Pensions after the financial and economic crisis: a comparative analysis of recent reforms in Europe

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Introduction

The global financial and economic crisis has affected pension schemes in Europe in three major ways. Firstly, these schemes have served as one form of 'automatic stabiliser' – in other words, as a means of mitigating the potential social consequences of the negative state of the economy – and their use to this end is expected to increase social expenditure in many EU countries. Secondly, the worsening economic situation has entailed new challenges to the financial sustainability of social protection: growing unemployment and negative GDP growth represent a loss in revenues for welfare programmes and may thus lead to the deterioration of public budgets. Thirdly, the financial shock has dealt a severe blow to both private fully-funded schemes and public reserve funds.

This paper has two main aims. First, it assesses the initial impact of the financial and economic crisis. In relation to first-pillar pension schemes, short-term effects have been limited. PAYG (Pay-as-you-go) schemes are largely immune from short-term financial crisis, although reserve funds have suffered losses.[1] Yet the long-term effects on first-pillar schemes may be also important and require further adjustments if their financial viability is to be secured. As for second- and third-pillar schemes, fully-funded schemes have experienced more direct effects since investment losses and negative rates of return have been massive, while interest rates have been low. Pension funds suffered from these trends (but subsequently started to recover). Secondly, the paper compares the reforms introduced in four different European countries: France and Sweden, representing social insurance pension systems (first- and second-generation), and the UK and Poland which are representative of multi-pillar pension systems (first- and second-generation). All the countries under scrutiny have been affected by the financial and economic crisis (albeit with some differences in the magnitude of economic recession and budgetary strain) and have, in its wake, introduced new legislative measures.

Section 1 briefly summarises the key features of pension models in Europe. Section 2 sheds light on some indicators of the impact of the financial crisis and economic recession on pensions policy across Europe (and in the broader international context). Section 3 focuses on the specific problems experienced by the four countries and describes the most recent reforms, most specifically

1. In pay-as-you-go (PAYG) schemes, current contributions paid by both employers and employees (or revenues from current taxation) are not accumulated but are immediately used for financing current benefits.

with reference to their outcome and the political debate (the position of the different actors). Section 4 draws some preliminary conclusions, while showing how social and economic/financial problems have moved to the core of the pension reform debate and what consequences for present and future pensions have been generated by the crisis.

1. European pension models

The contemporary literature on pensions has generally tended to propose two main clusters (*Bismarckian vs. Beveridgean* – Myles and Quadagno 1997; *social insurance vs. late-comers* – Hinrichs 2001; *social insurance* vs. *multi-pillar* systems – Bonoli 2003), consistent with two different paradigms. In the following, we refer in particular to the work of Bonoli (2003), according to whom there are two forms of old-age system in Europe. Under *social insurance* systems the state provides the greater part of pension benefits through national and universal or occupational schemes based principally on social insurance (e.g. France, Germany, and Sweden). The financing method is usually of a pay-as-you-go (PAYG) type. Current contributions paid by both employers and employees (or revenues coming from current taxation) are not saved but put to immediate use for financing current benefits. As such, the main goal of such pension programmes is 'income-maintenance'. The generous level of coverage and the encompassing character of pension benefits reduce the room for supplementary occupational and/or individual schemes.

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

The last two decades have seen widespread reform of pension systems in Europe. Recent reforms have been multi-dimensional in that they have served a range of goals which can be defined in terms of increasing financial sustainability, on the one hand, and safeguarding adequacy through the modernisation of pension systems on the other. Reforms have been shaped by the following structural measures: tightening eligibility conditions (particularly for early retirement and disability pension schemes); scaling down the level of public pension benefits and their growth (in relation to wages); and moving towards a raising of retirement ages. At the same time, the emergence of new social risks has been dealt with through measures aimed at allowing more people to gain access to public and private pension schemes (e.g. through lowering the minimum contributions required for entitlement to a pension benefit, introducing contribution credits for periods of inactivity, etc.) (see Natali, 2008; Zaidi, 2010).

So as to take these innovations into account, our description also incorporates a historical perspective in that, in considering the two clusters, we make a further distinction between first- and second-generation types. In line with Hinrichs (2001) and Natali (2008), we look at both the first and the second generations of multi-pillar and social insurance systems (Table 1).

Table 1 **European pension models**

	Multi-pillar		Social insurance	
	1st Generation	**2nd Generation**	**1st Generation**	**2nd Generation**
Public schemes' Goal	Basic protection (poverty prevention)	Savings on earnings	Savings on earnings (some adequacy)	Savings on earnings (some adequacy)
Private schemes' coverage	Mandatory or quasi-mandatory	Mandatory	Voluntary	Mandatory or quasi-mandatory
Earnings-related schemes	(mainly) Private	Public/private	(mainly) Public	(mainly) Public

For the first group, represented by the UK, we use the label *first generation* of multi-pillar systems. Central-Eastern European countries represent the *second generation* of multi-pillar systems. While under the first generation of multi-pillar systems, public programmes provide basic and homogenous protection (with flat-rate and/or means-tested benefits), in post-Communist systems the public programme provides contributions-based and earnings-related benefits. This is consistent with the actuarial (insurance) principle. In the second generation of multi-pillar systems, the interaction between public earnings-related schemes and minimum (means-tested) pensions is decisive in defining the future role of public programmes (Table 1).

Social insurance (1st and 2nd generation) represents the third and fourth groups of pension systems. Old Bismarckian systems (in Continental and Southern Europe) and countries from Northern Europe have in most cases reformed their pensions in order to limit public spending while opening up room for non-public pension funds. The institutional features of the systems are similar (the first pillar is still the cornerstone of the system but it is 'integrated' with supplementary schemes). France is a typical example of the first generation of social insurance systems. The Swedish system, which belongs to the 'second generation' of social insurance systems, is under scrutiny too. Originally based on universalism and part of a social-democratic welfare regime, Swedish pensions were then 're-oriented' along the lines of the Bismarckian model (Table 1).[2]

In the following, we focus on the way economic and financial crisis has hit some of the national pension systems operating in Europe. Both the particular pension model implemented in any given country and the size of the constituent pillars have affected the impact of the crisis on old-age schemes and its consequent financial and social effects.

2. Some authors use the label 'second generation' of social insurance systems for Sweden, Norway and Finland in that they introduced a mandatory and public 'earnings-related' scheme after WW II, well after the introduction of the first earnings-related programmes in Continental Europe (Hinrichs, 2001).

