threatened to join forces and fight the proposal. The white-collar workers' union TCO especially expressed its disapproval for the reform, but the LO silently supported at least some of the measures, in particular the switch to life-time earnings in the calculation formula (Anderson and Immergut 2007: 378/379). The media also harshly criticised the proposed changes and public opinion polls showed a revival of support for a generous welfare state (Gould 2001: 144 et seq; Anderson and Immergut 2007: 378).

But despite the inviting option to use pension policies as a topic for the upcoming elections in September 1994, all parties had agreed to keep the pension compromise out of the election campaign and the Working Group managed to defend their proposal and successfully pushed the passage of the basic ouline of the pension reform through the *Riksdag* in June 1994, involving major changes in all four institutional dimensions of the public pension pillar, altering several of the previous principles (Letzner/ Tippelmann 2003: 501; Scherman 1998: 414; Anderson 2005: 102).

Only a few month after the approval of the basic outline of the pension reform, the Social Democratic Party regained governmental power in September (Letzner/ Tippelmann 2003: 501; Scherman 1998: 414; Anderson 2005: 102). But instead of using its recovered power position to reverse and adapt the pension reform to their preferred model, the social democratic government kept its promise and resisted the demand by its own rank and file to re-introduce the old system. The Social Democratic Party made clear that the approved retrenchment programme had to proceed, defending the pension reform repeatedly against critics. After heated debate and tough negotiations within the camp of the Social Democratic Party and its partisans, the SAP leadership finally managed to win most of the opponents' approval for the reform (Anderson and Immergut 2007: 381).

However, the 1994 legislation only contained the basic guidelines for the new system and there were still several unresolved issues and large disagreement with regards to the indexation of benefits from the Income Pension, the exact design of the Premium Pension, the criteria for the income test of the Guarantee Pneison as well as the financing of the reform and the smooth transition from the old to the new system. An Implementation Group was appointed, which once again only consisted of representatives from the political parties with the task to work out the reform details before the next elections in 1998.

It was agreed that the transition to the new insurance system, and especially the partial switch to the funding principle, was going to be largely financed out of the assets from the AP fund, solving the 'double-payment problem'. In the meantime, assets could be accumulated in the new Premium Reserve fund (Anderson 2005: 102; Palmer and erikson 2004: 89). Between 1995 and 1998 two per cent of the pension contributions were already transferred into the individual Premium Pension accounts, while the full implementation of the Premium Pension system was delayed, as there were still some controversies over its final design. Meanwhile, the employees' contributions were introduced in 1995 and gradually increased from 1 per cent to 6.95 per cent by 1998. This rapid increase was made possible by the rededication of 4.95 per cent of health insurance contributions to the pension system (Heese 2003: 239).

With regards to the changes in the benefit formula it turned out, that the previous assumptions that they would keep the contribution rate stable, were too optimistic. But instead of reopening the political discussion, the idea of a fixed contribution rate became the corner stone of the further refinement of the Income Pension design (Scherman 2011). First, the accumulated pension credits of the Income Pension will be divided by a demographic divisor reducing benefit entitlements in relation to the increase of the average life expectancy of the respective cohort. Thus, the later a person was going to retire, the more favourable the divisor would be. Second, pension benefits will be adjusted annually to an economic index taking both inflation and the wage development into consideration. Finally, an automatic balancing mechanism will guarantee the maintenance of a fixed contribution rate, automatically reducing benefit increases in the case of underfunding. These final reform details were approved by the parliament in 1998 and the new system was gradually introduced from 1999, coming fully into effect in 2003 (Palmer 2000: 4).

The implementation process was characterised by efficiency and a high degree of political pragmatism. Furthermore, the existence of the AP fund assets as well as the rededication of health care contributions had helped to facilitate the quick transition in the financing dimension of the public pension pillar while the ideational preparation through the Pension Commission 1984 and the Working Group 1991 had helped to facilate several of the measures affecting the benefit dimension for instance the switch to life-time earnings. The wish for a stable contribution rate also fostered the acceptance of the necessity of beneft adjustments in accordance with the demographic and economic development.

Once these basic principle had been agreed on, there was enough room to stretch them in one or the other direction during the refinement phase. Thus, demographic divisor, the economic adjustment factor and especially the Automatic Balancing Mechanism (ABM) could be established, completing the shift towards a defined contribution system with an automatized gurantee of a stable contribution rate (Scherman 2011).

During the fourth stage of the transformation process, from 2003 onwards, both the old and the new system coexisted. Those insured born in 1938 or earlier were still fully covered by the old system, while the new system fully applied for those insured who were born in 1953 or later. For the transition cohort of insured born between 1938 and

1953, a mixture of both systems applied. Hence, the old system is going to be completely replaced by the new pension system over a transition period of 15 years finalising the process of a *gradual institutional displacement* within the public pension pillar and advancing the institutional transformation of the overall pension system architecture.

After the encompassing and far-reaching two-step Pension Reform Act 1994/1998, no further pension reform has been introduced in Sweden so far, except for some smaller improvements and adjustments in the new system mainly concerning the management of the public schemes and the information policy. In November 2007 the government set up a special monitoring group (Pension Group) with the task to review current issues concerning the new pension system. The first issue addressed was the existence of two authorities administering the public pension system. While the guarantee and the income pension scheme were administered by the Swedish Social Insurance Agency, a new authority (PPM) had been established in the early 2000s to manage the premium pension scheme supervised and co-administered by the Swedish Social Insurance Agency and the Ministry of Finance (Heese 2003: 237). As the shared responsibility between the PPM and the Swedish Social Insurance Agency had led to problems in the administration, control and accountability of the scheme, a new common state agency, the Swedish Pension Agency (*Pensionsmyndigheten*), was established in 2010, administering all three schemes of the public pension pillar (Ministry of Health and Social Affairs 2011: 47). The second issue concerned the number of funds and options under the premium pension scheme. One goal of the pension reform was to increase the individual's influence over his or her pensions by providing the opportunity to freely choose the funds or portfolio in which the premium pension contributions should be invested. However, since the introduction of the premium pension in 2000, the number of funds has almost doubled from 465 to 785 in 2007, while the number of active fund choices has significantly decreased over time. At the end of 2007 only 59 per cent of premium pension savers had actively chosen a fund in comparison to 67 per cent in 2000. Hence, almost half (41 per cent) of the insured were relying on the publicly managed default option in 2007. This issue is currently under review (Ministry of Health and Social Affairs 2011: 48).

Tab. 6.6: Chronology of pension reforms and changes in Sweden, 1980 - 2010

Phase	Year	Reforms/ measures
Phase 1 Expansion of revenue base; Few small cut backs; Beginning with analysis of pension problem	1984	- Pension Commission (1984-1990) - Gradual phasing out of widows' pension by 1990
	1988	- Tighter eligibility criteria for disability pension
	1990	- Report by Pension Commission in 1990
Phase 2 Moderate retrenchment; Sensitisation of public for pension issues; Increasing awareness about necessity to change	1991	- Pension Working Group (1991-1994) **Collective agreement private sector (white-collar)** - Intrdouction of defined-contribution complement (ITPK)
	1992	- Change of pension indexation parameter - Cut backs in disability pension
	1994	- Reduction of partial pension benefits - Final pension reform proposal
Phase 3 Far reaching retrenchment; Introduction of funded element	1994	**Pension Reform Act 1994/1998 Part I (basic outline)** - Replacement of ATP scheme by combination of PAYG NDC Income Pension and funded DC Premium Pension - Contribution rate of 18.5 per cent - 2.5 per cent of contributions to funded individual pension (Premium Pension) - Switch from 15/30 rule to life-time earnings in benefit formula (Income Pension) - Pension credits for child care and military service (Income Pension) - Introduction of employees' contributions (parity contribution financing) - Replacement of basic pension and supplement by new Guarantee Pension - Transfer of disability pension to health insurance system - Flexible retirement age from 61 (with benefit reductions), no upper age limit for retirement - Appointment of Implementation Group
	1996	**Collective agreement private sector (blue-collar)** - Replacement of STP scheme by SAF-LO - funded, DC
	1998	**Pension Reform Act 1994/1998 Part II (fine-tuning)** - Guarantee pension not tested against income from premium, occupational or other private pensions - Employees' health insurance contributions transferred to pension system - Refinement of demographic divisor and economic adjustment factor - Introduction of Automatic Balancing Mechanism - Establishment of Premium Pension Authority - Establishment of default investment fund managed by the state for premium pension contributors **Collective agreement private sector (blue-collar)** - Introduction of free choice of fund managers **Collective agreement public sector (municipalities)** - Replacement of KAP-KL by PA-K - DC with supplementary DB part
Phase 4 Strengthening of introduced changes	2003	**Collective agreement public sector (state)** - Replacement of PA by PA03 - DC - Introduction of free choice of fund managers (also for PA-K)
	2006	**Collective agreement private sector (white-collar employees)** - Replacement of ITP by ITP-1 - DC - Free choice of funds and fund managers
	2010	- Merging of Swedish Social Insurance Agency and Premium Pension Authority (PPM) into Swedish Pension Agency

Source: (Anderson and Immergut 2007; Lindquist and Wadensjö 2006a; Lindquist and Wadensjö 2011)

6.4.2 The strengthening of individual risk taking, commercialisation and capitalisation

Parallel to the process of institutional displacement in the public pension pillar, the occupational pension pillar, too, went through some alterations (see Table 6.6 Chronology). Based on re-negotiations between the social partners, all four occupational pension schemes were successively replaced by new schemes based on new collective agreements during the 1990s and 2000s fostering a higher degree of funding, replacing the defined-benefit by the defined-contribution principle and opening the schemes for more competition with regards to fund choices and fund managers.

The first cautious move towards the defined-contribution principle and more individual choice within the occupational pension pillar was taken by the introduction of a complementary defined-contribution element (ITPK) in the existing occupational pension scheme for white-collar employees (ITP) in 1991. The ITPK plan allowed the insured to invest 2 per cent of contributions into a fund of their own choice. The original aim was to finance early retirement but it can also be considered as a first step to integrate the concept of defined-contributions into an occupational pension scheme in Sweden (Köhler 2005: 100).

The shift towards the defined-contribution principle was advanced more drastically in 1996 when the Swedish Employers' Association and the Swedish Trade Union Confederation agreed to replace the old defined-benefit occupational pension plan for blue-collar workers with a new defined-contribution pension plan for all insured born in 1968 and later. Furthermore, the occupational scheme under the new agreement was fully funded instead of pay-as-you-go financed, emphasising individual responsibilities over intergenerational solidarity. Only two years later, in 1998, the new occupational pension plan was also opened to more competition by giving the insured the opportunity to choose the company that would manage the investments.

Not long after the changes in the blue-collar workers schemes, the two public sector schemes followed a similar trend in 1998 and 2003 respectively, switching from defined-benefit to defined-contribution systems with a supplementary defined-benefit part for income groups with earnings above the social security ceiling (7.5 base amounts). Moreover, both public sector schemes were opened to more private competition from 2003 by giving the insured the option to choose the managing company, as well as the form of investment, for his or her occupational pension plan, increasing the potential for the commercialisation of occupational pensions.

The shift from the defined-benefit towards the defined-contribution principle, as well as the expansion of individual choice and market competition within the occupational pension pillar, was completed in 2006, when the Confederation of Swedish Enterprise and the Council for Negotiation and Co-operation (PTK) decided to introduce a new defined-contribution occupational plan for white collar-employees with the free choice of funds and fund managers (Lindquist and Wadensjö 2006a: 162 et sqq; Palmer 2001: 42).

Besides the changes within the occupational pension pillar, the interest in personal savings plans had grown as well since the mid-1980s, ascribing a greater weight to the personal pension pillar within the overall pension system architecture, enhancing the degree of capitalisation and individualisation of old age security in Sweden (Palme 2003: 152). This development has been related to several circumstances.

First, with the liberalisation and internationalisation of financial markets in the course of the increasing globalisation, most investment restrictions have been lifted from the mid-1980s. As a consequence new financial products and instruments could develop and the choice for a diversity of portfolios was broadened. The insurance industry could offer more attractive and competitive investment products and the stock market grew (Palmer 2001: 43).

Second, the gradual abolishment of the widow's pension benefit from 1984 was an incentive, especially for housewives who were not covered by any occupational pension plan, to consider setting up a personal pension plan. As a consequence, the annual contributions to insurance companies increased by almost 50 per cent between 1988 and 1990. Third, due to the specific design of the ATP scheme with a price indexed earnings ceiling, more and more people had earnings approaching this ceiling during the 1980s and 1990s, making private pension supplements more attractive (Palmer 2001: 44).

Finally, the public pension reform from 1994/1998 initiated an additional boost of individual savings plans. The total assets of all insurance companies including premium pension assets, other personal pension plans and life insurances amounted to SEK 1.7 billion in 1999. Many young people had become more sceptical about the size of their future pension from the public pillar. Furthermore, the introduction of the premium pension within the public pension pillar had put the spotlight on individual pension funds fostering a general public interest in this form of old age provision (Palmer 2001: 47).

6.5 The Swedish pension system today: an advanced transformation

Pension schemes and management

The old schemes of the public pension pillar have been replaced completely by new schemes. A means-tested Guarantee Pension (*Garantipension*) replaces the former basic AFP scheme and its supplements (*Pensionstillskott*), building the first tier (see Table 6.7). The old earnings-related second tier ATP scheme has been substituted by a combination of a new earnings-related Income Pension (*Inkomstgrundad alderspension*) and a funded Premium Pension (*Premiepension*).

The Swedish Social Insurance Agency (RFV), which had previously administered the public pension system, continues to administer all other branches of the public social security system in Sweden, including disability and sickness benefits[44], while a new Swedish Pension Agency (*Pensionsmyndigheten*) is responsible for the general administration and supervision of contributions and benefit payments for all three pension schemes. The funds assigned to the Premium Pension are managed by different private financial service providers. The Swedish Pension Agency has been set up with the goal to be more cost efficient and to provide more services and information to the insured citizens (Ministry of Health and Social Affairs 2011: 47; Westerhäll 2005: 70). The latter has been pursued for instance by sending out an annual statement to each insured about the pension entitlements earned per year as well as the total amount in the individual's pension account ("Orange Envelope"). It also provides projections of the expected future pension, with the goal of increasing the understanding of the new public pension system and to raise the individual's awareness about the possibility to influence his or her future pension benefits during the employment period and through the age of retirement.

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[44] Disability and sickness benefits have been excluded from the pension system and are now ascribed to another branch of the social security system.

Besides the "Orange Envelope", there is also an annual "Orange Report" which provides general information on the public pension system's assets and liabilities, financial development and sheds light on the factors that determine the size of the income and the premium pension. The intent of the "Orange Report" is to inform about "demographic, economic and behavioural risks and opportunities that determine the system's financial position and directly affect, or may in future affect, the value of pensions." (Ministry of Health and Social Affairs 2011: 46). Moreover, a Pension Council has been established in order to improve the cooperation and exchange between the different players in the area of pensions and to coordinate information for the insured to improve their knowledge about pension savings. It consists of experts and representatives of employers and employees, as well as pensioners' organisations (Ministry of Health and Social Affairs 2011: 48).

The dominant role of the state as administrator and as responsible authority for the provision of pension benefits has not changed, but it has been extended by a public-private partnership (Schwarze 2006). The investments of the premium pension, for instance, are managed privately, but the state still maintains the regulatory and administrative control over contributions and benefit payments. This public-private partnership has been further strengthened by the establishment of the Pension Council as a new framework for the cooperation between the different old age security players as well as by the regular information provided by the "Orange envelope" and the "Orange report".

Tab. 6.7: The design of the Swedish pension system, 2010

	Public Pillar	Occupational Pillar	Personal Pillar
Third tier		4 new collective schemes: Private sector: blue collar (SAF-LO); white-collar (ITP-1) Public sector: central gov. (PA 03); local gov. (KAP-KL) - More external financing - More funding - Shift from DB to DC	Diversity of personal asset formation (life insurance contracts, bank savings, home ownership)
Second tier	Income pension (*Inkomstpension*) - State administered - Employer-employee contributions - PAYG - NDC Premium pension (*Premiepension*) - Public-private partnership - Funded - DC		
First tier	Minimum pension scheme (*Garantipension*) - Means-tested - Poverty alleviation		

Source: Basd on (Ebbinghaus 2011; Immergut, Anderson and Schulze 2007)

In the occupational pillar, the four major pension schemes for different sectors and professional status groups have been successively replaced by new collective agreements. The blue-collar workers' scheme STP has been replaced by SAF-LO (*Svenska Arbetsgivareföreningen – Landsorganisationen i Sverige*) for all insured born in 1968 or later. The ITP scheme for white-collar employees has been divided into two schemes: the new ITP-1 plan for those insured who were born in 1979 or later and the old ITP-2 plan[45] for those who were born before 1979. In the public sector, too, a gradual phasing out of the old occupational plans can be observed. Two new plans, the PA 03 for central government employees and the KAP-KL for employees in municipalities have been established for employees born in 1943 or later and 1968 or later respectively (see Table 6.7).

With regards to the administration of these new occupational pension schemes, there has been one major change. All four occupational pension plans have been

[45] The *ITP-2* plan is the continuation of the old agreement.

opened to competition, giving the insured the opportunity to individually choose a pension management company and / or the form of investments. In the case of SAF-LO, all members can choose the insurance company and the form of investments, however, the choice is coordinated by FORA AB, an agency established and run by the social partners. The default setting for individuals who do not choose an insurance company is with the original collective provider AMF Pension (*Arbetsmarknadsförsäkring*). Despite the open competition, AMF Pension is still managing about 60 per cent of SAF-LO plans (Köhler 2005: 87; OECD 2008: 306).

The new ITP-1 plan is still mainly managed by PRI but some parts of the administrative services have been assigned to two other financial service providers: Collectum AB and Alecta (FPG and PRI 2009: 17). Collectum AB is owned by the social parterns and Alecta has been established by an interest group of 28 white-collar unions (FPG and PRI 2009: 19; Köhler 2005: 87). The new ITP-1 plan also allows the employee to choose how to invest his or her contributions from a selection of pension insurance funds. However, the providers are chosen by the social partners through an elected ITP Board (FPG and PRI 2009: 9).

Similar to the private sector schemes, the public sector occupational pension plans, too, have been opened to competition and a higher degree of individual choice. Even though it is still the social partners who carry the main responsibility for the management and coordination of the different plans, there is a clear trend towards a higher degree of individual responsibility, as well as more open competition within the occupational pension pillar.

With regards to the personal pension pillar, the former Private Insurance Supervisory Service and Bank Inspection Board have merged into the Swedish Financial Supervisory Authority (FI). This new state agency is accountable to the Ministry of Finance and its tasks range from the promotion of stability and efficiency in the financial system to the provision of effective consumer protection (Lindquist and Wadensjö 2011: 258). The improvement of services, as well as the structural simplification through the establishment of one supervisory authority, might set stronger incentives to take up a personal savings plan via an insurance fostering the expansion of the personal pension pillar.

Financing

The financing dimension of the public pension pillar in Sweden today differs in many respects to the settings by the late 1970s. First, the new first tier Guarantee Pension is solely financed out of tax revenues and so are the pension credits for non-contribution periods in the case of parenting, military service, sickness, unemployment and tertiary education, fostering a clear separation between the financing of solidarity benefits via taxes, and the financing of insurance benefits via contributions. On the one hand, it disburdens the insurance system from financing non-contribution benefits, and on the other hand it separates the Guarantee Pension as solidarity scheme more clearly from the Income and Premium Pension, which represent the insurance principle.

The second difference to the old system is that the Income and Premium Pension are financed by contributions which are now set at a fixed contribution rate of 18.5 per cent, switching from the old expenditure oriented revenue policy to a revenue oriented expenditure principle. 16 per cent of the contributions finance the Income Pension. The contributions are credited virtually on individual notional accounts, but they actually finance current pension payments, which allows for the maintenance of the pay-as-you-go principle and the shift towards a higher degree of individual accountability at the same time, by switching from the DB to the NDC principle. The other 2.5 per cent of contributions are invested in Premium Pension funds, fostering a clear break with the predominance of the pay-as-you-go financing principle by introducing a funded element. The insured can choose between more than 500 different public and private funds in which his or her premium payments should be invested, shifting the responsibility and risk for the fund decision towards the individual (Palmer 2000: 33). However, if the insured does not make an active choice, he or she can fall back on the default setting, where premium pension contributions are automatically invested in a public fund, maintaining an element of statutory responsibility. The individual has also the option to change funds and shift investments. In this case the financial service provider can charge a fee, but it must not discourage the saver from reviewing his portfolios on a regular basis (Ministry of Health and Social Affairs 2011).

