Pension policy in Europe since the crisis: EU developments and national reforms

Marina Angelaki and David Natali

The financial and economic crisis which has affected the global economy since 2007 has resulted in one of the most pronounced recessions in post-war economic history, with profound and lasting effects on Europe's economies. Public finances have been hard hit, with government deficits in the EU set to increase and peak at 7.25% in 2010, a level three times higher than in 2008, while public debt is expected to reach 79.5% over the same year. Nonetheless, economic recovery is underway in the EU, with GDP forecast to grow by 1% in 2010 and 1.75% in 2011, although this growth may be slower than in previous upturns (CEC, 2010a).

In the case of pension systems, the crisis has added further pressure to the difficulties already caused by significant ageing of the population. PAYG systems have suffered losses of financing and contributions, due to the effect of the crisis on employment, while funded systems have become more vulnerable on the financial markets. The impact of the crisis, coupled with the reforms undertaken over the past decades in the majority of Member States, has also resulted in a more complex understanding of pension policy.

Against this background, the present chapter provides an overview of developments at both EU and Member State level, and assesses the shift (if any) in policy discourse and measures. The chapter considers these issues in the following way. Section 1 will focus on EU-level developments, analysing the impact of the crisis on the interplay between the core issues of adequacy and sustainability. It will look at EU initiatives such as the Commissioner's Group on pensions, the publication of the Green Paper on adequate, sustainable and safe pensions and the implications of the economic governance debate for pension policy. Section 2 will focus on pension reforms undertaken over the past year in three EU Member States – Greece, France and Hungary – and assess the extent to which a similar shift in emphasis can be observed. Section 3 will draw some preliminary conclusions as to how the crisis has affected EU-level developments as well as pension reform patterns in Member States. An analysis of EU interventions shows the coexistence of two different approaches. The first – concentrates on financial sustainability, and is consistent with the need to pursue cost-containment (as a consequence of the increase in financial tensions); the second focuses on the need to address adequacy gaps, which are particularly in evidence since the crisis. While the former approach is still more common, the latter has gained momentum. Examination of the situation in the countries in question, however, shows that reforms have been prompted by the crisis, although the extent of the pressure felt and the actual nature of the reforms have differed depending on the country's initial situation and on whether a consistent message has been received from the EU level. The financial sustainability argument has been used either as an external constraint (Greece) or as a vehicle to speed up the reform process (France). It has also, however, had some unexpected consequences, as in the case of Hungary, where Parliament voted through the re-nationalisation of private pension funds in order to reduce budgetary strains and avoid retrenchment.

1. Key messages from EU institutions on pension reform

Responsibility for social security rests with the Member States. Nevertheless, pensions have been addressed at EU level through groups or networks working on three different areas. They have, firstly, been discussed in relation to the development of an internal market, then with reference to Economic and Monetary Union (EMU), and finally in connection with the adoption of the Open Method of Coordination (OMC)[1]. Each group has developed its own policy approach to pension reforms. While, in last year's contribution (Natali, 2010), we focused on the interaction of the different EU networks relating to pensions, here we look at the broad EU policy approach and how it has evolved (if at all) over the past year[2].

1. For a more detailed analysis see Pochet and Natali (2005).

2. In line with Barbier (2008; 2010), due to budgetary restrictions, EU action in the social domain has been centred around regulation and discourses.

This section provides a critical analysis of the key initiatives undertaken at EU level. Reference is made to the Commissioner's Group on Pensions, the Green Paper on Pensions (1.1) and the debate concerning the need for strengthening economic policy coordination and its implications for pension policy (1.2).

1.1 The Commissioner's Group on Pensions and the Green Paper on adequate, sustainable and safe pensions

Following the publication of the Interim EPC-SPC Joint Report on Pensions, which took stock of the progress made in pension reform over the past decade in the EU and reassessed the advances made in light of the crisis, Jose Manuel Barroso, President of the European Commission, sent out an invitation in early June 2010 to eight Commissioners to meet in a special group[3] devoted to pensions. The purpose of the Group was 'to develop, outline and communicate an EU approach for adequate, sustainable and safe European pension systems' (CEC, 2010b). The initiative was placed within the context of the Europe 2020 strategy and the need for fiscal consolidation, taking also into account the demographic challenge, the need for social inclusion, ensuring fiscal sustainability and stable macro-economic conditions and the functioning of the single market. As set out in its mandate (lasting until the summer of 2012) the Group will not take decisions, but will instead prepare issues for collegiate discussion.

The first task of the Group has been to reach agreement on the Green Paper on adequate, sustainable and safe pensions. The Green Paper launched a consultation process (which ended in November 2010) on the key challenges facing pension systems and ways to update the pension framework at EU level, whilst respecting the fact that Member States are primarily responsible for the organisation of their pension systems. As highlighted in the Paper 'following a decade of reforms that have altered pension systems in most Member States, there is now a

3. The group will be chaired by the Commissioner for Employment, Social Affairs and Inclusion and will also comprise the Commissioners for Economic and Monetary Affairs, Internal Market and Services, Fundamental Rights, Industry and Entrepreneurship, Education, Health and Consumer Policy and Financial Programming and Budget.

need to thoroughly review the EU framework' (CEC, 2010c). The Green Paper was a joint initiative of DG Employment, Social Affairs and Equal Opportunities, DG Economic and Financial Affairs and DG Internal Market and Services, thereby bringing together the DGs involved in the pensions debate. The Paper therefore aimed at taking a holistic approach centred around three themes: achieving a better balance between periods spent in work and those spent in retirement, removing obstacles to mobility in the EU, and ensuring safety and transparency through better awareness and information.