2. Financial and economic crisis and its impact on pensions

The emergence and evolution of the recent economic crisis has been characterised by three different steps: the financial crisis (worsened following the collapse of Lehman Brothers in 2008); the broad economic recession that hit Europe in 2009; and the Greek crisis and the consequent budgetary tensions in the European Union (EU) in 2010 (Liddle et al., 2010; Natali, 2010).

In the literature on pensions policy there is a broad consensus as to the fact that pension programmes (be they public or private) are not immune from the consequences of economic recession and financial crisis (OECD 2009; 2010a; CEC, 2010a). Yet the impact differs a great deal depending on whether one is looking at first-, second- or third-pillar schemes. In the following analysis, we thus consider (with a specific focus on the four countries under scrutiny), first, the challenges facing supplementary pension funds (private pensions) and, subsequently, those affecting public schemes.

The crisis and its impact on private pensions

Supplementary pension schemes with a fully-funded logic of financing are the most severely affected by negative economic and financial trends. Recent data from OECD (2010a) clearly shows huge negative effects in 2008 and some recovery in 2009 and 2010. In 2008, supplementary pension funds – both defined-benefit (DB) and defined-contribution (DC) plans – were hit hard by the crisis (see also CEC, 2009a).[3]

As shown by Table 2 below, the impact of the crisis on investment returns has been greatest among pension funds in countries where equities represent over a third of the total assets invested, with Ireland the worst hit at -35.7% in real terms in 2008, followed by Belgium, Hungary and the Netherlands (*ibidem*, 3-5).

3. The terms 'defined-benefit' (DB) and 'defined-contribution' (DC) are used to describe the type of benefits and the logic underlying their calculation: in the former, the 'resources/benefits' balance is adjusted by modifying contribution rates while keeping benefits 'defined'. In the latter, the balance operates in the opposite direction, by fixing contribution rates and letting benefits fluctuate according to individually accumulated resources or 'rights' to resources.

Table 2 **Pension funds' real investment rate of return in selected OECD countries in 2008-10**

Country	2008	2009	2010
Turkey	19.00	11.5	1.10
Korea	4.09	-2.2	2.20
Germany	1.60	4.5	6.40
Czech Republic	0.32	-0.7	-0.40
Greece	-0.89	1.7	-7.40
Mexico	-2.03	5.8	6.80
Slovak Republic	-2.08	-0.1	0.40
Italy	-6.30	5.60	1.60
Spain	-8.00	2.80	-1.30
Norway	-8.70	9.60	5.90
Simple average	**-10.83**	**5.40**	**4.30**
Switzerland	-11.30	10.7	0.00
Austria	-12.94	7.80	4.60
Poland	-14.28	8.90	7.70
Luxembourg	-14.39	8.00	–
Chile	-14.58	18.50	10.00
Portugal	-14.66	12.50	-2.40
Finland	-15.00	13.40	8.90
Netherlands	-15.70	11.10	18.60
Hungary	-17.64	14.30	4.00
Belgium	-19.89	13.80	5.40
Australia	-20.60	-10.50	6.20
Weighted average	**-20.93**	**4.40**	**3.50**
United States	-24.00	4.50	1.00
Ireland	-35.00		

Source: OECD (2011)

In 2008, funding levels in DB plans were down by more than 10% on average. As the rate of company insolvency increases, benefits may be cut. Members of the DC schemes have been those most at risk of losses, in that these pension schemes leave the investment risk entirely with the scheme member so the impact will be felt directly. Especially older workers close to retirement are affected by investment losses and the resulting drop in their overall pension income will signify the prospect of less well paid or later retirements (CEC, 2009a: 2). Younger workers, on the other hand, could benefit in the long term as future pension contributions will be invested at much lower prices, hence raising the potential rate of return on investments and future benefits.

As shown by Table 2, during 2009 and 2010, pension funds regained much of the investment losses made in 2008. The recovery in pension fund performance continued through the whole year on the back of strong equity returns, but it will be some time before the 2008 losses are fully recouped. As shown in Table 2, the simple average of real rates of return in OECD countries for the period 2008-10 was still negative.

A further issue connected with the crisis relates to the expected low interest rates (OECD, 2010b). Protracted low interest rates could impact pension funds and insurance companies on both the asset and the liability side of their balance sheets. Such a trend could, to a certain degree, increase the liabilities of pension funds and insurance companies and reduce the returns on future portfolio investment. As a result, the solvency status of insurers and pension funds might well deteriorate. Low interest rates affect, in particular, the level of benefits that annuity providers and DB pension funds are able to offer and beneficiaries to receive. In a context of increasingly long periods of retirement due to longer life expectancy, this can have serious consequences on retirement income.

The crisis and its impact on public pensions

But the crisis has affected public schemes too. First of all, through the most recent round of reforms, funding has taken on an increasingly important role within publicly managed pension systems. Many countries have established public pension reserve funds (PPRFs) to provide financing support for systems that otherwise operate on a pay-as-you-go basis. This is the case of Sweden, where buffer funds were set up in the second part of the 20th century, and more recently of Ireland, Poland and France. Albeit to a much lesser extent than private pension schemes, public buffer funds have been affected by negative investment returns. The impact of the crisis on investment returns varies greatly between countries. It has been greatest among public pension reserve funds where equities represent a large part of the total assets invested. The Irish National Pension Reserve Fund was the most exposed to equities (59.8% of total assets), followed by France (49.3%). At the other extreme, public pension reserve funds in Spain experienced positive returns as they were fully invested in bonds in 2008 (Table 3).

As argued above, the crisis has led to a further effect. Social protection schemes have been largely used to deal with the initial social consequences of recession. EU countries have thus increased public social spending to limit the consequences of the financial crisis on individuals and families. According to the European Commission's Autumn economic forecast (SPC, 2009), as a result of automatic stabilisers and discretionary measures to reinforce social benefits, social expenditure in the EU was expected to increase by 3.3 percentage points of GDP between 2007 and 2010.

The projected increase varies between less than 1% in Bulgaria, Hungary and Slovakia and 6% or more in Estonia, Ireland, Latvia and Lithuania. Spending on unemployment benefits was the first component to increase. The impact on the number of social assistance claimants is now clear. Numbers of claimants have continued to increase in the countries that were first or most severely hit by the crisis, and pressure on last-resort schemes has also started to increase in most other countries. Comparative analysis has shown some evidence of an upward trend. For example, in some countries, including Poland and Greece, the number of older workers claiming early retirement has grown, while, in other member states, the indexation of pension benefits has been revised in a more favourable manner (e.g. Portugal) or minimum pension benefits have been improved (e.g. Finland) (SPC, 2009).