Another novelty in the financing dimension of the public pension pillar is that contribution payments are not solely financed by the employer anymore, but also by the employee. Today, the employee pays 7.5 per cent on his or her gross earnings up to an income ceiling of 8.07 base amounts, while the employer pays 11 per cent on earnings without any ceiling. As in the late 1970s, contributions paid on income above the ceiling do not have any effect on the pension benefit level. Therefore they are considered as tax going into the general government budget (Ministry of Health and Social Affairs 2011). Even though contributions had formally been paid by the employer, the employee had indirectly been charged as contributions had been taken off the employees' payroll. But the formalisation of parity contribution financing is a step away from the symbolic financial responsibility of the employer in the Swedish pension system.

In the occupational pension pillar, the new private sector schemes (ITP; SAF-LO) are still solely financed by employers' contributions, maintaining the paternalistic principle and the strong emphasis on the employers' financial responsibilities. However, there are four major changes that have resulted in the introduction of some new trends. First, the funding principle has become more dominant with the new blue-collar workers scheme SAF-LO switching from pay-as-you-go financing to funding, fostering a shift towards a higher degree of individualisation and away from supporting the goal of intergenerational solidarity.

Second, the external financing of occupational pension plans has increased with the new ITP-1 plan being increasingly carried out via pension funds as financing vehicle, shifting away from the internal financing principle via book reserves which has been predominant in the old ITP-2 plans (Lindquist and Wadensjö 2006a: 169). The growing externalisation of the financing of occupational pensions fosters a stronger degree of marketisation than before.

Third, the individual choice has been extended. In all four occupational pension schemes, plan members have the option to chose between a selection of different investment funds in which their contributions are invested, albeit with some restrictions, such as the requirement that half of the contributions be invested in qualified funds with guaranteed returns (Lindquist and Wadensjö 2006a: 168, 173, 180). With the free investment choice option, financial risks and responsibilities have been shifted to the individual, providing a first step away from the collective responsibility and risk taking.

Finally, fixed contribution rates of about 4.5 per cent on earnings up to 7.5 income base amounts and 30 per cent on earnings beyond the ceiling, have been introduced for the two private sector schemes, indicating a change from the principle of an expenditure oriented revenue policy towards a revenue oriented expenditure policy (Lindquist and Wadensjö 2011: 255).

With regards to personal pension plans, the state allows for some general tax deductions on personal pension contributions. Up to SEK 12,000 can be deducted from income tax per year and if the insured is not covered by any occupational pension plan, up to 35 per cent of the income up to a ceiling of ten base amounts can be deducted from tax (Lindquist and Wadensjö 2011: 257).

Access

The eligibility criteria for the Guarantee Pension are tighter than those for the old basic pension scheme. The access to Guarantee Pension benefits is means-tested and the nsured is only eligible for benefits if the income from the other public schemes (income and premium pension) is below a certain threshold. This replaces the previous residency based access by a need based access undermining the traditional goal of universalism. However, Guarantee Pension benefits are not tested against pension income from the occupational or personal pension pillar maintaining and strengthening the incentives for private pension provision.

The changes in the access dimension with regards to the new Income and Premium pension are not as significant. Similar to the old ATP scheme, the access is based on employment and both schemes are mandatory for the whole working population including civil servants and the self-employed. The retirement age is still flexible. Pension benefits can be withdrawn at the earliest now from age 61 slightly increasing the original minimum age by one year. In contrast to the old system there is no age limit for the postponement of retirement. The labour force participation of people aged 60 to 64 has indeed increased significantly over the last decade. While less than 50 per cent of the elderly (male and female) aged 60 to 64 were in the labour force in 1998 the number grew to 62 per cent in 2004 (Larsson 2007: 214). However, employment after the age of 67 is still very rare mostly because of collective agreements and a general employers' attitude not to employ people after a certain age (Anderson and Immergut 2007: 362).

The coverage with occupational pension plans is unaltered high, with the four major collective schemes covering about 90 per cent of the workforce, supporting its quasi-mandatory character. However, white-collar employees with earnings above a certain threshold can now opt out of the ITP-1 plan and participate in a scheme of their own choice. If the decision to participate in a scheme other than the ITP plan has been made, there is no possibility to return to the ITP scheme again (Köhler 2005: 100). This could be a first small step away from the dominance of the traditional collective schemes opening the occupational pension market for other providers and decreasing the hegemonic position of the social partners.

With regard to the eligibility criteria, the conditions to receive full pension benefits have been improved for employees in the municipalities (KAP-KL) and for private sector white-collar employees (ITP-1) by changing the minimum level of employment per year from 40 per cent full-time employment for 30 years to a minimum of 20 per cent full-time employment for 30 years. In the public sector scheme (PA03) the minimum employment level has been completely abandoned (Lindquist and Wadensjö 2006a: 166, 180). These changes especially improve the situation for those employees with part-time work and interrupted working careers, adjusting the design of the occupational pension schemes to the post-industrial changes in the labour market.

The coverage with voluntary personal savings plans has increased in comparison to the late 1970s. Due to less regulated financial markets, new financial instruments could be developed and insurance companies offer a broader range of funds and investment possibilities today. Furthermore, the general public interest in stock investments has increased over the last two decades. With the reform of the public pension system during the 1990s and the introduction of the funded premium pension, the spotlight has been pointed on financial accounts with individual fund choices as an option for retirement savings (Palmer 2001: 45). In 2004 43.3 per cent of men aged 20 to 64 of the insured population paid contributions to a personal pension plan, in comparison to 34.4 per cent in 2001, pointing towards an increase of more than 10 per cent within only three years. The percentage of women aged 20 to 64 who paid contributions into a personal pension plan has however decreased by almost 8 per cent from 42.5 to 34.7 during the same period (Lindquist and Wadensjö 2011: 257).

Benefits

The differences between the old AFP basic pension and the new Guarantee Pension, with regards to the benefit dimension, are relatively small. The benefit level of a full Guarantee Pension in combination with the housing supplements is roughly equivalent to the benefit level provided by the former basic pension. Similar to the old basic pension scheme, a full Guarantee Pension can be gained after 40 years of residency in Sweden and reductions of 1/40 of the full benefit apply for each missing year (Heese 2003: 247). However, as benefits of the Gurantee Pension similar to the previous basic pension are indexed to the cost of living independent from the wage development, its value might diminish more significantly in the long run when wages grow (Scherman 2006: 100).

The benefit dimension of the new earnings-related pension scheme, consisting of the Income Pension and the Premium Pension, differs more substantially from the old ATP scheme. The calculation and indexation of benefits has changed significantly, reducing the benefit level and increasing the risk of future benefit losses by making the generosity of benefits more dependent on the demographic and economic development as well as on financial market developments. The combined gross replacement rate of the Income and the Premium Pension for an average production worker with 40 contribution years was about 53 per cent of the final earnings years in 2005 and was estimated to decrease to 40.4 per cent by 2050 (Scherman 2006: 102). Furthermore, the shift from a defined-benefit to a notional defined-benefit (Income Pension) and defined-contribution system (Premium Pension) has increased the individualisation of benefits and financial risks.

Four significant changes can be observed in the benefit calculation formula of the Income Pension. First, the level of benefits from the income pension is defined by pension points gained during the whole working career (life-income principle), replacing the 15-best-out-of-30-year formula. As a consequence, the link between contributions and benefits has been tightened, emphasising the typical Bismarckian equivalence principle, to the disadvantage of those people with short and/ or interrupted working careers, as non-contribution periods lead to lower benefits. In order to avoid disadvantages for certain non-contribution times, periods of parenting, military service, tertiary education, sickness and unemployment are now credited (Heese 2003: 251).

Second, on retirement the collected pension credits are divided by a special factor that takes the demographic development into account. It reflects the average life expectancy of the respective cohort. The younger the person is when retiring, the longer the calculated life expectancy will be, reducing the pension benefit. But once the insured has reached the standard retirement age of 65 years, the benefit level will not be affected by the demographic divisor (Westerhäll 2005: 73). The demographic divisor sets a stronger incentive to remain in the workforce, discouraging early retirement. The replacement rate rises along with the age of retirement. The insured also has the possibility to continue working while withdrawing a partial or full amount of benefits from the Income and Premium Pension at 25, 50, 75 or 100 per cent, providing another incentive to extend the employment period. The later the insured retires, the higher the benefit level will be. To encourage later retirement, employees are entitled to remain in their jobs until they reach the age of 67 (Palmer 2000: 36; Swedish Ministry of Health and Social Affairs 2010).

Third, pension benefits from the new Income Pension are indexed annually, taking into consideration the average wage development, but an *automatic balancing mechanism* (ABM) reduces the indexation of pension entitlements and benefits if the ratio of assets to pension liabilities falls below the factor one (balanced ratio), which means that liabilities are greater than assets (Westerhäll 2005: 74; Heese 2003: 245; Swedish Ministry of Health and Social Affairs 2010). The balancing mechanism is an independent measure which responds automatically to unfavourable demographic and/ or economic changes without any direct political influence or regulation (Schwarze 2005: 5). It is designed to maintain a fixed contribution rate of 16 per cent for the income pension into the future. In the case that contributions exceed the amount needed to finance pension benefits, the surpluses are transferred to the AP buffer fund. The balancing mechanism transfers the risk of financial imbalances to the pensioner, releasing the state from its responsibility to find financial solutions (Andresen 2006: 309/310).

Finally, the Income Pension is a notional defined contribution system (NDC). Pension points are credited on individual accounts. At the time of retirement the accumulated pension credits define the pension benefit. Due to the NDC principle, benefits are a lot more individualised, bearing more financial uncertainties for the insured than the previously predetermined replacement rate in the defined-benefit system. The NDC principle shifts the risk of increasing longevity to the individual. Hence, the expectation of longevity becomes one determinant of the private individual decision about work and leisure as well as savings before retirement (Palmer 2002: 198).

The Premium Pension is a defined-contribution system. The benefit level depends on the contributions paid, the returns by the chosen funds and the age of retirement. Benefits are paid as a life annuity with the option of either a fixed rate of return or a variable rate according to the fund performance. In the first case the rate of return should cover inflation plus a real rate of return of 1.5 per cent. In the latter case the accumulated contributions are kept in the pension funds during retirement and the monthly pension is recalculated based on the fund value (Palmer 2000: 36; Westerhäll 2005: 75). Based on an estimated interest rate of 3.25 per cent and real wage growth of 1.8 per cent, the Swedish government expected the premium pension to provide 23 per cent of the overall pension income in the future. However, by March 2003 the Premium Pension funds have made losses of more than 50 per cent of the deposited capital (Heese 2003: 246). The Swedish Financial Supervisory Authority ensures that the funds operate according to the general law, but besides the general rules for operating a business in the Swedish financial market, there are no additional rules or investment restrictions with regards to the Premium Pension, shifting a higher degree of financial risks towards the individual compared to the late 1970s. (Palmer 2000: 35).

The biggest change in the benefit dimension of the occupational pillar is the departure from the defined-benefit principle towards the defined-contribution principle. Occupational pension benefits are now mainly dependent on the amount of contributions paid and the rate of return according to the DC principle, shifting financial risks and responsibilities onto the individual. In DB system for instance, the risk of the pensioners longevity had fallen onto the current workers shoulders while in the new defined-contribution schemes, it is the individual’s risk (Palmer 2002: 198)

While benefits from the two new private sector plans are completely based on the defined-contribution principle, the benefits from the new public sector occupational agreements are characterised by a mixed defined-contribution and defined-benefit system. The defined-contribution part of benefits is based on earnings up to 7.5 base amounts, whereas the defined-benefit part applies only to earnings above this ceiling provding more favourable conditions to high income earners (Lindquist and Wadensjö 2006b: 173, 180).

The replacement rate in all four schemes is still more or less the same. Pension benefits from the occupational scheme, together with public pension benefits, replace about 2/3 of the former income if the insured fulfils the requirements for a full pension (Lindquist and Wadensjö 2011: 253). However, looking at the development of the distribution of pension income from the public and the occupational pension pillar between 1996 and 2006, the ratio did change (see Table 6.8). While the share from the public pension pillar declined, the income share provided through the occupational pension pillar grew. In the occupational scheme for blue-collar workers for instance, the ceiling for the pensionable wage was increased from 7.5 to 30 base amounts, providing insured with higher earnings, the possibility to receive higher occupational pension benefits in comparison to the old agreement (Lindquist and Wadensjö 2006b: 165). The new occupational pension scheme for employees in the municipalities, too, provides higher benefits than under the old agreement for some groups of employees and earnings categories (Lindquist and Wadensjö 2006b: 182). As Table 6.8 shows, the share of personal pension savings has also increased.

Tab. 6.8: Distribution of pension income on different sources for persons aged 65-69 (%)

	Public pensions		Supplementary occupational pensions		Personal pensions	
Year	Men	Women	Men	Women	Men	Women
1996	74.4	80.6	20.3	15.6	5.3	3.8
2002	67.9	76.2	24.2	16.4	8.0	7.4
2006	64.0	72.1	27.7	19.0	8.1	8.9

Source: (Lindquist and Wadensjö 2011: 250)

6.6 Conclusions

The comparison of the institutional design of the Swedish pension system before the reform process with the institutional structures today, shows some significant differences (see Figure 6.2). The most far reaching changes can be found in the public pension pillar, accompanied by a range of signficant changes in the occupational pension pillar. The differences with regards to the personal pension pillar have been more difficult to carve out, as there have not been many changes introduced from above, i.e. by statutory actors, and the available data on private actors' actions and personal savings rates is relatively meagre, as well as difficult to interpret.

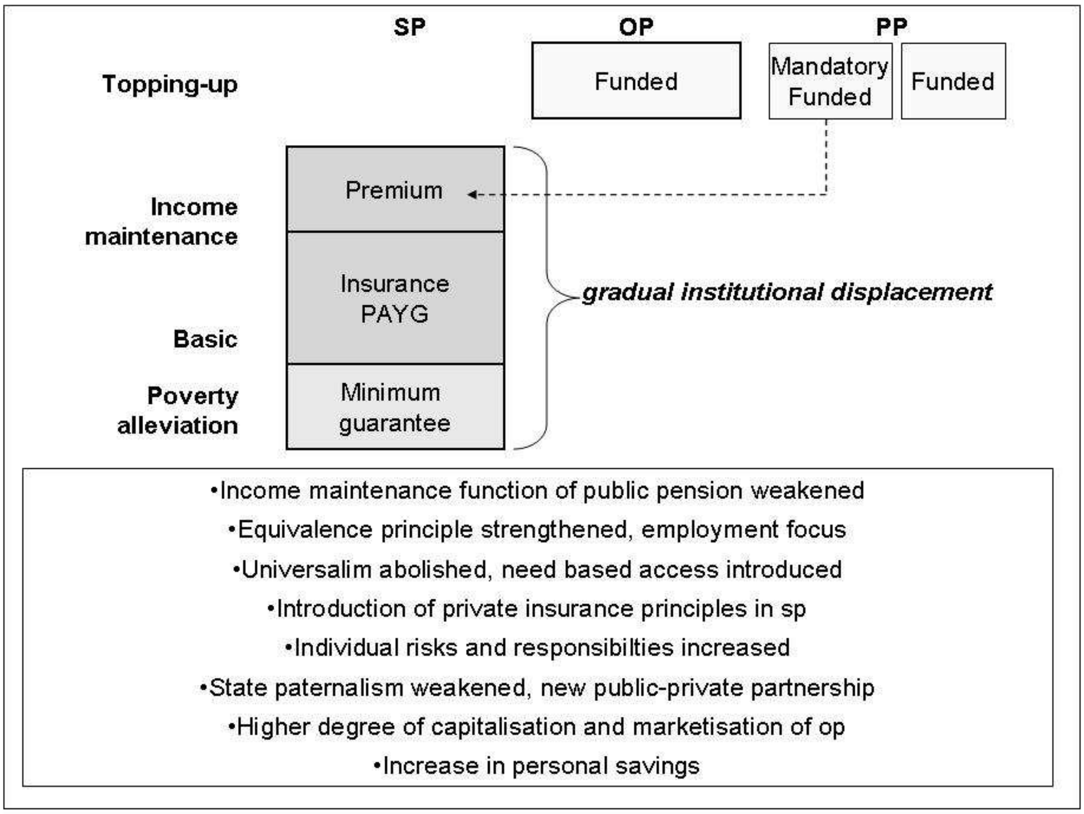

Figure 6.2: The Swedish public-private pension architecture and goals, 2010

Four major changes stand out in the public pension pillar. First, the combined gross replacement rate of the new earnings-related pension scheme, consisting of the Income and the Premium Pension, is estimated to decrease to 40.4 per cent by 2050 for an average production worker with 40 contribution years, which will be a significant long-term reduction in comparison to the combined replacement rate of 65 per cent for the basic and the earnings-related pension in the old system (Scherman 2006: 102). This development will strongly challenge the income maintenance function of the public pension pillar in the future.

Second, the switch from the defined-benefit to the (notional) defined-contribution principle in the earnings-related scheme shifted financial risks and responsibilities from the sponsor towards the individual. Furthermore, the fixed contribution rate introduced the principle of a revenue-oriented expenditure policy departing from the previouy expenditure-oriented revenue policy

Third, with the introduction of the Premium Pension a funded element has been establishd in the public pension pillar with privately managed funds, integrating "conventional private insurance principles" (Scherman 2006: 100). The premium pension fostered a clear break with the former dominance of the pay-as-you-go principle, supporting a higher degree of individual responsibility and marketization, albeit within a public framework. The introduction of the Premium Pension also cultivated a new public-private partnership between the state and private financial market actors, departing from the original superiority of the state within the public pension pillar.

Finally, even though the new Guarantee Pension provides a similar benefit level to the former basic pension, the benefits are means-tested and therefore not accessible for everyone, shattering the principle of universal access. Furthermore, the benefits are price-indexed, which means that their relative value in comparison to wages will decline over time. Thus, rather than offering basic security, the Guarantee Pension will primarily provide minimum benefits in the long-term fulfilling the poverty alleviation function.

The changes in the public pension pillar heavily impacted on the overall pension system architecture by establishing a combination of social insurance principles with technical solutions from the private insurance market, replacing and/or degrading some of the original goals, such as universalism, intergenerational solidarity, public income maintenance and collective responsibility (Westerhäll 2005: 68).

At the same time, several changes in the occupational and personal pension pillar also contributed to the institutional transformation of the Swedish pension system architecture. First, the occupational pension benefit level has improved for some groups, which could be the starting point for a strengthening of the occupational pension pillar as a more significant income source in old age, especially if the income maintenance function of the public pension is going to erode in the future as forcasted.

Second, the transformation of the public pension pillar towards a higher degree of privatisation and individualisation seems to have inspired a similar development within the occupational pension pillar. The funding principle has been strengthened and there has been a switch from the defined-benefit towards the defined-contribution principle. As Palmer (2005: 49) explains "It is difficult, or at least potentially very expensive, to run defined-benefit plans on top of public defined-contribution plans." Furhermore, external financing vehicles such as pension funds and pension insurances have increasingly replaced internal company financing methods, fostering a higher degree of marketisation and commercialisation of occupational pensions.

Finally, the individual choice with regards to investment funds and financial service providers has been increased, opening the arena of occupational pensions to the competitive market sphere, and decreasing the extent of the social partners' interference and power.

As the funded, privately invested personal pension was integrated as part of the public pension pillar, the statutory interest in regulating or institutionalising the personal pension pillar as an old age security instrument has been relatively limited, except for setting incentives through tax deductions and the exemption of private pension savings from the means-test of the public Guarantee Pension. Yet, the number of personal savings plans has increased, pointing towards a parallel trend of pension privatisation from below. In 2000 about one third of the Swedish population at working age contributed to a personal savings plan in comparison to about 15 per cent in 1989 (Palme 2003: 152; Palme 2005: 49). This might further strengthen the transformation of the overall pension system architecture towards privatisation and individualisation. Yet, to what extent the importance as well as the acceptance of the private pension pillar as part of the Swedish old age security system will grow, or whether it will be mainly the publicly framed Premium Pension driving a higher degree of privatisation in the future, remains an open question.

Summing up, the before and after comparison of the institutional structures of the Swedish pension system reveals an **advanced institutional transformation** of the pension system architecture in Sweden, with the complete restructuring of the public pension pillar towards a more privatised and individualised system of old age security with shared public-private responsibilities accompanied by the marketisation and individualisation of the occupational pension pillar and an increase in personal savings plans supporting the general strengthening of principles from the private insurance market in the Swedish pension system architecture.

The analysis of the process of change reveals that the transformation was largely facilitated by the *gradual institutional displacement* of the public pension pillar.

The discussions and reports by two government commissions, the Pension Commission 1984 – 1990 and the Pension Working Group 1991-1994, were an essential part in the process of gradually displacing the existing public pension system by new schemes. The commissions and the initiation of encompassing discussions helped to gradually change the perception of the Swedish old age security system not only among political actors but also among the population.

The changes on the ideational/ conceptual level prepared the ground for the subsequent introduction and implementation of far reaching changes in the public pension pillar, including the introduction of a funded pension element as agreed with the Pension Reform Act 1994 between 1994 and 2003. Even though the introduction and implementation of the technical elements of the new pension system were passed under one big reform in 1994, the refinement of a number of technical details and the implemention was carried out over almost ten years, supporting the interpretation of the pattern of change as gradual institutional displacement.

Finally, after the new public pension system was fully implemented in 2003, it has co-existed with the old pension system. With the gradual phasing-out of the old system by 2018, the elements of the new system will be succesively strengthened until they fully replace the old pension schemes.

7 France, Germany and Sweden compared

The analysis of the characteristics of the pension system restructuring process in France, Germany and Sweden (see country chapters 4, 5, 6) as well as the analysis of the outcome of this process so far (i.e. in 2010/2012) in terms of institutional continuity or change revealed three major results: First, institutional change occurred in each of the three countries covered in this study, despite the often articulated resilience of pension institutions. Second, the institutional transformation in all three countries was not the result of a sudden, radical change (path switch). Instead, the transformation process has taken place in gradual steps over a longer period of time so far (path departure). Third, specific patterns and modes of institutional change could be identified, thereby characterising the transformation process. The next question that arises is, to what extent the outcome as well as the pattern and mode of the process of institutional change differs between the three countries under study, and how these differences can be explained?

In the first part of this chapter (7.1) the results from the three country case studies will be compared. After the juxtaposition of the outcomes of the reforms processes (7.1.1), the patterns of the three reform processes will be contrasted against each other (7.1.2). The second part of the chapter (7.2) focusses on the explanation of the differences in the degree and process pattern of institutional change in the three countries by analysing the impact of the institutional logic and the sequence of changes in the context of political factors and functional pressures for change.

7.1 Differing degrees and patterns of change

7.1.1 Three levels of institutional path departure: beginning, intermediate and advanced

In the assessment of the outcome of the reform process, France showed the most ambivalent results. On the one hand, a large part of the original structures and goals has persisted. The core piece of French old age security, the mandatory, contribution financed pension insurance for private sector employees consisting of the public *régime général* and the occupational AGIRC/ ARRCO had been maintained. The underlying principles, such as the employment focus, the insurance principle and the equivalence principle, were strengthened in the public pension system, while the quasi-statutory status of the occupational pension system was further institutionalised.

On the other hand, empirical evidence could also be found demonstrating a departure from some original structures and principles. First, the tax financed public solidarity system (i.e. non-contributory benefits such as the means-tested minimum benefits, pension credits for child care periods etc.) gained in importance besides the social insurance system. As a result, the importance of the basic security principle and the role of the state increased.

Second, funded private pensions gained in importance through the increase in personal savings plans, as well as the promotion and institutionalisation of voluntary funded occupational and personal pension plans, contributing to a higher degree of individualisation and marketisation of the French old age security.

Thus, while the core of the French pension system, namely the mandatory earnings-related, pay-as-you-go financed scheme has been maintained, the institutional structures below (first tier) and above (third tier) this core have started to change with the expansion of a tax financed statutory solidarity system (below) and the increasing importance and institutionalisation of private funded pension plans (above), integrating some new principles and goals in the overall architecture.

In contrast to France, the institutional transformation of the pension system in Germany seems to be more clear-cut and much further advanced. First, the before and after comparison of the institutional structures of the German pension system revealed an increasing departure from the income maintenance function of the public pension insurance towards a basic security function.

Second, while the French pension system architecture already had a means-tested minimum pension before the restructuring process, a new means-tested minimum benefit for the elderly (*Grundsicherung im Alter*) was established in Germany. As this new minimum protection is especially targeted as the elderly and removed from the general social assistance, it can be interpreted as a first step to foster the integration of the concept of "poverty alleviation" and "needs based access" within the old age security system, even though the minimum benefit is still administered and financed under the roof of the social assistance institution and not formally a part of the German pension insurance.

Similar to France, the financing of solidarity benefits and insurance benefits has been increasingly separated in Germany. While the former are financed by taxes, the latter are financed by pay-roll contributions. Furthermore, the share of taxes in comparison to contributions has grown over the last three decades, increasing the role of the state in the financing dimension.

Finally, the growing gap in old age income due to the reduction in public pensions will increasingly be filled in by private occupational and personal pensions, which have become a more integrated part of old age security in Germany. The attractiveness of occupational pensions has been improved, while the personal pension pillar has been institutionalised as an old age security instrument through the introduction of a state regulated voluntary personal pension plan with tax incentives as well as generous state subsidies for low income earners and families.

Thus, while the public pension pillar is gradually converted towards the provision of basic benefits, the two private pension pillars are increasingly developing into two possible alternatives to fulfil the income maintenance function, shifting the pension system architecture towards a higher degree of privatisation, individualisation and marketisation.

The before and after comparison of the institutional structures of the pension system in Sweden reveals a significant transformation within the public pension pillar towards a higher degree of individualisation, privatisation and marketisation. The public pension pillar still represents the strongest pillar of the Swedish pension system architecture, but due to the encompassing transformation of the public pillar the underlying logic of the whole architecture has changed. The new pension system entails a scheme of targeted poverty alleviation instead of universal basic security, and an earnings-related NDC pension scheme, which combines Bismarckian features such as the equivalence principle and the emplozment focus with several private insurance principles, such as funding, defined-contributions and private management. The former predominance of the pay-as-you-go principle, the sharing of risks and the dominant role of the state has been increasingly replaced by a higher degree of individualisation, marketisation and a new public-private partnership in the management dimension of the public pension pillar.

In comparison to the encompassing changes in the public pension pillar in Sweden, the developments in the occupational pension pillar appear less spectectular at first sight. Occupational pensions are still based on sector-wide collective agreements, covering almost the whole working population, constituting its quasi-mandatory character. Furthermore, occupational pensions still function as a topping-up. However, all collective pension schemes have been gradually replaced by new agreements, featuring a higher degree of individualisation and marketisation in comparison to the old schemes by expanding the funding principle as well as by increasing the individual choice and competition between providers and products. The establishment and integration of a new mandatory personal pension (Premium Pension) in the public pension pillar further increased the shift towards a higher degree of funding and privatisation as a strong element in the Swedish pension system architecture.

Summing up, changes have occurred in all three countries and along all three tiers, i.e. first tier minimum/ basic protection, second tier income insurance and third tier topping up, with significant consequences for the overall public-private pension architecture and goals. However, the degree of change in terms of an institutional transformation differs between France, Germany and Sweden.

The first tier

The alterations in the first tier, have been comparatively far reaching in Sweden replacing the universal basic protection scheme by a means-tested minium scheme, abolishing a very characteristic principles of the Swedish pre-reform pension system, the universal access to benefits based on citizenhip (see Table 7.1). However, the "means-test" does not consider all types of income. Income from public and private pensions is excluded. On the one hand, it is a small concession to the former basic pension by making the means-test less strict and on the other hand it maintains the incentives to generate a high public and private pension income for instance by a full-time working career, longer employment periods and later retirement.

The changes in the first tier of the German pension system have also been significant but not as radical as in Sweden. The *Grundsichering im Alter* has not been established as part of the public pension system but under the responsibility of social assistance. Nevertheless, the establishment of the *Grundsicherung im Alter* introduced two new principles, the poverty alleviation principle as well as the need based access in the area of old age security. Unlike the means-test in Sweden, the means-test in Germany does also consider income from public as well as private pensions including the Riester pension, decreasing the incentive for low income earners to save for a personal pension.

The first tier means-tested minimum pension has already been a part of the French old age security system before the restructuring process. Thus the poverty alleviation principle has already been part of the French old age security architecture. However, the importance of the scheme has grown and is likely to further grow in the future, strengthening the poverty alleviation principle in the public pension pillar in comparison to the insurance principle.

The separation in the financing of solidarity benefits by taxes and insurance benefits by pay-roll contribution has been advanced and strengthened in all three countries (see Table 7.1), but it has been most notably in France, that taxes can be considered as a new financing instrument in the public pension pillar and the shift towards a bigger role of the state in the financing dimension has been the most significant in France, as the state had hardly played a role as financier before. The growing share of taxes and the increasing role of the state in the financing dimension in Germany can also be considered as a significant change in comparison to the pre-refom system, however in contrast to France, tax financing is not a completely new element in the German pension system.

Tab. 7.1: Major outcomes of the reform processes in France, Germany and Sweden

	France	Germany	Sweden
Funded pensions (third tier)	**Voluntary** occupational pension (PERCO) and personal pension (PERP) **Tax deductions**	**Voluntary** personal pension (Riester Pension) **Tax deductions** **State subsidies** **Expansion** of **voluntary** occupational pensions **Right to earnings conversion** **Individualisation** **Increase collective agreements**	**Mandatory** personal pension (Premium Pension) **Individualisation** and **commercialisation** of quasi-mandatory op
Mandatory PAYG pensions (second tier)	**Reduction of benefit level** Régime général: Reference salary, required contribution period, retirement age, indexation, actuarial deductions **Adjustments** according to **life expectancy** based on **recommendations** by council every four years AGIRC/ ARRCO: Decrease point value and increase point price	**Reduction of benefit level** GRV: Retirement age, actuarial deductions, indexation, Riester factor **Demographic** adjustment factor **integrated** in benefit formula **Quasi-defined-contribution** benefits => fixed contribution rate between minimum and maximum	**Reduction of benefit level** Income Pension: Reference salary, retirement age, actuarial deductions, indexation **Demographic** and **economic** adjustment Integrate in benefit formula **Notional defined-contribution** benefits **Automatic Balancing**

			Mechanism
Solidarity benefits (Minium pension/ non-contributory benefits) (first tier)	**Taxes** as **new financing instrument** Growing importance of solidarity benefits **Increasing share** of **tax** financing => **increasing role of state** in financing dimension **Stricter separation** between financing of **solidarity benefits** by taxes and **insurance benefits** by pay-roll contributions	**New minimum benefit in old age** => new principles: **poverty alleviation** and **need based access** **Increasing share** of **tax** financing => **increasing role of state** in financing dimension **Stricter separation** between financing of **solidarity benefits** by taxes and **insurance benefits** by pay-roll contributions	**Abolishment** of **universal access** and citizenship based rights to benefits **New** principle: **need based access** **Stricter separation** between financing of **solidarity benefits** by taxes and **insurance benefits** by pay-roll contributions
	➔Beginning institutional transformation	**➔Intermediate institutional transformation**	**➔Advanced institutional transformation**

The second tier

The changes made with regards to the earnings-related public pension in Sweden cannot only be considered as the most far reaching but also as the most lasting alteration compared to the changes introduced in the earnings-related insurance schemes in France and Germany (see Table 7.1). All three countries have made efforts to stabilise the contribution rate of their public PAYG financed pensions, shifting from expenditure oriented revenue policies to revenue oriented expenditure policies or in the case of Sweden directly to the (notional) defined-contribution principle.

Scherman (2011) differentiates between three types of contribution rate stabilisers supporting the principle of a revenue oriented expenditure policy : a) adjustment factors to demographic and economic changes, b) demographic and economic adjustment factors in combination with the (notional) defined contribution principle and c) (N)DC schemes with a factor that automatically reduces benefits either during the accumulation phase or during the payout phase or both in order to maintain a fixed contribution rate.

While the first two stabilisers still provide for a certain degree of political activity and openness to discuss different options to solve financial imbalances of the system (e.g. reduction of benefit level or benefit increases, raise of retirement age, increase of contribution rate etc.), the latter contribution rate stabiliser changes the system most lastingly into a defined-contribution scheme with a fixed contribution rate by automatizing adjustments on the benefit side, rendering any political process in a situation of external changes and financial imbalances unnecessary.

With regards to the three countries under study, France and Germany made the calculation of public pension benefits dependent on the demographic development in order to avoid contribution increases in times of demographic changes. Sweden went a step further by introducing demographic and economic adjustment factors in combination with a notional defined contribution system.

The degree of automatisation is the lowest in France as the regular adjustment of the required contribution period for full benefits to the development of the life expectancy has not been integrated as a fixed element in the benefit formula, but the parameters will be discussed every four years by the Pension Orientation Council (*Conseil d'Orientation des Rétraites*).

In Germany, the 'sustainability factor' has been introduced as integral part of the benefit calculation formula and the contribution rate has been fixed albeit between an upper and a lower limit. The degree of automatisation and the shift towards a quasi defined-contribution system is therefore further advanced in Germany than in France, but in a situation of financial imbalances there is still some scope for political actors to discuss and negotiate different options.

Sweden took the development towards a defined-contribution system one step further than the other two countries, not only by directly establishing the NDC principle as well as demographic and economic adjustment factors but also by introducing the Automatic Balancing Mechanism. This mechanism guarantees a stable contribution rate, maintaining the financial balance of the new system in the future by automatically reducing pension benefits, limiting the scope for political discussions or actions most substantially.

The third tier

The shift towards a higher degree of private pension provision marks a significant change in the public-private pension architecture in all three countries under study. But despite this commonality, the outcome varies between France, Germany and Sweden (see Table 7.1). Funded personal pensions have been integrated as a mandatory part within the public pension pillar in Sweden in the course of the gradual replacement of the old public pension system. From the general contribution rate of 18.5 per cent, 2.5 per cent goes to the funded Premium Pension and 16 per cent to the pay-as-you-go financed Income Pension. Hence, about 1/8 of the contributions collected by the state are paid into personal pension funds, while the greater part is still flowing into the typical Bismarckian pay-as-you-go financed earnings-related pension. But the fact that the Premium Pension is a mandatory part of the new system means that the whole working population is covered by a personal funded pension plan in Sweden. Furthermore, being a part of the public pension pillar, the state has the possibility to increase the amount of the mandatory contributions to the personal pension increasing its role for the overall old age income. With regards to the occupational pension pillar, the replacement of the sector-wide collective agreements by new agreements did neither change the quasi-mandatory broad coverage nor the topping-up function but the new arrangements strengthened the funding principle and they increased the degree of commercialisation and individual responsibility in the occupational pension pillar.

In contrast to Sweden, funded private pensions are voluntary in France and Germany. But despite the voluntary character in both countries, there are several factors that have caused funded occupational and personal pensions to become a more integral part of old age security in Germany than in France. Even though the personal pension coverage rate in Germany cannot be compared to the mandatory coverage with personal funded pensions in Sweden. However, the consistent cut backs within the German public pension pillar, starting from an early stage and intensifying over time, have gradually increased the room and the necessity for additional private pension provision in order to maintain the previous living standard. The personal pension pillar has been institutionalised as part of German old age security by the introduction of the voluntary, but heavily state subsidised and regulated, Riester pension in 2001. Up to 4 per cent of gross wages can be invested, exempt from tax, in a certified Riester pension plan. The state also pays up to almost EUR 500 in subsidies for a Riester pension plan (for low income earners and families). With regards to the occupational pension pillar the state had started to actively promote occupational pensions from the second half of the 1990s by improving the attractiveness of occupational plans for employees (earnings-conversion, tax deductions, better vesting and portability) as well as for employers (possibility to set up DC schemes, introduction of pension fund, etc.) while the social partners, too, increased their engagement within the occupational pension pillar.

The funded occupational and personal pension plans PERCO and PERP that have been introduced into the French pension system architecture are less regulated and subsidised than the German *Riester Rente* and the take-up rate has been much lower compared to the development of the take-up rates of the *Riester Rente* (see Figure 4.7 and Figure 5.8). However, the amount of general personal savings had seen a significant increase in France between 1980 and the early 2000s, contributing to the growing meaning of funded personal but largely unregulated forms of old age provision.

The comparison of the different outcomes of the pension reform processes in France, Germany and Sweden shows three different degrees of institutional transformation and confirms the classification of the French case as beginning institutional transformation, the German case as intermediate institutional transformation and the Swedish case as the most obvious and most advanced institutional transformation based on the before and after comparison of the institutional structures (see country chapters 4, 5, 6) and also in relation to each other.

7.1.2 Different patterns in the process of change

Having discussed the cross-national differences in the degree and the outcome of institutional change in the selected countries, we will turn to the analysis of the processes of institutional change. Each country went through a sequential transformation along four main phases, as identified by Bonoli and Palier (2007) in their description of an ideal-typical transition from public social insurance to multi-pillar pension systems (Bonoli and Palier 2006; Bonoli and Palier 2007).

The first phase is characterised by the attempt to solve the increasing financial issues of the pay-as-you-go financed public pension schemes by expanding revenues mainly through increases of pay-roll contributions. The second phase contains moderate and incremental measures in order to control public pension expenditures in the light of continuous budgetary pressures and the negative effects of ever increasing pay-roll contributions and taxes with regards to the economic competitiveness and employment. At the same time concerns about future pension provision are brought on top of the political agenda as well as into the public debate. During the third phase, more systematic retrenchment measures are applied to cut back pension costs, justified by the fact that the previous measures were not fully able to deal with the growing financial pressures especially with regard to the accelerating process of demographic ageing. Furthermore, the increasing spread of liberal ideas in social policy making as well as the expected reduction in future public pensions provide the ideological and functional justicafication for the shift towards funded and private pension provision. In the fourth phase the reduction of public pensions is continued making the compensation through private pensions increasingly important while the (newly) established funded elements are strengthened for instance through further incentives (tax deductions, subsidies etc.) or compulsion (Bonoli and Palier 2006; Bonoli and Palier 2007: 563 et sqq).

An important assumption connected to the staged reform process described by Bonoli and Palier (2007: 569) is that incremental change should not only be understood as an unpopular policy that is introduced in small steps over a long period of time but incremental change can also be understood in the sense that each reform step facilitates or opens opportunities for the next reform measures for instance by increasing the pressures for further reform or by making the existing institutional structures more malleable for changes.

With regards to the three country cases of this study, the timing and length of the four phases, the introduced measures and the non-state developments as well as how one phase influenced the next phase, differed between France, Germany and Sweden, contributing to three different patterns of institutional change (see Table 7.2).

While several studies about the Swedish pension reform process highlighted the Pension Reform Act 1994/1998, indirectly fostering the assumption of a radical transformation by one big bang reform, it has been argued earlier in thesis thesis that the institutional transformation in Sweden has been fostered mainly by a process of *gradual displacement* within the public pension pillar, progressively replacing the existing public pension system with new schemes, including a funded personal Premium Pension and a range of new overarching principles, contributing to the most advanced institutional transformation among the three countries under study.

Even though the Pension Reform Act 1994/ 1998 has been without doubt an important milestone in the Swedish pension system restructuruing process, the gradual displacement of the old public pension system in Sweden had already started during the 1980s with the encompassing technical-factual analysis of the pension problem and potential reform solutions by an expert commission, which fostered a more critical perception of the public pension system, fostering the gradual institutional displacement on the conceptual level during the first phase of restructuring.

Based on the final report by the expert commission, which was published in 1990, the discussion about reform solutions intensified during the second phase of the restructuring process. This second phase was comparatively short, but very important as preparation for the subsequent development. While the moderate retrenchment measures during this phase have been of less significance, it was mainly the establishment of the Pension Working Group during the early 1990s, which helped to facilitate the next significant steps. The political decision-making process had became more exclusive and the work of the Pension Working Group was driven by the goal to develop an encompassing pension reform under strong time pressure and based on a cross-party agreement.

The successful passage of the pension reform, followed by the gradual refinement of the reform measures between 1994 and 1998, and the full implementation of the new system by 2003, advanced the gradual institutional displacement of the old public pension system from the conceptual onto the technical level during the third phase of restructuring. It was a very compact and intensive phase, revolving around one major pension reform. At the same time, the social partners started to gradually shift the collective occupational pension schemes towards a higher degree of funding, individualisation and marketization from the mid-1990s.