Table 3 **Public pension reserve funds nominal returns in selected OECD countries in 2008-10**

	2008	2009	2010
New Zealand	-4.9	-23.8	12.9
Norway	-25.1	30.7	12.6
Sweden - AP2	-24.0	21.2	9.9
Sweden - AP4	-20.8	22.2	9.6
Sweden - AP1	-21.9	20.8	9.0
Sweden - AP6	-16.6	11.9	8.1
Sweden - AP3	-19.8	16.9	7.8
Canada	-14.4	14.6	7.2
France – ARRCO	-9.4	11.5	
Korea	-0.2	7.4	7.1
France – AGIRC	-7.8	10.5	
Simple average	-10.8	10.6	6.3
Australia	-8.5	9.1	6.5
Ireland	-30.4	16.7	5.5
Weighted average	1.8	7.3	3.9
Poland	-5.9	4.9	4.0
United States	5.1	5.2	3.0
France – FRR	-24.9	14.9	2.6
Mexico	7.3	1.3	2.3
Spain	4.7	4.9	2.1
Belgium	4.4	4.5	2.0
Chile	–	–	0.4
Portugal	-3.9	7.1	-1.3

Source: OECD 2010a, 2011.

In a broader perspective, economic recession (followed by more timid growth) provides long-term challenges to public pension schemes. The first challenge is a result of the fiscal stimulus implemented by many countries in order to reduce the impact of the crisis and which has led to a rapid deterioration of public finances. The IMF (2009) projects an increase in the average debt-to-GDP ratio in the euro area of 30%, to reach 90% of GDP by 2014. This average conceals substantial increases for some member states and, while part of the budgetary deterioration is cyclical, another part is permanent.

An EPC (2009) study proposed the fiscal sustainability gap indicator (S2-Total) that measures the gap (as a percentage of GDP) that must be closed to ensure that the government is able to finance all public obligations in the future. The ratio consists of the sum of initial budgetary position (IBP) – largely influenced by the crisis and the consequent stimulus – and the long-term changes (LTC) of the future related to demographic ageing (and the related expenditures on pensions, healthcare and long-term care). In line with the EPC study (quoted in Zaidi, 2010), the four countries under scrutiny belong to three different groups. Sweden is characterized by low budgetary risks as a consequence of the very balanced initial budgetary position and very limited future strains (due to more radical cutbacks introduced in the last decade). Poland is characterized by medium sustainability risks: despite the limited long-term challenges, initial budgetary conditions were much more risky. France belongs to the same group with medium sustainability risks (with a more alarming impact of long-term challenges). The United Kingdom belongs to the group with high risks due to a much worse initial budgetary condition (consistent with a more important fiscal stimulus to deal with the crisis).

The indicator of long-term changes (LTC) does not, however, consider the full impact of the crisis. Further strains are thus expected (on the side of public pension and social security schemes) as a consequence of increased unemployment and reduced resources from taxation and social contributions. Employment contracted by around 2¼ per cent in 2009, with a further decline of about 1% expected in 2010, and was expected to increase only in 2011 as the recovery began to take hold. The unemployment rate is projected to stabilise at close to 10% in the EU (CEC, 2010b). Unemployment was likely to reach 10.3% in 2010 with social expenditure possibly having risen from 27.5% to 30.8% of GDP between 2007 and 2010 (SPC, 2010). Meanwhile, projections about future economic growth are still worrying: the crisis may well have an adverse impact on future potential output through its three main components: labour input, measured in hours worked in the economy, capital stock which is affected by investment, and productivity which is usually taken as a proxy for technological progress (Koopman and Szekèly, 2009). According to estimates of the short-term impact produced by DG ECFIN, the severe economic crisis will lead to a sharp downward revision in potential growth rates.[4]

To sum up, public pension benefits (first pillar) seem largely immune to the short-term impact of the crisis. They have indeed, in some cases, actually been increased to act as automatic stabilisers. Yet the long-term prospects for PAYG systems are more difficult to predict. Persistent economic stagnation (if not recession), rising unemployment rates, and the consequent reduction in revenues, may lead to future financial tensions. Lower investment returns for public reserve funds contribute to these more negative prospects. Private pensions (second- and third-pillar) have been much more hit by the crisis. The short-term effects on funded schemes have been tremendous. Despite the partial recovery of 2009, the decline in rates of return on investment and the persistently low interest rates have placed pension funds at risk of huge losses.

4. Against the backdrop of considerable technical and economic uncertainties, the potential growth rates of the euro area and of Denmark, Sweden and the UK are expected to be halved in 2009-2010 as compared with 2008, to fall, in other words, from a growth rate range of 1.3%-1.6% to one of 0.7%-0.8%. The pattern for the 'new' Member States is broadly similar, although their potential growth rates remain much higher, reflecting a 'catching-up' effect.

3. Comparing pensions policy and politics in four European countries

In this section we summarize the main challenges faced by the reformed pension systems in the wake of the crisis and the measures introduced to limit the consequences of the economic downturn. The focus is on four countries representing the four pension models mentioned in Section 1. France and Sweden represent social insurance pension systems, while the UK and Poland have multi-pillar pension systems. For each country the brief summary of the key characteristics of pensions policy is followed by the review of the main measures introduced after the crisis.

The analysis demonstrates the existence, in some cases, of common trends, while lines of intervention tend, in other cases, to diverge. Common trends have consisted of the measures to improve old-age protection for those at risk of poverty, with all governments having subsequently introduced measures to reduce public spending (mainly through a raising of the retirement age). On the other hand, the four countries have diverged in the approach to private pension funds: while some – France, Sweden and the UK – have confirmed the increased role of supplementary schemes (and have revised the regulation of pension markets), others have adopted a more critical approach to private pensions. This is the case of Poland, and also of other Central Eastern European countries.

3.1 French pensions and the crisis

Since the early 1990s, pensions policy has moved into the forefront of the political scene in France. A series of shortcomings (i.e. mounting deficits and perverse labour market effects) have highlighted the need for reform. All these challenges have become more evident since the recent crisis.

First, French social protection (and the pension system in particular) has been characterised by rising financial deficits produced by an increasing demand for welfare and declining rates of economic growth. Thus, the need to improve the financial viability of pension regimes had been at the top of the political agenda since the 1980s. French pensions have been criticised for the following defects: the burden placed on job creation (due to the high level of social contributions); the emergence of new forms of social exclusion (with the increased need to improve the social *adequacy* of pension programmes); and their excessive fragmentation (characterised by a net of schemes operating in accordance with different mechanisms for private and public sector workers) (Natali, 2008).