Since 2003, the new public pension system has co-existed with the old system, and the technical displacement will be completed with the end of the gradual phasing-out of the old pension system by 2018, strengthening the introduced changes and constituting the fourth phase in the restructuring process. The new collective agreements in the occupational pension pillar are also strengthened, while the old agreements will be gradually phased out, supporting the overall shift towards a higher degree of funding and individualisation.

In Germany, a relatively continuous pattern of public pension reforms and state induced changes during all four phases of restructuring have contributed to the *gradual conversion* of the public pension pillar, slowly changing its function from income maintenance to basic security without radically dismantling or replacing the existing institutions. The gradual conversion of the public pension pillar had slowly increased the necessity for private forms of old age security, creating a functional crowding-in dynamic, which was mainly controlled by the state who fostered and regulated the expansion of private forms of old age provision at the end of the third phase of restructuring by the improvement of occupational pensions from the late 1990s, and by the *institutional layering* of a state subsidised and regulated personal pension plan in 2001 (*Riester Rente*). The systematic cut backs in the public pension level were continued during the fourth phase, further increasing the importance of private alternatives in order to compensate for future pension income losses, while funded occupational as well as the new personal pension were strengthened.

The process of reforms and state induced changes in France has been less continuous than in Germany and less encompassing or compact than in Sweden. Instead, few reforms have been separated by longer phases of governmental non-decision and a couple of failed reforms, slowing down the process and intensity of change. The first and the second phase of restructuring stretched over a much longer period of time than in Sweden or Germany, and the restructuring process in France has not entered the fourth phase, yet. The second phase of the restructuring process was also characterised by a climate of increasing insecurity among the population with regards to the development of their pensions in a context of growing financial pressures and the previous inactivity of the government on the one hand, and the expectation of more drastic pension cut backs in the future on the other hand. At the same time the amount of personal savings and alternative private forms of old age provision began to increase from below, starting a gradual pension privatisation process by *institutional drift*. The increasing pension cut backs in the mandatory occupational pension schemes during this time further reinforced the drift towards personal pension solutions in order to compensate for the expected pension income losses.

The state actively fostered the expansion of private pension provision by a strategy of *institutional layering* similar to Germany during the third phase of restructuring, introducing a voluntary funded occupational pension plan (PERCO) and personal pension scheme (PERP) in 2003 and 2004. However, the take up rates for PERCO and PERP have been much lower than those for the *Riester Rente* in Germany (see country chapters 4 and 5). One reason could be that in contrast to the efforts by the German government, which pushed the development of the personal Riester Pension by setting generous financial incentives (i.e. subsidies and tax deductions), the activities of the French government to push the expansion of the new private pension plans have been less encompassing. Another reason could be that the privatisation process had already started from below via drift before the state got more actively engaged, reducing the interest in these new voluntary plans especially among those persons who had already invested in other forms of personal savings.

Hence, even though a pattern of institutional layering can be identified in the process of pension system privatisation in France, it is competing with the institutional drift from below. Whether one of the two patterns will become dominant in advancing the transformation of the French pension system architecture might be seen over the next few decades.

Tab. 7.2: The different patterns of institutional change in Sweden, Germany and France

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010

		Phase 1	Phase 2	Phase 3	Phase 4
Sweden	Public	Expansion of revenue base; Few minor cut backs; Pragmatic/ factual analysis of pension problem and potential reform solutions	Moderate retrenchment; Increased public awareness about necessity for change; Working out changes based on political pragmatism	More far reaching and long lasting retrenchment/ changes; Integration of funded personal pension (Premium Pension)	Strengthening of introduced changes, especially funded element
	Private			Collective op schemes shift towards DC, funding, free choice of management and funds	
		Preparation of gradual displacement on conceptual/ideational level		Gradual displacement advanced on technical level	Completing gradual displacement by 2018

		Phase 1	Phase 2	Phase 3	Phase 4
Germany	Public	Expansion of revenues; Ad hoc & short term cut backs	Moderate retrenchment; Bringing future sustainability on top of political agenda and into public debate; Creation of climate of insecurity	More far reaching and long lasting retrenchment measures	Continuation with systematic changes reducing public benefit level
	Private			Expansion/ improvement of funded occupational pensions Introduction of personal pension plan (Riester Pension)	Strengthening of funded private pensions by stronger incentives, increasig importance to compensate for public pension income losses
		Gradual conversion of public pillar		Revival & expansion of op ("dormant alternative") + institutional layering of pp	

		Phase 1	Phase 2	Phase 3
France	Public	Expansion of revenues; No retrenchment; Ideological-political discussions/ non-decision	Moderate retrenchment; Creation of climate of insecurity; Incentives for some to look at private alternatives	More radical retrenchment; Less people are solely dependent on pay-as-you-go benefits
	Private		Increase in personal savings	Introduction of funded occupational pension (PERCO) and personal pension (PERP); Increase in personal savings
		Process of drift/ pension privatisation from below		Institutional layering of funded op and pp

7.2 The impact of the existing institutional logic and the sequence of changes

Looking at the analyses of the individual country cases and the way in which the (financial) sustainability problems of the existing pension system architecture were dealt with, three major developments can be observed in all three countries: a) the expansion of revenues, b) the cutting back of benefits and the control of expenditures in pay-as-you-go financed schemes, and c) the shift towards funded private pension provision. While the first two developments were pursued in order to restore the financial balance of the existing dominat public pillar system, the latter development was breaking with the need for a balanced equilibrium and departing from the goal to maintain the existing system more explicitly (De Deken 2002).

All three developments have led to some significant changes in the pension system architecture in France, Germany and Sweden. However, as the comparison of the process and the outcome of the reforms and changes over the last three decades showed, large differences can be found between the selected countries with regards to the degree and the pattern of the institutional transformation process. The comparison of the outcome and the restructuring process between the selected countries revealed that the extent of the institutional transformation as well as the measures introduced to expand revenues, cut back benefits, control expenditures, and increase the degree of funded private pension provision as well as their timing differ. Three distinct patterns and varying degrees of change have been detected in the institutional transformation process in France, Germany and Sweden.

Previous studies have shown how the political context, i.e. the configuration of the governing parties, partisan players and interest groups (e.g. the social partners), as well as the specific design of the political institutions (e.g. electoral system, executive, legislative, judicative), provide potential barriers to change, explaining the success or failure of reforms (Armingeon, Beyeler and Binnema 2001; Immergut, Anderson and Schulze 2007; Kitschelt 2001; Marier 2002; Schmidt 1996). Other scholars have pointed to the impact of economic and demographic pressures in order to explain the content of reform politics and change (Kittel and Obinger 2003). However, the question of why one reform contains more encompassing measures than another reform, or why the type and the sequencing of reform measures differ across countries, has not yet been sufficiently explained by these approaches. Thus, instead of focussing on the political context or the functional pressures only, it is important to look at the role of the specific institutional logic entailed in the pension system architecture and its impact on the process of change, in order to understand variations in the degree and in the pattern of institutional change. The consideration of the impact of given pension system structures on subsequent developments implies that reforms and changes should not be analysed separately from each other, as later developments may have been facilitated or shaped by previous changes and reforms (Palier and Martin 2007: 542).

The following section will address the question which role the problem pressure, the political context and the institutional design (legacy) of the pension system have played in shaping the degree, and the mechanisms and strategies (patterns) of change. The analysis will pay attention to potential institutional facilitators of change and not just barriers to change especially focussing on the configuration of the specific properties of the pension systems in place.

7.2.1 Expanding revenues

During the early 1980s, it had become clear that the post-industrial socio-economic and demographic changes would increasingly undermine the financial balance of the existing pension institutions in France, Germany and Sweden. However, the degree of problem pressures at this stage varied between the three countries. The financial issues during the 1980s have been comparatively higher in Germany and France than in Sweden due to differences in some of the major problem dimensions such as expansive early retirement measures and high unemployment (see country chapters 4.2, 5.2, 6.2). Thus, France and Germany had higher functional needs to reform their pension systems than Sweden, which was confronted with a lower degree of actual financial pressures at this stage (see Table 7.3).

Tab. 7.3: Summary of the degree of problem pressures in France, Germany and Sweden

		France	Germany	Sweden
1980s	Early retirement	+++	++	+
	Unemployment	+++	++	+
	Public pension expenditures	++	+++	+
	Population ageing	+	++	++
	Total	9	9	5
1990s	Early retirement	+++	++	+
	Unemployment	+++	+++	+++
	Costs of German unification		+	
	Public pension expenditures	+++	++	++
	Population ageing	++	+++	+++
	Total	11	11	9
2000s	Early retirement	++	+	+
	Unemployment	+++	+++	+++
	Public pension expenditures	+++	+++	+
	Population ageing	++	+++	+++
	Total	10	10	8

Source: Based on country chapters 4, 5, 6

With regards to the political context, the barriers have been the lowest in Germany at this stage, while the extent of political constraints was the strongest in Sweden. The degree of political barriers in France was higher than in Germany, but not as strong as in Sweden (see country chapters 4.3, 5.3, 6.3 and for summary Table 7.4). Even though France had the lowest degree of formal veto possibilities, the high mobilisation capacity and strike affinity of the French unions as well as the strong party competition put certain political constraints on the introduction of radical cut backs and changes. In Germany, the degree of formal veto possibilities was higher than in France while the unions' influence as potential political barrier to change could be considered at a similar level, however, not because of their high mobilisation capacity for strikes and demonstrations but because of their more formalised participation in the pension policy making process in Germany. As the party competition has been weaker in Germany than in France at this stage, the overall degree of political barriers during the 1980s has been lower in Germany than in France. The formal veto possibilities in Sweden have been stronger than in Germany at this stage due to the many partisan veto players for the SAP minority government even though the disunity of the different bourgeois opposition parties in the Riksdag reduced their veto strength. The strong party competition and the participation of the unions in the pension policy making process via expert commissions contributed to the strength of political barriers against radical changes (see Table 7.4).

Tab. 7.4: Summary of the strength of political barriers in France, Germany and Sweden

		France	Germany	Sweden
1980s	Formal veto possibilities	+	++	+++
	Unions influence	++++	++++	++++
	a) informal veto power	+++	+	+
	b) participation in public policy making	+	+++	+++
	Party competition	+++	+	+++
	Total	8,0	6,5	9,5
1990s	Formal veto possibilities	+	+++	+++
	Unions influence	++++	+++	++
	a) informal veto power	+++	+	+
	b) participation in public policy making	+	++	+
	Party competition	+++	+++	++
	Total	8,0	9,0	7,0
2000s	Formal veto possibilities	+	+++	++
	Unions influence	+++	++	+++
	a) informal veto power	++	+	+
	b) participation in public policy making	+	+	++
	Party competition	+++	+++	+++
	Total	7	7,5	8

Source: Based on Immergut, Anderson and Schulze 2007 as well as country chapters 4, 5, 6

If it was the the degree of problem pressures, that mattered the most Germany and France should have introduced the most far reaching measures at this stage and if it was the political context that predominantly influenced the reform process, it should have been Germany to introduce the first reforms while the comparatively moderate degree of financial pressures and the strong political constraints in Sweden should have led to the avoidance of any retrenchment. However, the governments in all three countries made efforts to expand the revenue base as the first strategy to restore the financial balance of their pension systems, avoiding any major pension reforms or unpopular cut back measures. The common avoidance of major retrenchment measures despite differing functional pressures and a varying strength of political barriers can therefore be assumed to be largely shaped by the institutional barriers engrained in the exitsing pension system design which were high in each of the three countries. The institutional leeway for adjustments on the revenue side, however, differed between the three countries which did not only impact on the specific measures chosen in order to expand revenues but it also influenced the timing and content of subsequent decisions.

The contribution rate for the pay-as-you-go financed earnings-related pension scheme (ATP) in Sweden was relatively low in 1980 with 12 per cent, while the basic pension (AFP) was tax financed (about 8 per cent). In France, the contribution rate to the *régime général* was also relatively low with 12.9 per cent. However, on top of the contributions to the regime général, the insured had to pay mandatory contributions of 4 per cent to the earnings-related, pay-as-you-go financed occupational pension schemes under ARRCO and 12 per cent to the schemes under AGIRC. The contribution rate to the earnings-reated public pension (GRV) in Germany had reached 18 per cent in 1980 and was thus the highest rate for the public earnings-related schemes among the three countries (see Figure 7.1).

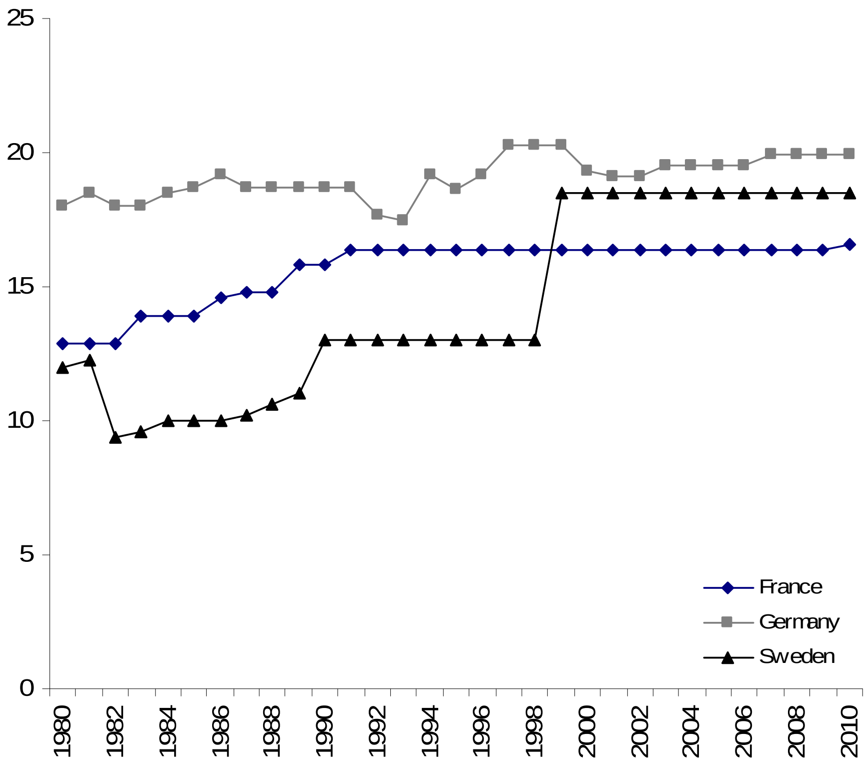

Figure 7.1: Contribution rates compared, public earnings-related schemes (%)

Notes: Contribution rates for *régime général* (France), GRV (Germany), ATP (Sweden) until 1998 and from 1999 new earnings-related scheme; from 1982 contributions to the ATP system were also paid on income above the ceiling, which explains the drop in 1982

Source: (Bozio 2006) (DRV 2009) Riksförsäkringsverket, Socialförsäkringsfakta, various issues

As the basic public pension (AFP) in Sweden was formally financed out of taxes (Bußmann and Westerlund 1991: 31) and the mandatory pay-roll contributions to AGIRC/ ARRCO in France were associated with the occupational and not the public pension system, the burden of high public pay-roll contributions on the working population has been somewhat higher in Germany at this stage than in France or Sweden, providing more institutional leeway for public pension contribution increases in the latter two countries. Figure 7.1 shows how public pension contribution increases have been steeper in France and Sweden during the 1980s than in Germany.

Besides the different leeway for public pension contribution increases, technical differences in the financing dimension of the pension systems of the three countries provided for different options to increase the revenue base. In France, the employee's share of public pension contributions was much lower (about 1/5) than the employer's share (about 4/5), which allowed for the gradual increase of the employee's share while sparing the employer, justified by the concept of fairness and parity contribution financing. Taxes had only played a very marginal role for the financing of social security benefits in France so far, based on the goal to be as independent as possible from the state (see Table 7.5). Similar to the contribution increases in the public pension pillar during the 1980s, the mandatory contribution rates for AGIRC and ARRCO have also been increased albeit a little later during the 1990s. As AGIRC and ARRCO shared many of the typical public social insurance features and especially the pay-as-you-go financing principle, they faced similar financial issues and the first reaction was to expand the revenue base.

Tab. 7.5: Share of social security contributions on total social expenditures in France, Germany and Sweden (%), 1980 - 2007

Country	1980	1985	1990	1995	2000	2005	2007
France	82.5	71.4	74.4	64.8	57.7	56.1	56.7
Germany	56.6	58.5	60.0	54.2	54.7	50.9	52.4
Sweden	49.3	40.2	47.1	41.0	47.7	44.9	45.2

Source: (OECD 2010a; OECD 2010b), own calculations

In contrast to France, public pension contributions were solely paid by the employer in Sweden. Thus, employee's contributions would have needed to be introduced as a new element, which would have been more difficult. However, the institutional setting in Sweden provided two other possibilities to increase the amount of contributions: First, the contribution ceiling was abolished which automatically increased the amount of contributions without officially increasing the contribution rate while the benefit ceiling (i.e. the ceiling on pensionable income) was maintained so that benefit entitlements did not increase as well. Second, the accumulated assets in the statutory AP fund (i.e. the surpluses generated from ATP contributions during previous periods) were used to balance out financial shortcomings. Finally, taxes played a much bigger role in the financing of the Swedish social security system reducing the importance of pay-roll contributions in the financing dimension in comparison to the dominance of pay-roll contribution financing in France (see Table 7.5).

In contrast to Sweden and France, the room to manoeuvre in Germany was more restricted. Besides the already high level of public pay-roll contributions, they were also paid by employers and employees in equal shares, so that an increase of the employees' share such as in France would have been relatively difficult to justify. Furthermore, unlike the AP fund in Sweden, the reserve fund (*Schwankungsreserve*) in Germany was relatively small and mainly used to balance out short-term imbalances (e.g. within one year) between revenues and expenditures. The surpluses in the reserve fund had already decreased significantly from six months expenditures during the mid-1970s to less than one month expenditures by the mid-1980s (Heiss 2003).

However, similar to the Swedish system, social security benefits in Germany have not only been financed by contributions but also to a certain degree by taxes, albeit to a much lesser extent than in the Swedish system (see Table 7.5). Neverthless, taxes as financing tool have been part of the system and the gradual expansion of the federal grant provided an opportunity to avoid more drastic pension contribution increases during the 1980s.

Summing up, the specific pension system design did not only provide high barriers to substantial changes and cut backs, fostering revenue increases as preferred strategy to solve the increasing financial issues, but it also defined the leeway and the specific measures how to expand revenues. How this affected the following phases in the pension system restructuring process in France, Germany and Sweden and whether functional pressures and the political context played a more significant role during the subsequent stages will be discussed in the next paragraphs.

7.2.2 Cutting back expenditures

After the first round of revenue increases, all three countries, introduced measures to control public pension expenditures and downsize pay-as-you-go financed pension benefits. However, the timing as well as the extent and type of measures differed between the three countries. The existing pension system design, i.e. the barriers towards certain changes as well as the previous steps taken to increase the revenue base played an important role for the course of the subsequent restructuring process, but also the degree of problem pressures and the political context started to play a more significant role during the "cutting back"-phase.

1980s

In the light of high problem pressures, a comparatively favourable political context and more restricted institutional options to increase revenues during the 1980s, it was most notably the German government which had started to introduce some smaller ad hoc measures to curtail public pension expenditures from the mid-1980s, followed by the first major pension reform bill in 1989 (Pension Reform Act 1992). Under the given circumstances Germany was the first country out of the three countries under study to prepare and launch a major pension reform, starting the second phase of restructuring much earlier than in Sweden and France (see Table 7.2).

The measures included in the first major pension reform bill in **Germany** were very moderate, even though the political context during the 1980s has been relatively favourable for reforms in comparison to later decades (see Table 7.4). This can be partly explained by the high political consensus orientation at this stage, which fostered the successful passage of the reform but also constrained the extent of change as the lowest common denominator of the different actors involved largely defined the content of reform (Busemeyer 2006).

But besides the political context impacting on the content and success of this first pension reform, it was also the institutional architecture of the pension system itself, influencing the degree of change and the measures entailed in the reform. On the one hand, the strong reliance on benefits from the public system and the low level and rudimentary development of private pension provision represented a strong barrier against significant cut backs in the public pension benefit level, as there was no compensation. Furthermore, the strong involvement of the social partners in the public pension pillar through the bi-partite self-administration and parity contribution financing, and their lacking engagement and position within the occupational pillar, made any measures that would significantly decrease the importance of the public pension pillar more difficult as this would diminish the social partners' influence on pension policies.

On the other hand, the design of the German pension system did provide a few elements, such as the low retirement age for specific groups (women, unemployed, long-term insured) (gradual phasing-in, targeting specific groups), and the indexation method (obfuscation) which could be modified in order to reduce public pension expenditures more sustainably but without causing too much resistance among the constituencies and other beneficiaries of the status quo. Thus, while the applied measures remained within the existing institutional frame, they nevertheless provided the basis for the gradual conversion of the public pension pillar during the next stages of the restructuring process.

In contrast to Germany, the efforts to downsize public pension expenditures have been much more limited in France and Sweden during the 1980s. As described earlier, both countries had more institutional leeway to increase revenues, decreasing the immediate necessity for cut backs in order to maintain the financial balance in the short term which explains the later start of the second phase of restructuring in these two countries (see Table 7.2). In the **Swedish** case the external problem pressure was also much lower at this stage in Sweden than in Germany or France and the political barriers to introduce far reaching cut backs were relatively strong, increasing the likelyhood for a longer phase of revenue increases instead of introducing cut backs. Nevertheless, the social democratic government in Sweden was also aware that it was only a matter of time until the mere expansion of revenues would reach its limits.

Given the advantageous pension institutional and functional conditions during the 1980s, the Swedish government was provided with more time to contemplate and prepare potential policy solutions without needing to implement actual measures just yet. Thus, the major step taken during the 1980s was to set up a pension commission in order to analyse the potential issues of the public pension system and to discuss different reform possibilities.

Similar to Sweden, the institutional leeway to increase revenues was larger in **France** than in Germany, but the degree of problem pressures was much higher, than in Sweden (see Table 7.4). However, despite the more pressing functional need for reform, the different French governments also decided to set up pension commissions instead of introducing cut back measures. Hence, it can be assumed that besides the greater institutional leeway to increase revenues, it was the political context that constrained the introduction of retrenchment measures at this stage. As the formal political institutions did not provide strong veto possibilities, it can be assumed that it was mainly the potential resistance by the unions and the electoral punishment by the constituencies, imapacting on the different governments' decisions not to introduce any cut backs or major reforms (Conceição-Heldt 2007).

Even though both countries, Sweden and France, could largely avoid unpopular reforms and cut backs during the 1980s, while installing pension commissions instead, the function and impact of these commissions and therefore their role in the subsequent process of institutional change differed.

As the pension commission in Sweden was set up when the immediate financial pressures had been less dramatic, it fulfilled a more proactive and pragmatic function to find solutions how to restructure the pension system in the future, while the commissions in France were set up in reaction to the increasing financial pressures functioning as a "stopgap" in order to avoid actual cut backs while giving the impression of governmental actions to solve the problem.

Moreover, it was only one pension commission in Sweden examining the sustainability and weaknesses of the public pension system over a time period of six years, underlining its factual character, whereas the high number of different commissions in France emphasised the political-ideological function of these commissions.

Hence, while the work of the Swedish pension commission can be considered as an important step in preparing the ground for a general and encompassing re-thinking of the Swedish pension system, the diversity of commissions and reports in France mainly served as a means to cover up the governments' paralysis with regards to unpopular reforms (Häusermann 2007).

1990s

During the 1990s the external conditions for the successful functioning of the pension systems worsened in all three countries. The financial issues increased, while the pressures from the EU to stabilise the public budget according to the Maastricht criteria as well as the fear of ever growing non-wage labour costs and taxes significantly restrained the possibilities to increase revenues in all three countries.

After a short drop in the contribution rate in **Germany** at the beginning of the 1990s, it increased to a historical high of more than 20 per cent by the end of the 1990s (see Figure 7.1). The special case of the unification had additionally aggravated the financial pressures in Germany, rendering the previous efforts to cut back expenditures insufficient, making steeper contribution increases during the 1990s necessary.

The escalation of the contribution rate, in combination with growing unemployment and the acceleration of population ageing, augmented the functional necessity for further pension reforms and more far reaching and long lasting cut backs. Meanwhile, the political conditions for reforms had become less favourable for the conservative-liberal government during the 1990s with the Bundesrat representing a veto point due to the recomposition in the second chamber majorities. Furthermore, the party competition increased and the relations between labour and business as well as between the state and the unions shifted from cooperative to increasing contentions (see chapter 5.3, for summary see Table 7.4). But despite stronger political barriers, the reforms and measures introduced between the mid-1990s and early 2000s successively intensified the retrenchment efforts in the public pension pillar, constituting the third phase of restructuring in the process of institutional change (see Table 7.2).

After the Pension Reform Act 1992, traditional consensus oriented policy making had been abandoned by the Kohl government and the following reforms during the second half of the 1990s were introduced based on unilateral decisions, although with very mixed results. The cut backs introduced with the Growth and Employment Act 1996 were successfully implemented. Elements such as the retirement age or credits for non-contribution periods, which had already been modified during the early 1980s and by the consensual Pension Reform Act 1992, were simply modified a little further, intensifying and accelerating the retrenchment process. In contrast to this, the next big step, the Pension Reform Act 1999 entailed more innovative and far reaching cut back measures such as the introduction of the demographic factor.

While the reform bill was successfully passed in 1997, circumventing the veto point of the *Bundesrat* by non-mandatory consent legislation, the implementation of the reform measures failed. The Social Democratic Party, who had promised to reverse the measures of the Pension Reform Act 1999, gained governmental power in coalition with the Green Party in the federal elections in 1998. The immediate punishment of the conservative-libreal coalition by the electorate for the planned cut backs and especially the unpopular demographic factor, supports the assumption that it was not so much the formal political institutions that put a barrier against change as they could be circumvented in this case, but that the institutional architecture and the related popularity of the German pension system did not provide for such immediate and far-reaching retrenchment of the public pension pillar just yet. Thus, the introduction of the demographic factor was abolished by the new government.

While the red-green government presented itself as opponent of cut backs at the beginning of their legislature, avoiding further contribution rate increases by introducing several alternative measures to expand the revenue base (e.g. VAT increasea, introduction of ecological tax, etc.), most of the measures of the Pension Reform Act 1999 were merely postponed (see Revised Pension Reform Act 1999). Moreover, a few years later the Schröder government introduced a major pension reform (Old Age Income Provision Act) containing relatively far reaching as well as innovative measures with a significant impact on the existing pension institutions, building the culmination point of the third phase of pension system restructuring. In contrast to the Pension Reform Act 1999, the pension reform from 2001 was framed differently, emphasisng the integration, introduction and expansion of private pension provision. The degree of problem pressures at this time was unaltered high and the political conditions for this reform were as unfavourable as for the Pension Reform Act 1999. Despite the density of veto possibilities, the reform was successfully passed and implemented while the government made the fewest possible concessions to either the unions or the bourgeois opposition (see chapter 5.4). It was a combination of political and institutional strategy that allowed for these changes to be successfully impelemented. The political strategy that largely helped the passage of the reform bill was the splitting of the reform in a mandatory consent part and a non-mandatory part

(Schulze and Jochem 2007). As the mandatory consent part entailed mainly measures concerning the occupational and personal pension pillar which will be analysed next (see 7.2.3), the focus here is set on the measures of the non-mandatory consent part which entailed changes concerning the public pension pillar (i.e. Riester factor and modified gross wage indexation).

Similar to the political strategy applied to pass the Pension Reform Act 1999, the splitting off of those measures that concerned further cuts in the public pension pillar into a non-consent part allowed for the circumvention of the *Bundesrat*. However, as the failed introduction of the demographic factor showed, the circumvention of the political barrriers is not sufficient to successfully install more far reaching changes, which supports the assumption that the institutional design must have played a decisive role as well. Of course, the persisting and ever more pressing financial problems of the public pension system could also not be ignored by the red-green government providing the functional legitimisation for more far reaching changes. However, it was the institutional design at this stage which shaped the measures and degree of change.

First, some original institutional barriers had become increasingly malleable over time, contributing to the facilitation of the changes in the public pension pillar emphasising the importance of the sequencing and timing of measures. The legitimacy of the social partners' role within the public pillar had started to become increasingly undermined with the growing share of taxes financing public pension benefits, facilitating greater leeway for the state to introduce changes in the public pension pillar. Moreover, the expansion and improvement of the occupational pension pillar since the late 1990s provided a new opportunity for the social partners to increase their engagement in this area, compensating for the increasing loss of influence in the public pension pillar but also diverting their attention towards another area of old age security. Second, the introduction of the Riester factor and the modified gross wage indexation in the benefit formula were closely connected to the silmultanous statutory engagement in the personal pension pillar, suggesting that there was a compensation for public benefit losses.

While the German process of institutional change had already entered the third phase of pension system restructuring from the mid-1990s, the **French** process of change had just reached the end of the first phase. The problem pressures during the 1990s in France were as strong as in Germany. The social security deficit had reached worrying proportions during the early 1990s and the level of public pension expenditures had become the highest among the three countries under study after the political inactivity with regards to unpopular pension cut backs during the 1980s (see Table 7.3). The increase in employee's public pension contributions had reached its limit by the early 1990s, but instead of introducing cut backs, the socialist government used the limitations in pay-roll-contribution increases as the rationale for the introduction of a social tax (*contribution sociale generalise*) in 1991 in order to spread the financial burden across a broader part of the population. As Figure 7.1 shows the level of public pay-roll contributions stagnated since the 1990s, while the social tax (CSG) has been raised contiuously since its introduction from 1.1 per cent to 7.5 per cent, fostering the gradual shift in financing towards a higher degree of tax subsidies and state control (see chapter 4.4). At the same time the pressure to meet the Maastricht criteria and the continuously increasing public pension costs, fostered the realisation that expanding the revenue side could not provide a long-term solution for the growing financial difficulties.

Thus, the first major pension reform was introduced in 1993 starting the second phase of restructuring. The conservative two party coalition had regained governmental power and two political strategies helped to overcome the political barriers. First, the Prime Minister used the beginning of the electoral cycle and second, he followed a consensual approach with the unions, including them in the policy making process (Conceição-Heldt 2007: 181). But despite a context of high problem pressures and the circumvention of political barriers, the measures introduced by the Balladur Reform were far from being innovative or encompassing. This was due to the the specific institutional design of the French pension system.

First, the very distinctive institutional design of the pension schemes for public sector (dominant public pillar design) and private sector employees (dual pillar design) created different institutional barriers and possibilities for the retrenchment of the public pension pillar than in Germany or Sweden. While the public pension system for public sector employees provided generous second tier benefits, representing the major source of old age income, it was a combination of the benefits from the *régime général* and the mandatory occupational schemes (AGIRC/ ARRCO) fulfilling the income maintenance function for private sector employees. Due to the stronger dependence on public pension benefits and the much more privileged status of the public sector employees within the public pension pillar, the institutional barriers to cut backs have been much higher with regard to the *régime spéciaux* than the *régime général* (Palier and Naczyk 2011). Second, private sector unions had a much weaker capacity to mobilise the broader public against cut backs than the public sector unions, who were known for their capability to paralyse the whole country (Bonoli 1997b). Thus, the cut back measures of the Balladur Reform were focussed on the *régime général*, sparing the other parts of the public pension pillar from retrenchment.

The management of the public pension schemes by the social partners had given the unions a strong social and symbolic function as pension policy actors and "defenders of acquired social rights" (Natali and Rhodes 2004: 4), but by including the unions in the negotiation process, the government diminished the political risks and resistance of the unions as informal veto player. However, the aspiration for a quid-pro-quo approach with the unions also meant that the scope for too radical cut backs was limited (Bonoli 1997b). Furthermore, the specific design of the *régime général* largely defined the type of measures that were consonant with the existing structures. The comparatively low retirement age of 60 years since the early 1980s for insured with sufficient contribution records was a highly defended element as it applied to all insured of the *régime général* and not just to specific groups, such as in the case of Germany. As a consequence, increasing the retirement age would have been much more difficult as a large part of the population would have been affected. The pension benefit calculation formula, however, provided two elements (required number of contribution years, reference salary) that could a) be adjusted without changing the institutional logic of the system and b) would not affect all insured, but mainly those with interrupted or atypical employment, facilitating an easy implementation. Furthermore, the already established social tax (CSG) provided an important institutional condition to facilitate the stricter separation between the financing of insurance benefits by contributions and solidarity benefits by taxes as demanded by the unions in turn for the cut backs in the *régime général* (see chapter 4.4).

The extent of change and the measures chosen in the Balladur Reform seem to have been influenced just as much by the political context, i.e. the strong informal veto power by the unions, as they have been shaped by the institutional design of the existing pension system architecture. The high degree of problem pressures can be considered as the necessary impetus to introduce a reform but it did not necessarily shape the content and scope of the reform. The impact of political barriers and the existing institutional design on the content and degree of change becomes even clearer during the subsequent developments in the French pension system restructuring process.

The transfer of the changes in the pension benefit formula to the *régime speciaux,* two years later with the Juppé Plan and thus the start of the third phase of restructuring, partially failed. The problem pressure had been unaltered and with regards to the formal veto possibilities, the formal political conditions have been more favourable than for the Balladur reform. The election of Jacques Chirac from the RPR as President in 1995 ended the situation of co-habitation. Furhermore, the next parliamentary elections were still far enough away, diminishing the potential electoral punishment by the constituency. However, two decisive factors differed. First, the Juppé government followed a unilateral decision making strategy which was much more confrontational than the approach by the Balladur government, contributing to the insurrection of the unions (Bonoli 1997b). Second, the different institutional design of the public sector schemes, providing much greater privileges and representing the main source of old age income, gave the planned cut back measures a much greater radicalness. In other words, what was acceptable within the *régime général* was not acceptable with regards to the institutional design of the *régime spéciaux*. This was demonstrated by the public sector unions' unrest, which saw their institutionalised privileges under attack and who were much stronger and more powerful than the private sector unions.

At the same time, the moderate and gradual retrenchment of pay-as-you-go financed benefits was pursued in the mandatory occupational pension schemes for private sector employees without altering the underlying principles of the occupational pension pillar but intensifying the retrenchment of the overall pension income for private sector employees especially in the long-term.

The **Swedish** second phase of restructuring started during the early 1990s. The significant growth in external problem pressures in comparison to the 1980s increased the perceived necessity for reform. The steep rise of the unemployment rate, as well as the dramatic growth of the public budget deficit contributed to a more tensed situation with regards to the future sustainability of the Swedish pension system (see Table 7.3). However, in contrast to Germany and France, Sweden was not exposed to the same pressures by the EU as it only joined the European Union in 1995 and it did not take part in the European Monetary Union. Nevertheless, the growth in the public budget deficit as well as the negative impact of high non-wage labour costs on the economic competitiveness due to increasing contributions and taxes were considererd as problematic. As Figure 7.1 shows the public pension contribution rate was not further increased during the 1990s.

But not only the financial pressures and high unemployment had increased during the early 1990s, the political context had changed as well. After the elections in 1991 the social democrats, and thus one major defender of the existing pension system, was forced into the opposition, while the bourgeois parties built a minority government. The new government coalition introduced some smaller measures in order to curtail public pension expenditures starting the second phase of restructuring. However, in contrast to Germany and France no major pension reforms such as the Pension Reform Act 1992 in Germany or the Balladur Reform in France were introduced during this phase. Given, the strength of formal veto possibilities with four partisan veto players in the government coalition and one strong parliamentary veto point with the SAP opposition (Anderson and Immergut 2007: 358), it can be assumed that this was largely the impact of political barriers hindering any bigger reforms.

The second phase of pension system restructuring in Sweden was not only much weaker with regards to the meausres introduced, but it was also much shorter than in France or Germany (see Table 7.2). However, the public pension retrenchment measures of the second phase of restructuring in Sweden did not play the same role for the preparation and facilitation of further reform steps such as in France or Germany. Instead it was the second all party pension commission (Pension Working Group) and its work between 1991 and 1994 which tied in with the results of the first commission and advanced the gradual pension system change on the conceptual level. The commission worked out a basic reform as a cross-party agreement which was an important building stone for the measures taken during the third phase of restructuring.

The extent of veto possibilities and the degree of problem pressures was still the same as during the previous phase of restructuring, but the changes during the third phase were much more far reaching. Hence, the degree of formal veto possibilities or political barriers alone cannot explain why the retrenchment meausres during the second phase were comparatively small and the changes during the third phase of restructuring were very encompassing. Furthermore, the third phase in Sweden was considerably more far reaching and started at a much earlier point in time than in Germany or France. In contrast to the piecemeal approach in Germany, and the hesitant retrenchment efforts in France, the bourgeois government coalition in Sweden managed to pass several broader changes under one major reform. How was this possible?

The encompassing analysis of the issues of the Swedish pension system by the Pension Commission during the 1980s and the work of the Pension Working Group during the early 1990s had prepared the ground for a gradual re-thinking of the system (see chapter 6.4.1). This re-thinking was partly facilitated by the existing pension system design which provided certain elements that allowed for relatively far reaching changes which could nevertheless be supported by all parties.

First, the considered unfairness of the 15/30 rule in the ATP benefit calculation formula, disadvantaging especially blue-collar workers, provided the rationale for the introduction of the lifetime earnings principle, which would strengthen the link between contributions and benefits. Second, the commission's conclusion that the earnings-related pension system would turn into a flat-rate system in the long-term due to the price indexation of the pension ceiling opened the room for a new indexation method that would be tied to the development of the real economy. Third, all pension contributions of the working generation had been transferred into a buffer fund (AP fund) from which the benefits of all the pensioners were paid out. As larger cohorts had reached working age during the 1960s and 1970s and the labour force participation rate was comparatively high, surpluses were generated in the buffer fund. These assets provided an important institutional element to finance the shift towards a partially funded public pension scheme (Scherman 2011: 19). Finally, the public pension system in Sweden was not administered by representatives of employees and employers such as in Germany, but by civil servants. Thus, the Swedish unions did not have the same institutional stake in the public pension pillar, leaving the state more room to manoeuvre without causing too much distress (see chapter 6.4).

The discussion of the "institutional flaws" of the ATP scheme had also helped to gradually break the boundless support for the ATP scheme among some of the traditional defenders of the status quo, most notably the blue-collar unions and the SAP (see chapter 6.4). In combination with the SAP's losses in the 1991 elections this situation had opened the SAP to new pension solutions and increased their willingness to cooperate with the centre-right government coalition on a pension reform in order to regain their previous hegemonic position (Anderson and Immergut 2007: 388). The bourgeois government was also willing to find a cross-party consensus on a pension reform. With regards to the number of veto possibilities and several failed attempts to introduce more far reaching cut backs without the opposition earlier, a cooperative approach would increase the chances for the successful passage of reform. Moreover, it would spread the blame for unpopular changes (blame-sharing). Furthermore, the perceived lack of time to negotiate the restructuring of the pension system little by little, given the perceived seriousness of the crisis, had facilitated a certain bias towards political pragmatism. This was expressed and facilitated a) by the agreement to keep the planned restructuring of the Swedish pension system out of the upcoming elections, reducing the degree of ideological party politics and electoral competition and b) by the decision to only include representatives of the political parties in the policy making process (see chapter 6.4).

Finally, while the guidelines for the restructuring were included in the Pension Reform Act 1994, it did not contain the technical details for some more sensitive elements, which would change the overall principles and goals more substantially. But the subsequent elaboration of these elements during the second half of the 1990s was pursued with the same political pragmatism under the new social democratic government, which could defend the introduction of the demographic divisor, the economic adjustment index and the Automatic Balancing Mechanism as part of the former agreement and pass the final reform in 1998, facilitating the gradual introduction of the new schemes thereafter (1999-2003).

2000s

Due to the encompassing changes and especially the built in automatism, the fourth phase of restructuring in **Sweden** was characterised by the gradual phasing out of the old system and the gradual displacement by the new system over a transition period of

15 years (2003 – 2018) which could be pusrsued without the need for any further pension reforms except for some smaller amendments.