As explained by the recent report from the French Pensions Advisory Council (COR), the challenges have become even more evident since the crisis. The number of pensioners in France is set to increase rapidly from 15 million in 2008 to 22.9 million in 2050 and the current demographic ratio of 1.7 (i.e. 1.7 economically active people for every retiree) will fall over time to 1.2. This ratio would be further reduced in the event of higher unemployment. The estimated deficit of the French state pension system will be, in 2010, 1.7% of gross domestic product (GDP) (€32 billion) due to the fall in employment, which will result in reduced revenue for the public pension system. In the medium term (2015–2020), the impact of the current crisis on the country's finances compounds the effects of an ageing population. In 2015, the financing required for the public pension system will amount to 1.8% of GDP (€40 billion) and by 2020 it will be between 1.7% and 2.1% of GDP (COR, 2010). The financial requirement of the public pension system in 2050 will depend also on the country's economic growth and on long-term unemployment, although the outlook should improve in both cases as a result of the expected recovery. By 2020, the amount of government income (generated through taxation as a percentage of GDP) required to cover the annual pension funding requirements, will be between 3.8% and 4.7% (Jean, 2010).

In the last two decades, two main reforms sought to deal with these challenges: the Balladur reform in 1993 and the Raffarin reform in 2003. The Balladur reform had three main components: the creation of a solidarity fund (*Fonds de Solidarité Vieillesse*) to charge non-contributory benefits (previously covered by the pension regimes, with resources obtained through contributions) to general tax revenue; secondly, cost-containment measures (the number of years of contribution needed to gain a full pension was increased (from 37.5 years to 40), as was the reference period for calculating the average annual (reference) wage; thirdly, the unions' position as managers of the system was guaranteed, allowing them to retain their key organisational resources. All these proposals were implemented for private sector employees alone (Natali and Rhodes, 2004).

Ten years later, the Raffarin reform was able to be pushed through only after a political exchange had successfully divided the moderate sections of the labour movement from the government's more militant opponents. The reform finally adopted consisted of a mix of cost-containment measures (extending the contributory period for all workers from 37.5 to 40 years in 2008, and subsequently to 41.9 years in 2020), benefit improvements (e.g. more generous indexation), concessions to particular categories of workers, equity-improving provisions, and a consolidation of the trade unions' co-management role. Earlier retirement for workers who entered work in their mid-teens was protected from the reform, as were the generous entitlements of certain *régimes spéciaux*, notably those covering metro and railway workers. A new compulsory supplementary scheme for public-sector employees was set up and managed jointly by the social partners as a public fund. Finally, better coverage of flexible workers was introduced through contribution credits for both study periods and part-time careers (more *adequacy*).

The gradual reduction in benefits from public schemes opened up new room for supplementary pension funds. The first parliamentary proposals for the development of funded savings schemes date back to the beginning of the 1990s. Profit-sharing schemes became mandatory for firms with 50 or more employees in 1990 and this step was followed by proposals to legislate new measures for the development of funded schemes for retirement savings. In 1997, the *Loi Thomas* introduced voluntary retirement salary savings schemes for more than 14 million private sector employees. The first steps in the development of pension savings were thus already evident. By June 2007, 45,000 firms had provided the possibility for their employees to contribute to retirement savings schemes (Natali, 2008).

The crisis and its effects on French pensions

The French Government reacted to the crisis through two main strategies: on the one hand, minimum benefits were increased to reduce the social effects of the crisis while, on the other, a more in-depth reform was launched to bring public spending under control. In pursuit of the first of these two aims, the Government introduced *ad hoc* measures to increase benefits: disability and old-age minimum benefits will be gradually increased by 25% (this target will be fully reached by 2012) (SPC, 2009). As for the second aim, a vast project was launched based on the argument of the need to reinforce budgetary stability in a context characterized by population ageing and the most recent effects of the global economic downturn. Much of the debate has focused on the sustainability of public schemes, rather than on the role of private pension funds.

On July 2010, the right-wing Fillon Government introduced a bill to raise the statutory retirement age from 60 to 62 years and to increase the pension contributions of civil servants. The bill, proposed by Minister of Labour Woerth, was first debated in Parliament during the September plenary session. Constructed on the above-mentioned financial projections of the Pensions Advisory Council (COR), the reform is designed to raise the statutory retirement age from 60 to 62 years at a rate of four months per year, from 1 July 2011, to reach 62 by 2018. By 2023 the age of entitlement to a full pension – irrespective of total duration of contributions – will increase from 65 to 67. The duration of individual contributions by citizens for entitlement to receive a full pension on retirement was set at 40 years in 2008 and will rise to 41 in 2012 (for those born in 1952) and to 41.25 (for those born in 1953 or 1954). For those born after 1955 the duration will be fixed each year in accordance with changing life expectancy. In line with current projections, the total duration would be 41.5 years by 2020 and 43.5 by 2050. However, the existing policy covering those who began working at an early age (14, 15 or 16 years of age) will remain in force. Individuals whose health has deteriorated (and who are assessed as having a minimum of 20% disability) as a result of their work will be permitted to retire at the age of 60 on a full pension. In addition, changes will be introduced in the amount of income tax payable on certain levels and types of income; for example, increases in the highest band of income tax, in the taxes levied on stock options, on supplementary pension schemes, on capital income and on inheritance income.

Over time, the French pension system for public-sector employees will mirror that of the private sector through the proposed increases in the retirement age and the period over which contributions are made, as well as by bringing contribution rates in the public sector into line with those in the private sector. To promote the employment of older workers, measures will be introduced to offer incentives to employers to hire job applicants aged over 55 and to develop tutoring in companies. Another aspect of the reform relates to the fact that, in France, in the past, if a young person was unemployed for a short period, this time would still count towards their pension, despite their inability to make financial contributions. By contrast, when a woman took maternity leave her pension could be affected because she was absent from work and contributing less to the public pension. Under the reform, women will no longer be disadvantaged in this way. Their maternity allowance will be taken into account in the final pension calculation.

The trade unions did not support the bill and four of the five large unions expressed their outright opposition: CGT-*Force Ouvrière* called for its withdrawal; CFDT demanded its revision, due to the costs of the changes being met largely by employees (estimated at 85%), and commented that the government had failed to take into account the reduced life expectancy of workers in certain occupations; CGT complained that the bill represented an unprecedented regression in social terms; the French Christian Workers' Confederation (CFTC) deplored the universal increase in the retirement age and the fact that capital income will contribute only 10% of the financing; CFE-CGC, which chairs the national pension assurance fund, commented on the inadequate degree of funding envisaged for the pension system, while welcoming the measure designed to take maternity leave into account when calculating the public pension (Jean, 2010). After months of street-level demonstrations and trade union action, the bill was nonetheless finally passed at the end of October 2010.