In contrast to the Swedish case, the fourth phase in the **German** pension system restructuring process was characterised by several reforms which could all built on the measures introduced during the previous phases of restructuring. The establishment of the state regulated personal Riester pension and the improvement of occupational pensions in Germany helped to generate a greater acceptance for further benefit cut backs in the public pension pillar. It provided the institutional conditions for another major pension reform in 2004 (Pension Sustainabilty Law), which was focussed on the introduction of some major cut back measures in the public pension pillar on the one hand, and the advancement of the development of private pensions as an integral part of the German old age security system on the other hand. The Pension Sustainability Law successfully established a factor in the pension formula similar to the previously abolished demographic factor in the Pension Reform Act 1999. Furthermore, the previous efforts to maintain a stable public pension contribution rate by gradually curtailing expenditures and introducing or expanding taxes, helped to pursue the shift from revenue oriented expenditure policies to expenditure oriented revenue policies by legally fixing the public pension contribution rate between a minimum and a maximum.

Despite the rule of a non-conservative government coalition and relatively unfavourable political conditions in regards to the number of veto possibilities and political barriers, the changes could be succefully implemented supporting the assumption that previous changes played an important role by paving the (institutional) way for these steps, underlining the importance of the sequencing and timing of decisions.

Of course, the changes introduced by the Old Age Income Provision Act as well as by the Pension Sustainability Law could be reversed by future governments, but so far neither the grand coalition which gained governmental power in 2005 nor the liberal-conservative government which has been in power since 2009 reversed any of the previous pension policy changes. Instead, the gradual conversion of the public pension pillar was continued by adopting the gradual increase of the standard retirement age in 2007.

The **French** process of pension system change continued to lag behind the two other countries, remaining in the second phase of restructuring until the second attempt was made to reform the *régime spéciaux* with the Raffarin Reform in 2003. The socio-demographic and economic context had remained unalterd during the 2000s keeping the financial pressures on the French pension system at a high degree. The political conditions were equally favourable for reforms as to those during the Juppé government. The conservative government coalition ruled with an absolute majority in the National Assembly without a co-habitation restriction (see Table 7.4). However, instead of relying on the advantageous constellation of formal veto points, the Raffarin government also applied an inclusive strategy with regards to the unions similar to the strategy applied for the Balladur Reform, which had proven to be successful. The involvement of the unions in the negotiation process and the favourable timing of the reform at the beginning of the electoral cycle reduced the political barriers to reform (Conceição-Heldt 2007; Palier and Naczyk 2011). But this political strategy alone would have not been sufficient to overcome the institutional barriers with regards to the public sector schemes. Yet, the institutional settings of the public pension pillar had changed in comparison to the time when the Juppé Plan was presented, now providing more room for changes. First, ten years after the gradual transition in the private sector schemes had been started, the modified institutional design of the *régime général* provided a better basis for the justice and harmonisation rhetoric of the Raffarin government, helping to introduce similar cut back measures in the *régime spéciaux*. Second, the position of the social partners within the public pension pillar had been weakened since the early 1990s due to the gradual increase of the importance of tax-financed public benefits, the handing-over of control over the public social security budget to the Parliament and the inclusion of civil servants in the composition of the administration boards of the public pension system (Bonoli 1997b: 121; Palier and Naczyk 2011). Thus, the unions' negotiation power was weaker, limiting their options to protest against cut backs.

The Raffarin Reform successfully introduced further cut backs in the general public pension scheme but most importantly it introduced some first retrenchment measures in the special public sector schemes. At the same time voluntary funded private pension plans (see next paragraph for more detailed analysis) were established with the reform, but in contrast to Germany, where the establishment and expansion of private pension provision had opened the existing institutional structures for further more far reaching public pension cut back, the introduction of funded occupational and personal pension plans did not seem to have the same effect in France. It was only after almost ten years that the government introduced further retrenchment measures in the public pension pillar with the increase of the retirement age in 2010.

7.2.3 Shifting towards funded pension provision

In all three countries under study, the importance of funded pensions has grown over the last three decades. This was partly a result of the increasing retrenchment of pay-as-you-go financed pension benefits, and partly a result of increasing statutory actions to set up, improve and expand funded private pension arrangements. New funded pension elements have been introduced with the Premium Pension in Sweden (Pension Reform Act 1994/1998), the Riester Pension in Germany (Old Age Income Provision Act 2001), and PERCO and PERP in France (Raffarin Reform 2003). Furthermore, existing funded occupational pension arrangements were expanded and made more attractive in Germany and a development towards a higher degree of individualisation and competition took place in the occupational pension pillar in Sweden.

But while the shift towards funded pension provision was facilitated by a process of institutional conversion within the public pension pillar, followed by the revival of occupational pensions as the "dormant alternative" and the institutional layering of a personal pension scheme in Germany, it was predominantly the gradual displacement of the public pension pillar that fostered the shift towards a higher degree of private pension provision in the Swedish case. In France it was a process of institutional drift on the one hand, and institutional layering on the other hand, fostering the expansion of private funded old age provision.

In Germany, the stepwise conversion of the public pension pillar towards basic security since the mid-1980s had fostered an increasing necessity for additional forms of old age provision (functional crowding-in). This context was important for the facilitation of two subsequent developments: a) the improvement and expansion of funded occupational pensions and b) the establishment of a state regulated funded personal pension plan. With regard to the occupational pension pillar the state as well as the social partners started to increase their engagement and regulatory efforts from the late 1990s. Besides the functional crowding-in dynamic resulting from the changes in the public pension pillar, the specific institutional design of the occupational pension pillar was decisive for the type and scope of the engagement. First, the coverage with occupational pensions had been relatively high, representing a certain degree of acceptance and familiarity with occupational pensions among the workforce, providing a good basis for their expansion and improvement by the state (e.g. right to earnings conversion, improved portability and vesting).

Second, the already existent negotiated occupational pension agreement in the public sector may have offered some institutional inspiration for the social partners to include occupational pension in the wage bargaining process in the private sector (e.g. collective agreements in metal and chemical industry).

Third, the German pension system architecture provided a relatively loose institutional framework for the occupational pension pillar (mainly voluntary pensions based on employers' decisions). Thus, the design of the occupational pension pillar left much room to manoeuvre, which provided a favourable opportunity for the state as well as the social partners to develop and shape the settings of the occupational pension pillar to their ends.

The Old Age Income Provision Act 2001 was a major step for the animation of the "dormant" occupational pension pillar as it contained several measures to bring occupational pensions out of the shadow of just being a human resource tool for employers, pushing their development as a new important part of German old age security.

The expansion and improvement of the occupational pension pillar was only one way to foster private pension provision to a degree that seemed sufficient to compensate for the losses in the public pension pillar. The other important element of the Old Age Income Provision Act 2001 was the establishment of the state regulated funded personal Riester Pension. Even though the crowding-in dynamic supported a move towards a higher degree of private pension provision, the institutional barriers within the German pension system architecture against a new funded personal pension were still relatively high. The strong reliance on the pay-as-you-go principle and the small degree of individual responsibility within the German pension system architecture posed financial (double payment problem) as well as normative (individualism vs. solidarity) obstacles against the introduction of a mandatory funded personal pension. In combination with the high degree of political barrriers during the 2000s, the most feasible institutional strategy was to introduce personal pension plans on a voluntary basis as a layer on top of the existing institutional architecture, circumventing the financial and normative barriers created by the existing pension system architecture (Ebbinghaus, Gronwald and Wiß 2011).

After these decisive steps had been taken, the subsequent reforms (Old Age Income Law 2004, GRV Organisational Reform 2004) deepened the development of an integrative old age security policy and enhanced the attractiveness and transparency of private pensions (e.g. common deferred taxation for public and private pension benefits, improvement of certified personal pension plans, improvement of information policy on public and private pension income).

The first statutory attempt to introduce funded pensions in France occured much earlier than in Germany and was focussed at the occupational pension pillar. The Thomas Law from 1997 forsaw the establishment of voluntary firm based retirement savings plan. However, the law was defeated. It can be assumed that this was due to a combination of the particular political conditions at the time and the institutional barriers within the French pension system architecture.

Despite the general limitation of formal veto possibilities in the French political system, the upcoming parliamentary elections in combination with the veto power of the Constritutional Court strengthened the political barriers. The opposition made use of the option to delay the implementation of the measures until after the elections by calling on the Constitutional Council. Once they regained governmental power, they could defeat the law (Conceição-Heldt 2007: 185, 186; Immergut and Anderson 2007: 26). Thus, similar to the situation in Germany, the political barriers have been relatively strong against the introduction of funded private pension plans. With regards to the institutional design, the internal barriers to the introduction of funded firm based retirement savings schemes were strong as well. But while layering proved to be the appropriate strategy in the context of high political and institutional barriers in Germany, it failed in France. Why?

First, the pay-as-you-go principle was strongly represented in the overall pension system architecture in France, as it was not only the financing principle of the public pension pillar, but also deeply institutionalised within the mandatory occupational pension system. The popularity and broad dependence on the pay-as-you-go principle did not only make a shift towards funded pensions more difficult because of the double payment problem, but also because of a generally high level of distrust in the funding principle among the insured population.

Second, the occupational pension pillar in France was already well developed and institutionalised as the domain of the social partners, leaving a lot less development space and room for the state to interfere than in Germany. The unions, especially, were opposed to the introduction or expansion of funded occupational pensions for two reasons: a) it was assumed that the expansion of funded pensions would push financial over social concerns, which had traditionally dominated the design and function of the occupational pension pillar in France, and b) it was expected that the mandatory occupational pension schemes lose importance, threatening the power and role of the social partners within the occupational pension pillar (Marier 2002; Schludi 2005). Hence, the interest of the social partners in changing the existing institutional structures within the occupational pension pillar were low, and the institutional resistance against statutory attempts to expand or support funded occupational or personal pension plans were high. Finally, the timeing of the Thomas Law was less advantageous than the timing of the Riester Reform. The process of gradual cut backs of pay-as-you-go financed pensions in France had not been as advanced as in Germany a this stage, providing less openness and acceptance as well as functional necessity for such a change. Thus, the strategy of layering alone may not be sufficient to introduce private pensions if the settings in the public pension pillar do not provide a second incentive for the acceptance of such a change by the crowding-in dynamic.

The introduction of the statutory *fond de reserve de retraite* (FRR) in 1999 was a more successful state induced step in establishing an institutional element that might serve to expand the funding principle within the public pension pillar in France over the long-term. The institutional barriers against the establishment of the reserve fund were lower than for the introduction of funded private pension plans. First, the financial means of the fund stemmed from sales of state owned assets, investment income, general taxes, and surpluses of the social security system, and not a direct contribution of the current generation of insured. Second, the volume of the fund, and thus its importance and potential threat to the pay-as-you-go principle, was relatively limited when it was introduced. But as the process analysis in chapter 4.4 showed, it gradually gained in volume, indirectly fostering the funding principle in the financing dimension of the public pension pillar.

While the statutory efforts to introduce funded private pension plans had failed during the second half of the 1990s, there has been a parallel development in France fostering the shift towards a higher degree of funded and private pension provision from below. In the context of governmental reluctance, political barriers and institutional constraints within the public pension pillar slowing down reform activities on the one hand, and a high degree of problem pressures and the strong feeling of a pension crisis among the insured on the other hand, the extent of private savings plans has been growing significantly, contributing to a shift towards private funded old age provision from below.

Finally, the establishment and expansion of funded occupational and personal pensions was advanced by the state through the introduction of voluntary funded pension plans in the occupational (PERCO) and personal (PERP) pension pillar with the Raffarin Reform in 2003. The political barriers were less strong this time as it was the beginning of the electoral cycle, reducing the electoral competition and potential punishment by the voters. Furthermore, the government included the unions in the policy-making process reducing the potential resistance and likelihood of the unions to make use of their informal veto power via strikes. But most importantly, gradual cut backs in both the pay-as-you-go financed occupational and public pensions had been further advanced and it had become increasingly clear that the combined effect of these measures would lead to a more significant decrease in the pension benefit level providing a similar crowding-in dynamic for additional funded private pensions as in Germany. Yet, the institutional barriers due to the double-payment problem, the social partners' stake in the occupational pension pillar, and the popularity of the pay-as-you-go principle, were still high. Hence, in order to circumvent these institutional barriers, the establishment of PERCO and PERP was facilitated through institutional layering similar to the introduction of the Riester pension in Germany. However, the process of institutional drift had created a different situation for the development of these layered private pension plans, than for the Riester Pension in Germany. As more people may have already looked into alternative plans in order to secure a sufficient income in old age, it is uncertain at this stage whether it will be the layered PERCO and

PERP plans which will gain in importance in the future or whether it will be the development of private savings from below.

Unlike Germany and France, the Swedish government managed to integrate a mandatory funded personal pension plan within the public pension pillar as part of the gradual displacement of the old pension system with the Pension Reform Act 1994/1998. The agreement of all political parties to cooperate, the avoidance of the pension reform as electoral topic and the exclusion of other interest groups from the policy-making process helped to circumvent political barriers (Anderson and Immergut 2007). However, besides these political strategies facilitating change, the Swedish pension system architecture was endowed with some institutional elements that helped to facilitate the introduction of the mandatory funded Premium Pension. First, the public pension pillar in Sweden has been much more the domain of the state than in France or Germany, where the social partners had a much stronger position due to the bi-partite self-administration. The high level of institutionalised trust in the state together with the strong role of the state with regards to public pension policies provided for the shift towards funded private pensions through the integration of the Premium Pension in the public pension pillar under the control of the state. Second, the existence of the AP fund, which had been set up together with the introduction of the ATP pension scheme in 1960, was a crucial condition in order to circumvent the double payment problem. The accumulated fund assets helped to finance the partial shift from the pay-as-you-go towards the funding principle. The gap created in the financing of current pensioners' benefits by investing 2.5 per cent of the pay-roll contributions of the current working generation in individual premium pension accounts, could be largely compensated by the assets in the AP fund.

While the state has been more actively involved in expanding occupational pensions in Germany as a second alternative to enhance private funded pension provision besides the personal Riester Pension, it was the social partners and not the state that gradually changed the negotiated occupational pension schemes in Sweden towards a higher degree of funding, more competition, individualisation and the defined-contribution principle.

Similar to the occupational pension pillar in France, the occupational pension pillar in Sweden had already been institutionalised as the domain of the social partners, with a quasi-mandatory character increasing the barriers for the state to interfere. Furthermore, the fact that the institutional design of the public pension pillar in Sweden allowed for the integration of a mandatory personal funded pension element reduced the state's interest and need to advance the shift towards private funded pension by interfering in the occupational pension pillar.

However, the fact that the social partners also advanced a shift towards a higher degree of individualisation and funding in the occupational pension pillar could be taken as a sign that the developments in the public pension pillar also indirectly inspired or influenced the developments in the occupational pension pillar in Sweden. Palmer (2005: 49) argues that it would be difficult and costly to maintain defined-benefit occupational pension plans topping up public defined-contribution pensions (see country chapter 6.6).

8 Conclusions

Socio-demographic and economic changes since the mid-1970s have created a new environment for the functioning of the long-term institutionalised pension systems in West European countries, generating several new problems but most importantly disturbing the financial balance of the pay-as-you-go financed public pension systems. Two types of public pension systems have been identified in the literature (Bonoli 2003; Hinrichs 2000a), the tax financed basic system with a relatively low public pension level fulfilling the poverty alleviation function, leaving more space for the development of funded occupational and personal pension plans, and the contribution financed earnings-related system, providing generous public benefits fulfilling the income maintenance function, with funded private pension solutions only playing a subordinate role. While both types of pension systems have been confronted with increasing financial pressures, they have been significantly more pressing in those countries in which the income in old age primarily stems from the contribution financed pay-as-you-go scheme.

Since the early 2000s the empirical evidence has been growing that more and more Western European countries have been moving away from their dominant pay-as-you-go financed public pension structure towards a higher degree of funded and private pensions, cutting back pay-as-you-go financed benefits and creating and expanding funded occupational and personal retirement plans, despite the often cited barriers engrained in their old age security institutions.

For a long time the understanding of welfare and pension system change has been informed by studies mal focussed on institutional stability and the assumption that pension institutions are 'immovable objects' or 'frozen landscapes' which are hard to change unless the institutional structures suddenly and completely break down due to an external shock. However, as it has been argued in the more recent welfare state and institutionalist literature (Ebbinghaus 2005; Mahoney and Thelen 2010a; Palier 2005: 127; Streeck and Thelen 2005a) the full impact of what is considered to be no change sometimes only materialises at a later point in time or it unfolds its impact in accumulation with other smaller changes.

Based on this more differentiated view on how institutions develop and change, the goal of this dissertation was to explore, to what degree and in which ways long-term institutionalised, hard-to-change pension systems in Western European countries have been transformed, advancing and elaborating the argument of the gradual but transformative process of institutional change, identifying the mechanisms of change and examining the role of the existing institutional structures and other context conditions in shaping the pension reform trajectories, i.e. the specific pattern and scope of institutional change.

In this study, France, Germany and Sweden have been selected in order to analyse the process of institutional change in the area of old age security. The three in-depth case studies as well as their comparison were based on qualitative methods using primary data sources (both qualitative and quantitative) such as OECD and EU data and reports as well as national data sources, and secondary literature. The historically grown pension system architecture of the three selected country cases has been characterised by comprehensive public pension solutions to protect against income losses in old age and the predominance of the pay-as-you-go principle, combined with partially funded occupational pensions, functioning mainly as a topping-up while a personal pension pillar structure has been nonexistent except for private savings and life insurance contracts.

In all three countries pension system restructuring has taken place over the last three decades. But even though an increasing number of welfare state and institutional change scholars agree that there have been some significant changes in the pension systems in France, Germany and Sweden, the reform processes and outcomes have been interpreted very differently, leading to controversial discussions about the degree of change as well as the nature of the process and the factors driving and shaping the reform process.

Even though France, Germany and Sweden have all developed public pension pillars with social insurance features, a closer look at the specific design and the configuration of private pension arrangements in the three countries reveals some important cross-country variations. With regards to the examination of the impact of pension legacies on the process of institutional change, most studies have focussed on the public pension pillar only. However, with regards to the increasing pension privatisation trends in recent developments, it is important to consider both the public and the private side of pension arrangements as they are closely interdependent, forming a specific public-private pension design. The country case selection therefore provided some interesting institutional variations for the comparative analysis of the impact of the institutional context on the degree and the pattern of the institutional transformation.

8.1 Research questions and summary of findings

According to the three research questions that have been developed at the beginning of this dissertation, the following results can be summarised.

8.1.1 To what extent have the old age security systems in France, Germany and Sweden departed from their once established path?

The assessment of the degree of change in terms of a transformation or the general maintenance of the existing institutional structures has been accomplished by a within-case comparison in the three country chapters 4, 5 and 6, juxtaposing the design of the pension system architecture before the reform process with the design of the pension system architecture today. The within case comparison revealed a number of significant differences in the old age security systems in each country. The evaluation of these differences made clear that there has been a departure from several of the underlying principles and values in each old age security system. Based on this, the first important result of this analysis is that by the late 2000s the outcome of the process of pension system restructuring showed signs of an institutional transformation (rather than continuity) in all three countries under study.

Despite the commonly attestable institutional transformation, the cross-country comparison in chapter 7, however, showed that the intensity and scope of the alterations varied strongly between the three countries. This led to the second important result of the analysis: the simple differentiation between continuity and change (transformation) has to be further refined as there can be different degrees or levels of institutional transformation. This becomes clear when looking at the three major areas of change: a) minimum provision and other non-contributory solidarity benefits, b) pay-as-you-go financed, income maintaining, earnings-related pensions and c) funded private pension provision.

a) The increasing role of tax financed minimum provision and non-contributory benefits

With regards to the minimum pension provision, the main change in France was that the already existing minimum pension scheme gained in importance. In contrast to this, a minimum benefit in old age was established as a completely new element in Germany as the only form of minimum protection for the elderly in the pre-reform system was the general social assistance scheme. However, the *Grundsicherung im Alter* only adds a quasi first tier to the old age security system as it is formally administered and anchored under the roof of the social assistance. Nevertheless, the establishment of a means-tested minimum benefit specified to the elderly introduced poverty alleviation as well as need based access as new principles into the overall old age security system in Germany, indicating a greater departure from the former structures than in France where the principles of need based access and poverty alleviation already existed but were becoming more dominant in the public pension system.

In Sweden, the universal basic pension AFP has been replaced by a new means-tested guarantee pension, abolishing one of the most central characteristics of the Swedish old age security, the universal access to benefits based on citizenship. Instead the principle of need based access has been established as a new principle with the introduction of the Guarantee Pension and due to the price indexation of benefits, the relative level of the Guarantee Pension in comparison to wages is expected to decrease significantly in the future, emphasising the poverty alleviation principle over the previous basic security principle.

In all three countries, non-contributory benefits have been increasingly separated from the contribution financed insurance scheme by a stricter separation between the financing of non-contributory benefits by taxes and insurance benefits by pay-roll contributions, fostering the development of a tax financed solidarity system including the tax financed minimum benefits and a contribution financed insurance system. The increasing share of taxes provided the state with an increasing role in the financing dimension, which is a significant departure from the very limited role of the state in the pre-reform system in France and even though tax financing played a role in the pre-reform system in Germany, the increasing share of taxes has strengthened the role of the state in Germany, too, affecting the power balance between the state and the social partners in the financing dimension. In contrast to Germany and France, the tax financing cannot be considered such a significant change in Sweden, as a high share of taxes financing public benefits has also been characteristic for the Swedish pension system before the reform process.

b) Pay-as-you-go financed, income maintaining, earnings-related pensions

The French mandatory public and occupational pay-as-you-go financed pension insurance for private sector employees has been largely maintained as a core piece of the French pension system architecture. Many of the introduced cut backs in the *régime général* in France affected specific groups rather than all insured to the same degree, lowering the benefit level for some but not for all. The benefit cut backs in the occupational AGIRC/ ARRCO have been more consequential for all insured (private sector), which is why the income maintenance function of the combined public and occupational pension for private sector employees may come under strain to a larger degree in the future. The cut backs in the *régime spéciaux* have only been introduced during the early 2000s with long phasing-in periods and many of the previous privileges have been preserved, largely maintaining the second tier function of the schemes for the near future.

In contrast to this the retrenchment efforts in the pay-as-you-go financed schemes have been much more comprehensive and far reaching in Germany and Sweden. The changes in the pay-as-you-go financed GRV in Germany have contributed to the increasing departure from its original income maintenance function towards a basic security function since the 1990s. In Sweden, the pay-as-you-go financed public pension scheme ATP has been completely replaced by a new scheme which combines a pay-as-you-go financed NDC Income Pension with a funded, privately invested DC Premium Pension. The new scheme did not only depart from the former generosity of the ATP scheme and the income maintenance goal, but it also introduced private insurance principles such as the defined-contribution principle and the funding principle.

Furthermore while all three countries have adapted the benefit calculation formula of their pay-as-you-go financed public pension schemes in accordance with the demographic and/or economic development stabilising the contribution rate, Sweden went the furthest by introducing the notional defined-contribution principle as well as an Automatic Balancing mechanism, which will automatically reduce benefits in order to maintain a fixed contribution rate. In Germany, a demographic factor has been integrated as part of the benefit formula and there has been a shift towards a quasi defined-contribution principle by fixing the contribution rate between a minimum and a maximum. However, the degree of automatism is much lower than in

Sweden leaving more space for political discussions and changes in the future. Furthermore, the contribution rate can still be increased in times of financial distress. The efforts to cut back benefits in order to maintain a stable contribution rate have been the least far reaching in France as the adjustments in the calculation of benefits in the case of demographic changes are not formally integrated as a factor in the benefit formula but the adjustments are based on annual recommendations of the pension council.

c) Expansion of funded private pensions

With regards to the increasing shift towards funded private pension provision, the same hierarchy in the scope of changes can be found with Sweden being the most advanced case followed by Germany as the intermediate case and France being the laggard. In Sweden, a mandatory funded personal pension has been integrated in the public pension pillar demonstrating a significant and far reaching change towards the funding principle and a higher degree of privatisation in the Swedish pension system architecture. The trend towards funding and individualisation was reinforced by the changes introduced by the social partners in the quasi-mandatory collective occupational pension schemes. Even though the share of occupational pension benefits in the overall old age income is still relatively low, the broad coverage of more than 90 per cent of the working population provides them with a significant role in the Swedish old age security system, so that changes in these schemes towards funding, the defined-contribution principle and a higher degree of commercialisation have a great impact on the overall pension system architecture.

In contrast to the Premium Pension in Sweden, Germany and France introduced state regulated funded personal pensions (Riester Pension, PERP) on a voluntary basis. Instead of making the personal pension provision mandatory both countries set monetary incentives in order to encourage people to take up a private personal pension plan. However, the incentives to take up a voluntary personal pension have been more comprehensive in Germany than in France. Besides generous tax deductions which are also offered in France, the German Riester Pension is directly subsidised by the state (low income earners and families with children). Furthermore, the understanding of occupational and personal pension provision as part of the old age security system seems to be more developed in Germany. First, the benefit calculation formula of the public pension accounts for assumed contribution payments to a personal Riester Pension supporting a stronger interlocking between public and private pension provision. Second, the information policy has been improved, providing more comprehensive information and more transparency with regards to the different public and private forms of old age provision (Berner 2007).

Besides the Riester Pension, funded occupational pensions have been expanded by several state induced changes as well as by the social partners' activities in Germany, fostering funded occupational pensions as a second means to compensate for the growing income gap due to decreasing public pension benefits. Due to the strong position of the mandatory pay-as-you-go financed occupational pensions in France, the scope to develop funded occupational pensions similar to Germany has been more limited. Thus, funded occupational pension plans have been introduced on a voluntary basis similar to the personal pension plan.

Summing up, the French case showed the most ambivalent results with regards to the assessment of the scope of changes, displaying a mixture of institutional stability in some respects and signs of transformative changes in other respects. The outcome of the restructuring process by the late 2000s has therefore been labelled as a **beginning or early institutional transformation**. In contrast to this, the alterations in the Swedish pension system presented themselves as the most far reaching and sustainable changes among the three countries, which is why it has been labelled as **advanced institutional transformation**. The institutional transformation of the old age security system in Germany has been further advanced than in France but it has not been as far reaching as in Sweden, representing an **intermediate institutional transformation**.

It is important to note that the institutional transformation in all of these countries is 'work in progress' and the transformation process cannot be considered as concluded in any of the three countries. This also means that the further development with regards to the degree of the institutional transformation is relatively open, i.e. the system with the lowest level of institutional transformation at this point may catch up and even overtake the other countries. The transformation process may also slow down or stagnate. Especially if the new structures are not consolidated yet, significant changes in the environment such as the financial crisis or a change in actors' constellations and interests may create different demands and new goals with the potential to reverse or alter the not yet firmly instiutionalised changes. However, the more sustainable and mature the changes are, the more difficult it will be to stop or even reverse their further unfolding.

8.1.2 How does the pension reform process look like? Which mechanisms and strategies can be identified that facilitated the institutional transformation? Which process pattern can be found?

The nature of the process of institutional change, i.e. the process pattern, has been examined in the three country case studies in chapter 4, 5 and 6 by an encompassing analysis of the timing and sequencing of decisions, and the content of reforms as well as non-state activities. Based on the assumption that the gradual transformation of an institution cannot be understood as a single event during a shorter time period but as a long-term process during which a series of smaller events, changes and modifications occur, unfolding their full impact cumulatively and/or incrementally over time (Streeck and Thelen 2005b), the focus was set on a relatively long time period from 1980 till 2010, including bigger reforms as well as smaller measures, changes and developments in the public as well as in the two private pension pillars. The division of the pension system restructuring process into different stages or phases as outlined by Palier and Bonoli, helped to examine and later compare the transformation more systematically.

The first result revealed by the process analysis was that the pension system restructuring in all three countries has been characterised by a gradual change process over a longer period of time rather than an abrupt and radical transformation. Based on this it could be concluded that the type of institutional development found in each country is a path departure rather than a path switch. The analysis also confirmed previous findings in the literature that the political context provided certain barriers against change, which may, however, be overcome or circumvent by a number of political strategies helping to facilitate change. By adding a further focus on the pension system structures and their role in the change process, the analysis demonstrated that the specific pension system design in place does not only provide barriers against change as commonly assumed but several mechanisms could be identified that can facilitate changes and greater transformations. In this context, the sequencing and timing of decisions played a very important role.

The German pension system transformation has been facilitated by a combination of a *gradual institutional conversion* of the public pension pillar from its income maintenance function towards the basic security function on the one hand and the subsequent *institutional layering* of the personal Riester Pension and the *activation of "dormant" structures* with the expansion and institutionalisation of the occupational pension pillar as old age security instrument on the other hand.

The conversion of the public pension pillar has been facilitated by a series of smaller parametric changes introducing alterations in levels and/or instruments within the existing institutional frame over a longer period of time followed by the intensification and acceleration of retrenchment measures. Previous measures and developments shaped and provided the space for the intensification of subsequent measures. At the same time, the proceeding functional conversion increased the awareness of and necessity for private forms of old age provision in order to compensate for public benefit losses. In this context, the personal Riester Pension was layered as a new element on the existing institutional structures and the occupational pension pillar has been activated and expanded, developing two forms of private pension provision which may play an increasing role in the fulfilment of the income maintenance function in the future.

The German process of institutional transformation shows the most continuous pattern of public pension reforms over all four phases of restructuring. Voluntary occupational pensions have been increasingly activated as old age security instrument from the end of the third phase of restructuring and the growing engagement in the occupational pension pillar came from both the state as well as the social partners. The statutory engagement in fostering a higher degree of funded private pension provision towards the end of the third phase of restructuring was further extended by the introduction of the voluntary state regulated Riester Pension layered on top of the existing institutional structures. Both forms of private old age provision as well as the gradual conversion of the pubic pension pillar have been further advanced and consolidated during the fourth phase of the transformation process.

The pension system transformation process in France has been characterised by the gradual retrenchment of the pay-as-you-go financed public and mandatory occupational pension schemes for private sector employees and the gradual harmonisation between the different professional schemes in the public pension pillar on the one hand and a pattern of *institutional drift* fostering a higher degree of private old age provision from below followed by the *institutional layering* of funded occupational and personal pension plans by the state on the other hand.

The gradual retrenchment of the public pension pillar has been much less continuous in comparison to the processes in Germany. Instead the process has been characterised by fewer reforms, less encompassing measures and longer phases of political non-decision. As a consequence, the different phases of the restructuring process have been much longer in France than in the other two countries. Thus, while the process of pension system change in Germany as well as in Sweden had already entered phase four during the early and mid-2000s, the French restructuring process had just entered phase 3 during this time. In contrast to the increasing functional crowding-in dynamic of the gradual conversion of the public pension pillar and the largely state controlled development of private forms of old age provision in Germany, the viscous statutory attempts to restructure the public pension pillar during the 1980s and 1990s in France in a context of high financial pressures and the perceived feeling of a serious crisis have been accompanied by an increasing number and amount of personal savings, fostering a higher degree of private pension provision via a process of *drift* from below. It was only with the introduction of the voluntary funded occupational and personal pension plans PERCO and PERP at the beginning of the 2000s, that the shift towards private pension provision was also fostered by the state via a strategy of *institutional layering* similar to Germany.

The Swedish pattern of pension system change has been dominated by the gradual institutional displacement of the public pension pillar, substantially changing the pay-as-you-go financed public pension as well as fostering a shift towards funded private pension provision by the integration of the personal Premium Pension and the re-negotiation of the existing sector wide collective agreements in the occupational pension pillar which will be gradually replaced by new agreements supporting the trend towards funding, a higher degree of individual responsibility and market competition.

Similar to the French case and unlike the German case the number of state induced pension reforms has been much more limited in the Swedish process of change with the Pension Reform Act 1994/1998, sticking out as the one major reform. However, in contrast to the few major pension reforms in France, the measures introduced under the Pension Reform Act 1994/1998 in Sweden have been more numerous and comprehensive. But despite this one outstanding reform, which could have been taken as empirical evidence for a sudden and radical change, the restructuring process of the public pension pillar had already started during the early 1980s, gradually preparing the scene for such a reform. The beginning of the restructuring process was characterised by a relatively long phase of intensive discussions and the analysis of the issues as well as potential reform solutions of the existing pension system. This was followed by a comparatively short second phase during the early 1990s with moderate retrenchment measures but more importantly, the preparation of a concrete outline for a major reform based on the reports and results of the previous pension commission. These first two phases fostered the gradual displacement of the old pension system by new ideas and suggestions on the conceptual level before it was then gradually displaced on the technical level during the third phase of restructuring with the introduction the Pension Reform Act 1994/1998. The technical displacement has also been incremental. Most of the reform measures have been gradually introduced and further refined in several steps while the old system will only be gradually phased out over a longer period of time.

Tab. 8.1: Summary of the process pattern of change in France, Germany and Sweden

	Phase 1	**Phase 2**	**Phase 3**	**Phase 4**
Sweden	Gradual displacement of public pension pillar on conceptual level		Gradual transfer from conceptual to technical level	Completing gradual displacement of public pension pillar
			Gradual displacement of collective occupational pension schemes by new agreements	
Germany	Gradual functional conversion of public pension pillar			
			Awakening and expansion of “dormant” occupational pension pillar	
			Institutional layering of funded personal pension	
France	Sluggish retrenchment of public pension pillar			-
		Cut backs in mandatory occupational pensions		
			Institutional layering of funded occupational and personal pension	
		Process of drift/ pension privatisation from below		

Summing up, while the type of institutional development could be assessed as a gradual and long-term path departure in all three countries, the cross-national comparison (see chapter 7) showed that the specific pattern of the institutional transformation process, i.e. the institutional mechanisms, the timing of decisions and the velocity of the process, differs between the selected countries. The differences in the level of institutional transformation as well as the variations in the process pattern served as the starting point for the comparative examination of the role of the problem pressures, the political context and the institutional design in shaping the degree and pattern of the institutional transformation process, striving to explain the cross-country differences.

8.1.3 Which role did the problem pressure, the political context and the institutional design (legacy) play in shaping the degree, and the mechanisms and strategies (patterns) of change?

One major assumption of this thesis was that the timing and the type of measures introduced to solve the (financial) sustainability issues by revenue increases, public pension cut backs and the shift towards higher degrees of funding and private pension provision have not only been conditioned by the degree of problem pressures and/or the specific political context, but also to a large degree by the particular institutional design of the three pension pillars and the interaction between them.

The analysis of the impact of the functional problem pressure, the political context and the existing institutional pension system design on the process of institutional change showed that all three factors are important variables, but they play different roles. First, the financial problem pressure mainly functions as a trigger that "something has to be done", but they do not seem to shape the process of change to a significant extent. The functional pressures increased in all three countries since the early 1980s, peaking during the 1990s and staying at a relatively high level throughout the 2000s. However, the specific pattern, i.e. the mechanisms and measures as well as the degree and pace of the process of change differed across the three countries under study. Thus, while functional pressures are assumed to be an important reason for political actions, they do not directly translate into similar process patterns and degrees of change across countries. Hence, the impact of functional pressures in shaping the "quality" or the "characteristics" of the institutional transformation process is low.

Instead, the assumption could be confirmed that it depends to a large degree on the existing pension institutional settings, as to which solutions are considered in order to react to the pressures. It could be shown for instance that the given design of the pension system shaped how much scope there was for revenue increases during the first phase of restructuring and which measures could be applied. As the institutional options/leeway to avoid retrenchment differed in the three countries, the length of the first phase of restructuring as well as the methods to expand public revenues differed. It could also be shown how the decisions in each phase of restructuring shaped the developments during the subsequent phases underlining the impact of the pension institutional structures. Given the smaller leeway for revenue increases for instance during the first phase and the high financial pressures, Germany was the first country to commit to a bigger pension reform (Pension Reform Act 1992).

The reform measures were shaped by the existing pension institutional settings, i.e. the constraints and options for change as well as the political context and the strategy of consensual policy-making. Shaped by these conditions the reform set the starting point for the gradual functional conversion of the public pension pillar. The shift towards a higher degree of funded private pension provision during the subsequent stages of the reform process has mainly been facilitated and shaped by the given institutional context, while the political context and therefore the political strategies played a supporting role. The gradual functional conversion of the public pension pillar on the one hand in combination with the strategy of institutional layering on the other hand facilitated the establishment of a funded personal pension scheme during the third phase of restructuring while the given occupational pension structures provided for the gradual "awakening" of funded occupational pensions. The developments during the third phase were essential for the subsequent reforms during the fourth phase. The expansion of private pension provision helped to facilitate further cut backs in the public pension pillar as it could be argued that a decrease in public pensions could be compensated by the newly established and improved private pension alternatives.

Building on the developments during the first phase in Sweden, the gradual re-thinking of the public pension pillar was further advanced during the second phase. However, in the context of very high problem pressures and the limits of the revenue expanding measures which had been largely exhausted during the first phase of the restructuring process, the second phase was comparatively short and more encompassing changes were planned. As the political context provided relatively strong barriers to reform, the strategy was to find a broad cross-party agreement on a bigger reform which should be kept out of the elections. The gradual re-thinking of the public pension pillar during the previous phases had paved the way to overcome some of the pension institutional barriers for a bigger reform and the incremental development and implementation of the reform measures as well as the gradual displacement of the old system by the new system helped to facilitate the changes during the third and fourth phase in the Swedish pension system restructuring process. The shift towards a higher degree of private pension provision in Sweden has largely been a part of the gradual displacement process of the public pension pillar. The integration of a mandatory funded pension was facilitated by the given institutional conditions: a) the public AP funds which provided the financial means for the partial transition from the pay-as-you-go to the funding principle and b) the strong role of the state in the Swedish pension system which enabled the integration of the private pension within the public pension pillar.

In contrast to the gradual functional conversion of the public pension pillar in Germany and the gradual displacement of the public pension system in Sweden, the first reform (Balladur Reform 1993) in France was focussed on the private sector schemes and the unions have been involved in the decision-making process supressing any more far reaching changes during the second phase of restructuring despite very high financial pressures. This can be partly ascribed to the specific political context and especially the strong mobilisation and demonstration power of the (public sector) unions, providing a strong political barrier against public pension retrenchment and partly to the public pension system design with its very generous and privileged public sector pension schemes (*régime spéciaux*). As a result the public pension system restructuring process has been more viscous. Furthermore, it proved to be harder to take the process to the third phase. Similar to the political strategies applied in Germany and Sweden during the third phase of restructuring, the unions have also been excluded from the decision-making process in France in order to introduce more far reaching changes and cut backs after the Balladur Reform 1993, but in contrast to the successful Pension Reform Act 1994/1998 in Sweden and the successful reforms from 1996 and 2001 in Germany, the Juppé Plan 1995 and the Thomas Law 1997 in France failed. In contrast to Germany and Sweden, there was no adequate institutional mechanism or strategy to facilitate the changes in France. It can be assumed that the institutional barriers on the one hand and the absence of any institutional change mechanism on the other hand played a significant role in the failure of the reforms. Another example supporting this argument is the failure of the Pension Reform Act 1999 in Germany, while the pension reforms from 1996 and 2001 were successful even though the political barriers and the political strategies applied to overcome these barriers were similar for all three reforms. However, while the reforms from 1996 and 2001 had also been facilitated by specific institutional mechanisms, an adequate institutional change facilitator was missing for the Pension Reform Act 1999 and the barriers against the changes entailed in the reform were high.

The French failure to enter the third phase in the pension system restructuring process during the mid-1990s provided more room for the process of drift, advancing a parallel development of pension privatisation from below until the second attempt to introduce more encompassing cut backs in the public pension pillar as well as the introduction of funded occupational and personal pension plans was successful with the Raffarin Reform 2003. The institutional context for the introduction of further cut back measures (i.e. public sector schemes) and the establishment of funded occupational and personal pension plans had changed providing adequate institutional mechanisms to facilitate the measures contained in the Raffarin Reform. First, the unions were included in the decision-making process, applying a political strategy that had already proven to be successful with the Balladur Reform (Bonoli 1997b). But even more importantly the crowding-in dynamic had gained momentum not only by the effects of the Balladur Reform but also by the retrenchment measures in the pay-as-you-go financed occupational pension schemes. Together with the strategy of institutional layering, these institutional mechanisms helped to facilitate the introduction of funded private pension plans. Second, the more visible decline of the public pension level in the private sector schemes ten years after the Balladur Reform provided the ground for the justice and harmonisation rhetoric that helped to facilitate the first cut backs in the public sector schemes. Finally, the role of the social partners in the public pension pillar had gradually declined in importance, while the state expanded its power, weakening the negotiation power of the unions in the decision-making process opening the room for more far reaching changes.