3.2 Swedish pensions and the crisis

Sweden introduced, in 1998, one of the most radical reforms to have been adopted in the context of social insurance pension systems. In the 1980s, the system had been characterised by political and financial strains. Regarded from a political perspective, the inclusive universal system introduced in the late 1950s was highly redistributive (e.g. through the introduction of pension supplements for low-income-earners). This meant that public programmes were not attractive for high-income-earners. From a financial point of view, moreover, the system was increasingly under stress. All these pressures reduced the popularity of the pension model with the Swedish population as well as among policy-makers (Natali, 2008).

Under the new system adopted by the Swedish parliament in 1998, the first pillar is composed of three tiers. The old *People's Pension* now consists of an income-tested benefit, for citizens unable to save enough contributions for the second tier. The first tier thus offers residual (rather than universal) protection, incorporating the ATP scheme (Palme, 2003) which provides PAYG and employment-based pensions. Benefits are financed by social contributions (equally shared between employees and employers) and organised through a 'notional defined contribution' method. While the system is still of a PAYG type, it works like a funded system. Contributions are virtually saved to provide future pensions. For a given contribution amount paid by or on behalf of an individual, the same individual will receive the same amount of pensions.

A distinctive feature of the first public pillar is in fact its partial pre-funding. The public scheme is financed by contributions amounting to 18.5% of earnings. While contributions equal to 16% of earnings are used to finance the PAYG system (2nd tier), the remaining 2.5% part of the contribution finances funded schemes managed by private fund managers (premium pension or 3rd tier). Financial resources for the third tier are still collected by the state, and complementary pensions are still paid by public institutions. The practical administration of these resources, by contrast, is handled by private managers investing contributions in the financial market. If the insured person does not choose a private fund, his/her contributions are managed by the public authorities through the 'default' fund. Benefits are calculated in line with the fully-funded logic.

The role of occupational schemes is limited to the *second pillar* then supplemented by individual savings (the third pillar). In 2003, occupational funded schemes provided an average gross replacement rate of 13.9% and covered around 90% of the labour force (well above the average coverage in social insurance countries). At that time, the general public scheme gave an average gross replacement rate of 57% of previous earnings, but this is expected to decrease to 40% by 2050 (Natali, 2008). The non-public occupational scheme for private-sector workers is funded and of a 'defined-benefit' type, but since the 1980s part of the contributions is used for a 'defined-contribution' supplement. This element substantially influenced policy-makers in devising the reform of public pensions in the 1990s.

Recent reforms have consisted of the partial pre-funding of the first pillar and the introduction of the NDC benefit structure in its PAYG part. This is expected to lead to a drop in total public spending and a reduction in the generosity of the first-pillar benefits (gross replacement rates are expected to decline by about 30%). Consistent with its own historical evolution, the system is still fundamentally public and based on the role of the state as regulator and provider. It is, however, becoming increasingly complex.

The crisis and its impact on Swedish pensions

In the case of Sweden, the crisis has provided a test for the reform implemented in the 1990s. The reformed system was designed to be fiscally sustainable by including automatic adjustment mechanisms to maintain balance in response to short-term economic and financial fluctuations and long-term demographic changes (Palme, 2003). Much of the political debate has thus focused on the automatic mechanisms introduced under the first public pillar to grant long-term financial viability.

Just as in France, the right-wing government did first introduce some measures to deal with the short-term effects of the crisis (substantial income tax cuts and reduced taxes for pensions to soften the impact of the economic recession on household income). In 2009, targeted measures were adopted for people with reduced work capacity, the long-term unemployed, newly arrived immigrants, and youth, as well as measures to promote working longer. To support the income for pensioners, the government proposes an increase in the basic tax deduction for pensioners and a change in the method for indexation of pension income in order to smooth out the effect of volatile asset prices in the pension funds (CEC, 2009d; SPC, 2009).

Subsequently, the effect of the crisis on the adequacy of public benefits has become central to the debate. As for public schemes, negative trends in the stock market have led to a decline in Sweden's pension reserve funds and triggered the automatic reduction in the pension indexation scheduled to occur in 2010 (see Figure 2 above). Due to the automatic mechanisms in action, a deficit in the system causes the indexation of pensions and earned pension entitlements to be lowered, in order to restore the long-term viability of the pension system.

The economic crisis has affected both components of the Swedish system, the NDC and the Premium Pension, but the main impact will be felt by current retirees, through changes in the indexation of their NDC benefits. Average wage growth has been very slow due to the recession, so that, even before balancing is applied, benefits were scheduled to decrease by 1.3 percent. Balancing reduces this level further so that the net effect on benefits would have been a decline of 4.6 percent (Sundén, 2010).

Due to the recession following the financial crisis, employment in Sweden did decrease during 2009 and 2010, placing the pension system further under pressure. Originally, the projected 2009 balance ratio of 0.9655 would have resulted in a further decrease of 3.5 percent in the indexation of benefits in 2011; because the outlook for wage growth has improved somewhat, the net effect on benefits would have been a reduction of 1.7 percent. With current projections, indexation would turn positive again in 2012. Beneficiaries without income-related benefits or with low NDC benefits can qualify for the minimum guarantee benefit (about 43 percent of Sweden's retirees have some guarantee benefit). When the NDC benefit is reduced, guarantee benefits will increase for beneficiaries with both benefits. Thus, the net effect on total benefits will be less for this group.

Given the major effect of the economic crisis on the NDC plan, policymakers have begun to respond. The balance ratio was published in March 2009 and, almost immediately, the five political parties that stand behind the pension reform – known as the Pension Group – started to discuss whether to propose smoothing the adjustment of pension benefits (+4.5 in 2009 and -4.6 in 2010) (*ibidem*). In particular, the group discussed whether it was reasonable that the stock market crash should affect NDC benefits so much. The Pension Group suggested that, instead of using the market value of the buffer funds, a three-year average should be used to value the funds. As a result, the deficit would be spread out over time with a smaller decrease in 2010 but a larger decrease in 2011 and 2012.

During the official review of the proposed change, several agencies remarked that using a three-year average to value the buffer funds means that the balance ratio will be a less accurate measure of the system's financial stability. Moreover, the effect on reducing the variation in benefits is limited and a temporary downturn in the stock market will continue to affect benefits even after it has ended. However, the government, with the support of the Pension Group, decided to go ahead with the change. Parliament passed the legislation in October 2009. The policy changes moderate the effect on system stability following the sharp stock market decline by using a three-year average to value the buffer funds, a change that spreads out the required adjustment over a somewhat longer period. To further reduce the effects of the crisis on pensioners' income, policymakers decided to reduce taxes on pension benefits (Settergren, 2011).