Summing up, the qualitative comparison of the functional, political and institutional conditions in the pension reform processes in France, Germany and Sweden demonstrated that it is mostly a combination of both political factors and institutional mechanisms that facilitate certain reform measures and developments; however, it also appears that the political context does not always play a role whereas the institutional context is always a decisive factor in shaping the degree and pattern of the process of change. It seems that the political context and the respective political strategy to overcome potential political barriers provide the sufficient condition for the successful introduction of changes but the necessary condition for the successful introduction of changes is shaped by the pension system design and the respective institutional mechanisms or strategies. Thus, if the institutional context does not provide for certain changes, the political context or better political strategies for overcoming political barriers will not be able to foster change. Furthermore, the reform measures as well as other statutory and non-statutory activities in one phase of the restructuring process impact on the developments of the subsequent phase of restructuring as alterations in the pension system design, no matter how small they are, may provide further options and mechanisms of change, preparing the ground for further alterations.

8.2 Contributions

This thesis provides a number of theoretical-methodological as well as empirical contributions to the existing literature on institutional change and the research on old age security systems in Western Europe.

The first general contribution to the existing literature on institutional change is the further development and refinement of an analytical-empirical approach to analyse and categorise different types of institutional development and assess whether empirically observable changes have contributed to the maintenance (continuity) or the transformation (change) of existing institutional structures. In this context, the framework for the categorisation of four different types of institutional development as outlined by (Streeck and Thelen 2005b) has been further elaborated by combining it with theoretical assumptions about the nature of reforms and changes (i.e. changes in levels, instruments, goals) and how they impact on existing institutional structures (Ebbinghaus 2005; Hall 1993; Hinrichs and Kangas 2003). Accordingly, the unit of analysis has been operationalised into different hierarchical dimensions based on a combination of different concepts (Bogedan, Bothfeld and Leiber 2009; Bonoli and

Palier 2000; Ebbinghaus 2011; Goodin and Rein 2001; Immergut, Anderson and Schulze 2007), providing a precise analytical tool to assess the nature of pension reforms and changes and their impact in terms of institutional continuity or transformation. Furthermore, the suggested operationalisation provides comparable dimensions for the systematic cross-national analysis of old age security systems.

The second contribution to the theoretical framework on institutional change is the deeper understanding of the different types of institutional transformation, i.e. the path departure and the path switch, and the mechanisms that facilitate them by combining and further developing some of the major assumptions in institutionalist theories.
The path departure and the path switch share the same end result, i.e. transformed institutional structures, but they differ with regards to the question of how the transformation is brought about, i.e. in a long-term gradual process in the case of the path departure or through a sudden break down of old institutions and the replacement by new structures in the case of the path switch. Based on this it is assumed that the mechanisms facilitating these two processes must differ as well. The different exogenous and endogenous sources and mechanisms of institutional stability and change have been extracted from the existing literature and logically associated with the two types of transformation processes. The path switch has therefore been assumed to be facilitated by the rupture of all stability mechanisms through significant exogenous changes (external shock) leading to the break down of old institutions, opening the room to build new institutional structures. In contrast to this, the lengthy process of step-by-step changes in the case of the path departure has led several scholars to the conclusion that there must be endogenous sources and mechanisms of change which help to circumvent institutional barriers without the need for a big external interruption of all stability mechanisms.

This thesis goes one step further and differentiates between three distinct possibilities in regard to how a path departure can be facilitated. The first one is the already outlined path departure via endogenous mechanisms of change which has been outlined in the literature (Streeck and Thelen 2005; Mahoney and Thelen 2010). The second possibility is the occurrence of a critical juncture, during which some but not all of the stability mechanisms are interrupted opening a window of opportunity for certain changes. The critical juncture as it is defined in this thesis differs from what has been labelled as crictial rupture facilitating a path switch. The difference between the two forms of externally driven interruptions of stability mechanisms is that in one case all stability mechanisms are completely destroyed or interrupted (critical rupture) and in the other case only some stability mechanisms are interrupted (critical juncture). Furthermore, the changes after a critical juncture are path dependent, i.e. existing institutional settings and previous policy decisions still impact on and frame later changes while there is not path dependency in the case of a path switch. A path departure of this type can be characterised by several critical junctures introducing smaller changes at each juncture gradually departing from the original institutional structures. The phases between these junctures are characterised by a stabilisation process. The third sub-type of a path departure has been assumed to be facilitated by a combination of endogenous change mechanisms and the interruption of some stability mechanisms at a critical juncture.

This differentiation leads to the third contribution of this thesis: the assessment of the different roles and impact of pension institutions and their legacy, functional problem pressures and the political context on the process of change specifying which factors as well as combination of factors shape the process pattern and degree of change during which phase in the restructuring process. It was found that socio-economic changes exerting financial pressures on the given institutional structures as well as changes in the political context could provide for a critical juncture interfering with the institutional stability mechanisms while the institutional legacy provided and shaped the endogenous change mechanisms. The political context also shaped the political strategies applied to support the introduction of changes. However, it became clear that political strategies alone are not enough to foster changes but need be combined with institutional mechanisms of change, i.e. the interruption of stability facilitators or change mechanisms.

Finally, this thesis also contributes to the empirical literature and information on old age security systems in France, Germany and Sweden as well as the revision of pension system typologies. The perspective taken in this thesis has been more encompassing than in most other studies, including all three pension pillars (public, occupational and personal) as well as their development over three decades, providing detailed information on programmes and technical peculiarities as well as the underlying policy goals and values. Especially with regards to the analysis of change towards a higher degree of privatisation, it has been important to understand and carefully examine the design and development of occupational and personal pension arrangements, which could also be a good basis for further research on private pension arrangements following other research questions. Furthermore, the detailed empirical examination and comparison of old age security systems with all their components and at different points in time also contributes to the revision and reconsideration of the classic Bismarck vs. Beveridge pension system typology, which mainly refers to the first pension pillar, while leaving the second and third pillar unspecified.

In order to gain a more comprehensive perspective on old age security systems it is however important to also include private pension arrangements in a typology. First attempts have been made to detach from typologies focussing on the public pension pillar only by differentiating between social insurance or dominant public pillar countries and multipillar countries referring to the variations in the public-private pension mix (Bonoli 2003; Bonoli and Shinkawa 2005; Ebbinghaus 2011; Hinrichs 2000a). Taking this advanced categorisation as a basis, a closer look especially at the occupational pension pillar in different countries made clear that there are also broad differences with regards to the governance structures and the degree of compulsion in occupational pensions within the same type of public-private mix, producing several subtypes further expanding the categorisation. Before the restructuring process France, Germany and Sweden could all be classified as social insurance or dominant public pillar countries, but they all belonged to a different subcategory, i.e. social insurance/mandatory occupational for France, social insurance/voluntary occupational for Germany and social-insurance/collective occupational for Sweden.

8.3 Policy implications

This thesis provides several important insights into the general transformation of institutions as well as a normative appreciation of pension system changes. Both are of relevance for policy-makers. First, it is crucial for policy-makers to understand the conditions under which changes and reforms are introduced and how they shape the options for reforms and changes. The analysis of the process of pension system restructuring suggests that encompassing changes are possible but it is unlikely that long-term institutionalised systems can be transformed in one radical step. Policy-makers therefore need to be willing and capable of understanding that most transformations can only be achieved incrementally in smaller steps. Functional pressures may provide a more favourable context in order to push for changes and legitimise cut backs or unpopular decisions, but they will not be sufficient to transform an institution. The awareness and application of certain political factors can be considered the sufficient condition for the successful introduction of reforms and changes, but as this thesis has shown, the necessary condition is related to the (pension) institutional structures. Thus, policy-makers need to be able to understand and exploit the given (pension) institutional structures, in order to find the "gaps" where changes are possible, and they need to be aware about the adequate institutional mechanisms/strategies that may facilitate a greater transformation.

Second, as institutional transformations take place over a long period of time, this thesis demonstrated that the degree of transformation increases incrementally and that different countries may proceed at a different pace and pattern so that the degree of transformation may differ between different countries when compared at a certain point in time. It can also be assumed that the lower the degree of transformation and the less sustainable the changes introduced are, the easier it will be to return to former structures or redirect the chosen path. With regards to the changes set in motion by the pension reforms and changes over the last three decades, policy-makers will need to make an effort to maintain and advance the changes in order to consolidate them into new institutional structures and continue the transformation process.

In the case of Germany, the continuation of some of the gradual changes such as the increase of the retirement age to 67, as well as the maintenance of already introduced cut back measures such as the gradual reduction of the pension level to 43 per cent of the average net wage by 2030, have recently become the object of controversial debates once again. The election could bring about a change in dominant political actors and depending on this, different pension solutions may be put forward with the potential to interfere with the current course of change in the public pension pillar. With regards to the private pension pillars there seems to be large agreement that private (occupational and personal) pension provision should be further developed in order to make it a more essential part of old age security in Germany. However, the expansion and improvement of private pensions has been proceeding slowly, and the acceptance of private pension solutions among the population has been very vulnerable especially in the light of increasingly instable and crisis susceptible financial markets. Thus, it will depend on the political efforts made in the future, whether the changes and institutional transformations in the German old age security system will be deepened or whether the course of change may be redirected or even reversed.

In France, too, political efforts will have to be made in order to advance the pension system restructuring process. As the transformation is not even as developed as in Germany, yet, the possibilities to return to old structures or to simply stagnate are greater than in Germany or Sweden. In fact, after Francois Hollande from the Socialist Party was elected as the new president in April 2012, the restrictions to retire before the age of 60 which had been introduced with the Pension Reform Act 2010, have been partly lifted or loosened (French Ministry of Health and Social Affairs 2012). At the same time, the French dilatoriness and reluctance with regards to the transformation process also provides them with a better chance to learn from other countries which are much further advanced in shifting their public-private pension mix and to avoid possible mistakes.

Due to the automatisms build into the Swedish system, the likelihood that the process will be reversed or that the direction will be altered significantly is relatively low. Except for unintended consequences and unforeseeable (shock like) events that may interfere with the current course, the future development path seems relatively independent from any political changes. In 2012 the government underlined the fact that the pension system is politically stable with long-term commitments based on a cross-party agreement. It therefore intends to continue what had been decided in 1994/1998 and considers it as its major task to provide comprehensive information for pensioners and insured in order to enable them to understand the different effects that their decisions with regards to their careers, savings, retirement age/ early retirement will have on their pension income (Swedish Ministry of Health and Social Affairs 2012).

The empirical research in this thesis on pension system changes also raises a number of normative issues which are of importance for policy-makers. The reform measures and changes over the last three decades which could be observed in all three countries under study have not only contributed to the curtailment of public pension spendings and the systems general financial sustainability, but they have also contributed to rising concerns about old age poverty and social inequality as well as financial risks and regulatory issues in the area of occupational and personal pension arrangements (Ebbinghaus 2011). Furthermore, it is questionable whether the problems of old age security systems in the context of demographic ageing can be solved by a shift from the pay-as-you-go to the funding principle.

First, the stronger accentuation of the equivalence principle and the strengthening of the employment focus as a result of a) the changes in the public pension pillar and b) the expansion of the role of occupational and personal pensions has increased the risk of insufficient pensions and poverty in old age especially for those persons with atypical and interrupted working careers for two reasons: first, it is harder to gain sufficient pension entitlements due to the stricter criteria in the public pension pillar and second, persons with career breaks, part-time employees as well as low wage earners are often excluded from gaining occupational pension entitlements and they are even less likely to save for a voluntary personal pension (Ebbinghaus and Neugschwender 2011; Meyer, Bridgen and Riedmüller 2007). The latter is especially the case in the German system with its voluntary occupational and personal pensions, while the coverage with occupational pensions is much higher in Sweden due to its quasi-mandatory character. Furthermore, the regulatory frame has been set up in a more employee-friendly manner due to the strong involvement of the unions representing employees' interests. In France, the coverage with non-funded occupational pensions is also very high as they are mandatory by law; however, the coverage with funded occupational pensions is even lower than in Germany. As the personal Premium Pension in Sweden is mandatory, the coverage is very high in comparison to the voluntary personal pensions in Germany and France.

Even if the coverage with private funded pension arrangements is more expansive in Sweden, pension entitlements will be strongly reliant on previous contributions and earnings. Hence, atypical careers will increasingly be reflected in reduced pension entitlements and more people are likely to rely on public minimum benefits in the future (Ebbinghaus and Neugschwender 2011; Palier 2010b; Stöger 2011). Depending on the rules of the minimum schemes, i.e. the type of the means-test and the level of benefits, an increasing number of people may be prone to old age poverty. In Germany, the new minimum scheme *Grundsicherung im Alter* is relatively low and benefits are means-tested against private pensions, which means that low income earners who would be prone to receive minimum benefits would not benefit from any additional private pension savings (Ebbinghhaus, Gronwald and Wiß 2011). Minimum benefits in France are also means-tested against all types of income. It is only in Sweden, that benefits from the Guarantee Pension are not tested against any other private pension income. At the same time, it is questionable whether any low income earner who will have insufficient public earnings/related pension entitlements and have to fall back on the statutory minimum scheme during retirement would have had the extra resources to save for a decent private pension. Besides any pension policy measures that may be taken to prevent old age poverty such as higher minimum benefits, better pension access conditions for atypically employed, or such as in Germany, the proposition of a pension supplement (Zusatzrente) under certain conditions, labour market policies may also provide potential solutions to prevent poverty in old age for instance by minimum wages and measures to minimise atypical employment.

Second, the general reduction of public pension benefits in the three countries raises the question, to what extent private pension arrangement are able to compensate for the losses. This depends to a large degree on the design of the occupational and personal pension arrangements and whether they are mandated or voluntary as well as the degree of coverage. In Germany, it has been questioned whether voluntary private pension provision can close the expected income gap. The private pension savings rate should have increased after the introduction of the Riester pension in 2001 but even ten years later, the increase has only been minimal, even though the number of Riester contracts has grown to 15.5 million in 2012, supporting the assumption that other forms of savings have merely been replaced by Riester products but the amount or the number of savings plans for old age security has not increased (Flassbeck 2012). Furthermore, economic growth and earnings also have an effect on how much people are able or willing to save for their retirement. A lack of private pension provision in the context of reduced public pensions may further aggravate the issue of old age poverty. As the mandatory occupational pensions in France are also based on the pay-as-you-go principle, they have also been reduced similar to the public pensions in Germany and France (Palier and Naczyk 2011). The funded occupational and personal pension plans in France are voluntary similar to Germany. Hence, the question of sufficient coverage with private pension arrangements in order to compensate for the losses is also of great importance in France. In Sweden the picture is slightly different due to the mandatory character of the Premium Pension as well as the quasi-mandatory character of occupational pensions. The coverage with private pension arrangements is much better. However, even if the coverage rate is not a bigger issue in Sweden, the question remains whether the design of the schemes is set up in a way that they will be able to compensate for the reductions in public pension benefits.

Third, the changes in the public pension pillar as well as the shift towards a higher degree of private pension provision will reinforce the low degree of redistribution and the reproduction of previous status differences during retirement in Germany and France and increase the degree of social inequality in Sweden. Vertical inequalities are likely to further increase especially between low-skill, low-earnings workers and the better educated, higher income earners and professional groups as demonstrated by the increasing cleavage between earnings-related insurance insiders and minimum assisted outsiders (Palier 2010a). Furthermore, need based (i.e. means-tested) minimum benefits at a low level are likely to increase the degree of stigmatisation and social exclusion.

Finally, the trend towards an increasing reliance on funded occupational and personal pensions also raises the question of financial market risks and regulatory issues especially in the light of the turbulence experienced by the financial markets over the last few years (2008 till present). The higher the investments in equities are for instance, the higher the risk of being affected by turmoil in the financial markets. However, it is not just equity investments that are at risk in a financial crisis. If the interest rates decline in response to the crisis which has been the case in the current crisis, this may also negatively impact on more conservative portfolios, life insurance contracts, government bonds, or savings accounts as investments will not grow as much and as fast as expected. In Germany for example, the inflation rate is currently higher than the interest rate of financial investments implying some longterm net negative returns in the case of conservative investments, which may only be balanced out in the long-term if the economic and financial market situation improves. As several newspapers in Germany stated many companies have problems with occupational pension liabilities as the money in superannuation funds does not generate sufficient returns due to low interest rates (Spiegel online 2012; Süddeutsche Zeitung online 2012). Crises and turmoil in financial markets are of course particularly threatening for those persons with private pensions who are close to retirement, but also long phases with low returns can affect the trust in and the financial outcome of funded pensions (Wiß 2011). The impact and consequences of financial crises on private pensions as well as the general risks and weaknesses of private pensions are assumed to differ depending on the specific investment strategies, governance structures and participatory rights as well as the supervision and protection rules (for a more detailed analysis of the general risks see Ebbinghaus and Wiß 2011 and for the impact of the current financial crisis see Antolin and Stewart 2009; Wiß 2011). In any case, financial literacy of the insured as well as transparency and encompassing information with regards to private pensions will be essential in order to develop an adequate handling of potential problems.

A second issue which has been pointed out by some scholars in relation to the increasing shift towards funded private pensions, is that the funding principle may not necessarily be the solution to the demographic challenges. First, funded old age security is also dependent on a favourable demographic structure. The success of financial investments is not only dependent on stable financial markets but they are also dependent on the economic performance. The impact of an ageing society on macro economic developments is not clear, but it has been assumed that the sufficient supply of labour and in particular skilled labour is an important factor for economic growth and performance. A shrinking number of young people may therefore have a negative impact on economic growth (Schieritz 2012). Of course, private pension investments do not have to be made in those countries with an unfavourable demographic development, but they can be made in other countries with a better demographic structure. Furthermore, migration policies may also provide potential solution not only in the case of funded pensions but also for pay-as-you-go financed systems.

8.4 Open questions and further research

As with any research project the limits of the research design as well as the findings highlight several avenues for further research. There are three directions for which this thesis could provide a baseline of research. The first relates to further testing of the theoretical framework, expanding it to further cases (countries) and policy areas. The second relates to the stronger incorporation and examination of cultural-sociological factors, i.e. ideas and normative discourses shaping the process of institutional change. The third avenue entails the extension of the methodological approach.

Due to the small number of cases analysed in this study, the findings can only be generalised with caution. Hence, the first avenue for further research would be to conduct further country case studies based on the presented analytical-empirical approach. Furthermore, the exploration of institutional changes in other social policy fields such as in employment or health care systems may provide further interesting insights into the process and relevant factors of institutional change.

The second avenue for further research would be to examine the effects of new discursive scripts and the emergence of new ideas on social security institutions and to explore the policy learning network between countries as well as between international and supra-national organisations and the nation states. Coming from a historical institutionalist perspective the focus has been set on the role of institutional legacies while ideas and discourse have not been theorised. As Vivien Schmidt (Schmidt 2010: 2) suggests historical institutionalism can be complemented by and benefit from discursive institutionalism, "[…] helping to explain the dynamics of change in historical institutional structures through the analysis of the ideas and discourse behind action via a meaning-based logic of communication." A focus on ideas and institutional change which may provide a helpful piece of theoretical guidance to this research avenue can also be found in the work of Mark Blyth (Blyth 2001; Blyth 2002; Blyth 1997).

A third avenue for further research could be an extension of the methodological approach. The detailed qualitative analysis and case knowledge provided in this thesis could serve as the starting point for the further testing of the relationship between different condition variables and the outcome variable (i.e. degree and pattern of institutional change) via the method of QCA (Qualtitative Comparative Analysis). This logic based methodological approach has its origin in the work of Charles Ragin (Ragin 1987; Ragin 1989; Ragin 1994) and can be considered as a compromise between small-N case studies and statistical analyses or as stated by Ragin (Ragin 1994: 342):"QCA thus can be used to bridge case-oriented and variables-oriented research (Ragin 1991) by providing a platform for the qualitative analysis of configurations of quantitative variables." For the further research on institutional transformation processes of pension systems QCA is perceived as a useful tool to approach the complex causalities and to study different combinations of conditions across a larger number of countries (for an encompassing introduction to QCA see Schneider and Wagemann 2007).

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Eidesstattliche Erklärung

Erklärung

Ich versichere, dass ich diese Dissertation ohne Hilfe Dritter und ohne Benutzung anderer als der angegebenen Quellen und Hilfsmittel angefertigt und die den benutzten Quellen wörtlich oder inhaltlich entnommenen Stellen als solche kenntlich gemacht habe.

Berlin, den 28. Dezember 2012

Mareike Gronwald