As for supplementary pension funds, some measures have been proposed and implemented to help lower the costs of the financial crisis. Guaranteed levels of return on investment for (hybrid) DC schemes have been lowered. Pension insurance companies have also changed their solvency standards, to allow longer periods for measurement (for example from three to six months, or even from six to twelve months) of the solvency level. This is intended to help mitigate the impact of the crisis on pension insurance contracts. Surveillance of pension insurance groups has also been stepped up (OECD, 2010a).

3.3 Polish pensions and the crisis

In Poland, the new system replaced the old 'single-pillar' architecture by a multi-pillar institutional design, applicable to all workers aged under 30 in January 1999, with the exception of farmers (who fall under the revised old system). Though the new arrangement is usually perceived as the paradigmatic example of the World Bank 'three-pillar' model, it actually deviates from that model, especially as far as the first pillar is concerned. The first (public and mandatory) pillar consists of three tiers. Beyond the minimum pension (first tier), the second tier provides earnings-related benefits, consistent with the PAYG mechanism but with a 'defined-contribution' logic. The pension amount is related to contributions paid by employees and employers, and also to the average life expectancy at retirement age. Contributions paid by both employers and employees are collected by public social insurance institutions (the Social Insurance Institution ZUS). The benefit level is determined by contributions, as well as by economic and demographic factors. In line with the Bismarckian tradition, the coverage of the second tier is not homogeneous but fragmented. The general regime is for all employees in the private sector. Special regimes exist for other categories, and first of all for farmers for whom the system is the old (albeit modified) one – PAYG and 'defined-benefit' – in which contributions are collected by a separate public body, the Social Insurance Institution for Farmers (KRUS).[5]

The third (mixed public/private and mandatory) *tier* is represented by funded schemes, in the form of open pension funds. Employees have the right to choose the (private) fund in which they invest their contributions under the supervision of the state.[6] Pension contributions under this tier give entitlement to an annuity after retirement. Each pension fund is managed by a separate legal entity, the private pension fund company. Contributions are still collected by the public *Social Insurance Institution* (ZUS), similarly to the arrangement in Sweden. At the time of retirement, savings in open pension funds are used by insured persons to purchase an annuity provided by special private companies. This is the so-called payout phase and its regulation has been delayed for years (see below the most recent evolution). The total contribution to the first two tiers is 19.52% of the contribution base: 12.22% finances the first tier, while 7.3% finances the second one (Natali, 2008).

Benefits from the public second tier are expected to decrease in the future. Projections by Guardiancich (2010) show a significant decline in the average replacement rate after reform: from 50% to 30% in the case of retirement at 60, and from 65% to 40% in the case of retirement at 65. Muller (2007) has shown a decline of the first pillar (both second and third tiers) to around 50% of previous salaries.

Benefits from the first pillar are then supplemented by the second and third supplementary pillars that are private and voluntary. Given the relatively high level of the replacement rate granted by the first mandatory pillar, voluntary programmes are not well developed and are, in fact, residual. In March 2004 the Parliament adopted two acts to encourage the development of voluntary schemes.

The crisis and its impact on Polish pensions

In Poland financial crisis coincided with a political crisis that led to the collapse of the right-wing coalition formed after the 2005 elections. In the wake of corruption scandals, an early election was called for October 2007. This was won by the Civic Platform (PO), which had been the main opposition party in the outgoing parliament. PO formed a government coalition with the agrarian Polish People's Party (PSL). The two coalition partners have had divergent agendas on pension reform: PO, which attracts mainly the urban middle class, has aimed to modernize the Polish economy while defending the pension reforms of the last decade; PSL, by contrast, emphasizes its commitment to improve the adequacy of public pensions (Naczyck, 2010).

5. Other special regimes exist for occupational categories such as judges, policemen and soldiers (who started their careers before 1999), and lawyers.
6. In the following we refer to mandatory pension funds, supplementary private pensions, first pillar third tier schemes and open pension funds as synonyms.

The reform agenda has been developed through the crisis with a parallel focus on the PAYG and funded schemes. In a first phase, the politics of pensions continued to revolve around the payout issue which had dominated the political agenda over the previous years (Guardiancich, 2010). In a second stage, policymakers focused on the revision of the governance and cost structure of supplementary pension funds (first pillar third tier). However, the most severe criticism against the s has emerged in the most recent third phase, some ministers having proposed a decrease in contribution rates to the third-tier schemes that would significantly reduce the role played by private pensions.

In June 2008 and August 2008, the Polish government approved two draft bills regulating the payout phase. The first bill sets out the rules concerning the types of annuity product to be offered at retirement on life annuity funds. The second bill established a regulatory framework for the creation of special pension annuity companies that would be established only in 2014 when the first life annuities are due to be paid out. The ruling coalition thus resolutely opted for a liberal approach, in line with the preferences of the largest employers' association and the Polish Chamber of Pension Funds (*ibidem*).

In the meanwhile, some measures focused on active ageing and the increase in benefits for those at risk of poverty. In October 2008 the Council of Ministers adopted the programme entitled "Solidarity across generations – measures for those aged 50+". The programme provides for measures that increase incentives for enterprises to employ people aged 50+, as well as for measures that encourage improvement of the qualifications, skills and efficiency of people in this age group (CEC, 2009d; SPC, 2009).

As the financial crisis deepened, the controversy concerning the Polish mandatory supplementary schemes (first-pillar third-tier) also became more acute. The Solidarnosc parliamentary group submitted a draft bill with a plan to reduce the charge to 3.5% in January 2009. As a consequence, the Civic Platform decided to hold a consultation over possible changes in the regulation of pension funds. The government suggested a decrease in the distribution fee to be implemented in parallel with the creation of funds with investment strategies adapted to the life cycle of contributors (so-called "multifunds"). After a protracted consultation and pressure from the opposition, the government decided to push through a decrease in the distribution fee to 3.5% from January 2010. The measure was passed by Parliament in June 2009.

In this third phase, the pension system was affected not only by the negative results posted by open pension funds, but also by declining revenue in the PAYG system, because of the economic recession. In November 2009, Jolanta Fedak – the Minister of Social Affairs (PSL) – and Jacek Rostowski – the Minister of Finance (close to PO) – proposed decreasing the share of contributions going to the mandatory pension funds from 7.3% to 3%. Both ministers argued that the measure would break the vicious circle in which pension funds largely invest their assets in government bonds, that are used to finance the deficit caused by the loss of revenue for the PAYG system resulting from the introduction of a mandatory pension funds (Naczyk, 2010). NSZZ

Solidarność and the Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan) gave a negative assessment of the proposals. By contrast, the All-Poland Alliance of Trade Unions (OPZZ) and the Trade Unions Forum (FZZ) proved well-disposed towards the ministerial proposal (Kuźmicz, 2010).

The months following the announcement of the plan have been marked by growing tensions among the coalition partners. On the one hand, members of PO argued that, rather than dismantle mandatory open pension funds, the government should try to negotiate with the EU on a new classification of the debt which would take into account future pension liabilities and would be more favourable for Poland. On the other hand, the Civic Platform – backed by interest groups such as PKPP Lewiatan and the Polish Chamber of Pension Funds – placed the reform of the farmers' social insurance scheme at the top of its agenda. Yet, in March 2011, the reform was adopted by the lower house of the Polish parliament. Total contributions able to be paid into open pension funds were decreased from 7.3% to 2.3% of salary. The 5% difference will be paid into Poland's national social security scheme, or ZUS. The reform was passed by 237-154 votes with 40 abstentions. The government has stated that this move is crucial to enable the state to keep paying out pensions from the indebted ZUS scheme's coffers, thus reducing pressure on the state budget. The reform is projected to save the state about 50 billion euros – equivalent to 15% of GDP in 2011-2020 (Euractiv, 2011).

The Polish case is not an exception. Other Central Eastern European countries have introduced more far-reaching nationalization of private pension funds. This is the case in Hungary where the Parliament has recently voted to reverse the reform of 1997 that partially privatized old-age protection. This seems to prove the existence of a broad trend towards a more critical understanding of the political economy of pension security in these countries.[7]

3.4 UK pensions and the crisis

In the 1980s, the Conservative government implemented radical changes that were consistent with the implementation of a more liberally oriented model (Arza, 2007). Innovations defined a pension system in which the responsibility to protect against the old-age risk was increasingly shared between public and private institutions. As far as its institutional design is concerned, the pension system currently in place is thus based on different pillars. The *first pillar* provides mandatory public basic pensions. Benefits are flat-rate, low-level, financed by social contributions, and managed by the state. Below a certain minimum level of revenues, the insured individuals do not have to pay contributions; above this limit the insured people pay directly for the basic benefit. In that respect, the first programme (*Basic State Pension*) is flat-rate and means-tested. Basic benefits, moreover, are not related to retirement: they can be received even if the insured

7. Some countries, including Estonia, Latvia, Lithuania, and Romania, reduced contribution rates under the second pillar, while increasing them under the first pillar.

individual is still active. The main goal of the first pillar is thus to prevent poverty among the elderly through low benefits (Schulze and Moran, 2007).

The *second pillar* is also mandatory and based on the so-called *'contracting-out'* method (introduced as long ago as the 1950s). Employees are able to choose the pension scheme into which they pay social contributions. It can be public or private, the former being administered by the state along PAYG lines. The latter may consist either of occupational funds organised at the company level or of individual funds managed by private insurance companies. Private (occupational or individual) pension schemes are fully-funded and increasingly of a DC type. The benefit level is the consequence of contributions paid, with no major re-distributive effects. Thanks to important fiscal incentives and public subsidies, private schemes are very common (especially the occupational ones).

Reforms adopted by governments in the last two decades actually favoured the development of private coverage by reducing the generosity of the public supplementary scheme. What is more, measures introduced in the period 1986-1995 had the effect of reducing public spending on supplementary benefits (from SERPS) by around 25%. Public spending on pensions is one of the lowest in the EU: in 2000 it (first plus second public pillars) was 5.5% of GDP against 9% in Sweden and 11.8 % in Germany (Natali, 2008). All these elements are consistent with a *multi-pillar* system in which the responsibility to protect the elderly is shared between public and private institutions, the latter playing a decisive role.

The New Labour Government introduced, in 1999, the *Welfare Reform and Pension Act*. Its ambition was twofold. On the one hand, it was to confirm the key role of private-sector schemes and to provide more protection for low-income pensioners. On the other, the government reformed the public pension programmes. The basic pension was increased and a new programme was introduced: the Minimum Income Guarantee, giving a typical means-tested benefit directed at elderly people in need. The old State Earnings-related Pension Scheme (*SERPS*) was then replaced in 2002 by the State Second Pension Scheme (*S2P*). The latter remained earnings-related until 2007, but then became a more generous scheme with equal flat-rate benefits for each worker, particularly favourable for low-paid individuals.

The crisis and its impact on UK pensions

At the beginning of the 21st century, the traditional shortcomings in old-age security remained: public pensions remained low and the coverage of private pension schemes continued to decline (Bridgen and Meyer, 2007). The most recent reform – with two main pieces of legislation, the Pensions Act 2007 and the Pensions Act 2008 – was inspired by specific challenges to pension programmes in the UK. The timing of the reform has, what is more, largely shaped the debate on pension policy after the crisis.

The *Pensions Act* of 2007 introduced legal provisions to implement the major measures proposed in the two White Papers on public pensions, and was then followed by a second *Pensions Bill* announced in December 2007 and then introduced as the *Pensions Act* of 2008. The two pieces of legislation represent major innovations affecting the UK pension system. A number of measures are related to the first public pillar, both its first tier (*Basic State Pension*, BSP) and second tier (*State Second Pension*, S2P). The key goal has been to increase the state system's generosity and its fairness to women and carers through the introduction of new qualifying conditions, while accentuating its liberal logic (to reduce poverty in old age). The Pensions Act has reduced the number of years required for a full *Basic State Pension*: from 39 (women) and 44 (men) to 30 for all. The system of Home Responsibility Protection was then replaced by a more inclusive system of credits for BSP and S2P. This should increase the number of women receiving the full BSP (Cleal, 2007). The new legislation has also changed the indexation mechanism of BSP: from prices to earnings. Finally, the transitional period through which the *State Second Pension* (S2P) will be flat-rate is to be speeded up and this is expected to reduce inequality between men and women. The practice of 'contracting out' is confirmed but limited to non-public 'defined-benefit' schemes (Natali, 2008).

The overall package means that the public pillar performance for men and women will converge. While these measures will increase spending, the proposed increase of the state pension age (from 65 to 66 by 2026, to 67 by 2036 and 68 by 2046) will reduce costs in parallel, thereby maintaining a stable level of total pension expenditure over the next decades.

The most innovative part of the broad reform was subsequently finalized in 2008. The *Pensions Act* 2008 refers to the revision of voluntary pension schemes and, in particular, the introduction of the so-called *National Employment Savings Trust* (NEST). The aim is to set up multi-employer occupational schemes extended to those workers currently without access to company funds. These would be based on the workers' automatic enrolment in the scheme through their employer, yet with the opportunity to opt out. NEST is intended to deal with some of the deficiencies of the pensions market stressed above and to contribute to maximising coverage of supplementary schemes, especially for lower earners, workers with interrupted careers and the self-employed, while at the same time reducing charges.

Turning now to consider the government's initial reaction after the crisis, it took the step of introducing certain one-off payments. In 2009, Brown's Government ordered a special one-off payment of £60 to 15 million vulnerable people to help them through the winter and ease their worries about bills. The Christmas bonus was also increased (for one year) from £10 to £70, resulting in additional support of approximately £900 million. This payment was received by 12.5 million pensioners, 2 million disabled people, 350,000 carers and 150,000 people on bereavement benefits. In addition to this one-off measure, cold weather payments (support for the elderly to help cover fuel payments during extreme weather conditions) were increased for the winter (SPC, 2009). The financial turbulence initially increased deficits in defined-benefit (DB) pension schemes and reduced the value of defined-contribution (DC) funds, particularly where there is a large exposure to equities. However, the authorities have not shown themselves overly concerned at the long-term impact of this development. DC fund values have recovered reasonably well and 'lifestyling', which moves DC funds away from riskier assets as retirement approaches, will have protected the majority of people close to retirement. In the case of DB schemes, the Pensions Regulator helps ensure that DB schemes are appropriately funded. There is flexibility in the funding regime, so that employers and scheme trustees can look to extend or back-end load recovery plans. The Pension Protection Fund should ensure that if a DB sponsor becomes insolvent, compensation will be payable to scheme members (PPI, 2010).

After the 2010 general election, the new right-of-centre Coalition Government (between Conservatives and Liberal-Democrats) defined a renewed agenda for pension policy. The Government has firstly committed that, from 2011, the BSP will rise yearly by the rate of earnings inflation, price inflation or 2.5%, whichever is the higher, a measure that should enhance public benefits, especially for low earners (Cleal, 2010). Further issues concern the expected increase in the statutory retirement age, the containment of pension spending for public sector employees, and the access to private savings.

It was announced in the Coalition Agreement that a review will be held to set the date at which the State Pension Age (SPA) starts to rise to 66, although it will not be sooner than 2016 for men and 2020 for women. In May 2010 it was revealed in the Queen's Speech that the Coalition Government will review both the current timetable of initial SPA rises from 65 to 66 as well as the two later increases currently scheduled at ten-year intervals, in order to ensure the future affordability of the state pension. In parallel, the Government has pledged to phase out the Default Retirement Age, which means that employers will no longer be allowed to terminate employment contracts when employees reach age 65 (*ibidem*).

Reforms to public sector pensions are currently taking place, including raising the normal pension age from 60 to 65 for new scheme joiners. In 2010, the Government set up an independent commission to review the long-term affordability of public sector pensions. The commission's work led to the publication in April 2011 of the Green Paper 'A State Pension for the 21st Century'. Two options for reform have been proposed: on the one hand, the more rapid transition to the flat-rate S2P; on the other, substitution of the two public schemes (*Basic State Pension* and *State Second Pension*) by a flat-rate single-tier scheme. According to some experts (PPI, 2011), the former option can be expected to lead to a broad reduction of pension entitlements, while the second option is expected to lead to some improvements (especially for women and low-earners) and some losses (for those with longer careers and eligible for savings credits). As for the easier access to pension savings, under current legislation people are not allowed to access private pension savings before age 55, after which they can take 25% of their pension savings tax-free and must use the remainder to buy an annuity before the age of 75. Policymakers are now debating giving people access to part of their pension savings before the age of 55.

Conclusions

This paper has shed light on the impact of the economic and financial crisis on pensions policy across Europe, and assessed the first measures proposed and/or introduced in four EU countries. France and Sweden are typical examples of social insurance systems, while Poland and the UK are examples of multi-pillar systems.

The first part summarized the key features of the economic and financial crisis and the consequences on both the sustainability and adequacy of public pension schemes and private pension funds. In the case of first-pillar pension schemes, the short-term effects have been limited. While PAYG schemes, with the exception of public reserve funds, remain largely immune to short-term financial crisis, long-term effects may well prove problematic and lead to further adjustments to secure the financial viability of systems. As for second- and third-pillar schemes, fully-funded schemes have been more directly affected. Investment losses and negative rates of return have been massive and pension funds will inevitably suffer from this trend. Meanwhile, the impact of low interest rates is likely to exacerbate the strains on funded schemes.

The second part of the paper focused on reform initiatives undertaken in the four countries. While the impact on different pension models naturally varies, some common trends have nonetheless been identified. On the one hand, all the countries under scrutiny have introduced short-term measures to grant additional protection for the elderly at risk of poverty, with more generous indexation and *ad hoc* benefits constituting the most evident attempt to improve old-age protection. On the other hand, measures have been introduced in an attempt to reduce the mid- and long-term financial tensions on public pension schemes while improving the regulation of pension markets. All the countries under scrutiny have proposed and implemented a raising of the statutory retirement age, together with incentives for active ageing. This is a major difference compared to how national governments have generally reacted to economic crisis in the past in that there has been no systematic recourse to early retirement as a means of reducing unemployment (at least in the four countries under scrutiny).

The role of private pension funds has been at the core of a renewed and intense debate, with opposite strategies having been pursued in the four countries. Some countries, consistent with the pre-crisis reform path, have pursued the attempt to reinforce the public/private mix. This is the case of the three western European countries (France, Sweden and the UK). As such, the measures undertaken did not alter the system design but were primarily focused on further strengthening the systems' sustainability, albeit at the expense of adequacy.

By contrast, Central Eastern countries (Poland in particular) have debated the opportuneness of reducing the role of private pension funds through the reduction of statutory contributions for private pensions with a parallel increase in those used for public pension schemes. This is not an isolated case among Central and Eastern European (CEE) states. Hungary, for instance, has recently re-nationalised private pension schemes. While it is too early to provide an in-depth explanation of this 'U-turn' in CEE pensions policy, some initial insights may be proposed. As shown above, the economic crisis has had two main consequences in these countries: on the one hand, it has contributed to increased tensions on public budgets while, on the other, the crisis has served to exacerbate and draw attention to negative trends in the pensions market. All this has led to a more critical reading of the role of private pensions and much of the optimism that characterized welfare reforms in the 1990s has given way to a more negative assessment of the functioning of the public/private mix.

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European
Trade Union Institute

Bd du Roi Albert II, 5
1210 Brussels
Belgium

Tel.: +32 (0)2 224 04 70
Fax: +32 (0)2 224 05 02
etui@etui.org
www.etui.org