Having discussed the key challenges facing pension systems (namely demographic ageing, changes in pension systems and the impact of the financial and economic crisis) it put forward a series of proposals. The Paper discussed the impact on the old-age dependency ratio of different average exit ages (67 and 70 years) and highlighted the fact that a painful combination of lower benefits and higher contributions would be inevitable if the steep rise in old-age dependency ratios were not coupled with measures to promote longer working lives. The introduction of an automatic adjustment system to increase the pensionable age in line with future gains in life expectancy was presented as a 'promising policy option for strengthening the sustainability of pension systems'. The greater individual responsibility resulting from recent reforms implies, it states, that future pension adequacy will rest upon labour market opportunities and returns in financial markets. The Paper also focused on the performance of pension funds and the need for more efficient regulation and better governance, to reduce costs and risks for the insured[4].

EU institutions and players have reacted to the Green Paper. The Council had already pleaded for a reform of social security systems in order to cope with population trends, to ensure fiscal sustainability and to create incentives for taking up a job, while it had also made clear that measures taken during previous crises, such as early retirement, ought to be avoided (Council of the European Union, 2010). In addition, by

4. Within this framework hybrid schemes, such as a DC scheme with a minimum return guarantee, or a part-DB and part-DC scheme which could alter the current trend towards individualised DC schemes, were also discussed. This simultaneously raised questions about the need to close gaps in the current fragmented and incomplete European framework.

adopting a set of conclusions on minimum pension and income provision it sent out a political signal regarding its intention to concentrate on citizens' concerns from the perspective of social protection.

The AGE Platform, while welcoming the debate launched by the Commission, stressed that policymakers need to demonstrate that they are fully aware of the social impact of the reforms proposed. According to the Platform, pension systems must not only be financially sustainable but also socially sustainable and adequate in the long-run, otherwise reforms risk increasing the feeling of insecurity and creating reluctance towards the proposed initiatives (AGE, 2010). The ETUC urged the Employment and Social Affairs Ministers to recognise the principle of solidarity, in order to ensure that pensioners can maintain a decent and independent existence. For the ETUC, the purpose of pension schemes is to guarantee a decent living to retired people and not to sustain financial markets (ETUC, 2010a). John Monks, ETUC General Secretary, went a step further by questioning the existence of evidence supporting the idea that employers want to keep older workers at work, describing the Commission's ideas for a higher retirement age as unrealistic (ETUC, 2010b). UEAPME, on the other hand, welcomed the Green Paper as a good starting point for a crucial debate that must take place, supported its overarching objectives, including the reference to prolonging working life and avoiding early retirement, as well as the horizontal approach of the Paper (UEAPME, 2010).

Following the publication of the Paper, a conference was organised by Commissioner Andor, aimed at deepening discussion of the issues raised. While no firm conclusions were reached, interesting points were made. The issue of adequacy, and the difficulty in agreeing on a common EU definition, has been raised once again. Agreeing on minimum standards of adequacy was extremely difficult; while some see a role for the EU, on the basis of the provisions of the Lisbon Treaty, it was nonetheless stressed that decisions on such issues should be left at Member State level. A further interesting proposal relates to the introduction of a European (minimum) pension scheme, as an instrument for strengthening European citizenship as well as for the economic and political reasons usually put forward.

1.2 The economic governance debate and its implications for pension policy

The economic and financial crisis, followed by the debt crisis in the eurozone, has called into question the current system of economic policy coordination at EU level, underlined the interdependence of the EU's economies and generated a debate on the need for reinforced economic governance. The European Council of 25-26 March 2010 acknowledged that macroeconomic stability and sustainable public finances are prerequisites for jobs and growth and called for the establishment of a task force that would present measures for strengthening economic governance in the EU. This section examines the debate on economic governance, focusing, in particular, on its implications for pension policy.

The basic components of the new approach were initially presented in two Commission Communications (CEC 2010d and 2010e), while a policy package of legislative proposals was adopted by the Commission in late September. The proposals cover, in particular, the following three themes: reinforcing Member State compliance with the SGP and deepening fiscal consolidation, broadening economic surveillance and strengthening of enforcement mechanisms (see contribution by Jacques Le Cacheux in this volume).

The preventive arm of the SGP is strengthened through the introduction of the new principle of 'prudent fiscal policy making', aimed at ensuring that prudent fiscal policies in good times allow the building up of a buffer for bad times. This approach is expected to guarantee convergence towards the medium-term objectives. The corrective arm is also amended, so that debt developments are put on an equal footing with deficit developments. The changes in both the preventive and corrective parts are backed up by a set of gradual financial sanctions. In assessing the soundness of national fiscal policies, the Commission will examine the sustainability of pension systems, while giving consideration to the partial or total reversal of previously implemented systemic pension reforms during both the launch and the abrogation of the excessive deficit procedure.

The establishment, on the other hand, of a 'European Semester' for economic policy coordination – beginning in January 2011 – is expected to allow Member States to benefit from early coordination at European level, by synchronising assessment of their fiscal and structural policies. Economic surveillance will be further enhanced by means of a new regulation on the prevention and correction of macroeconomic imbalances. The excessive imbalance procedure will comprise a regular assessment of the risks of imbalances based on a scoreboard of economic indicators, both external (e.g. current accounts, real effective exchange rates) and internal (e.g. private and public sector debt).

Germany insisted on tougher sanctions, arguing in favor of expelling eurozone members, as a last resort, in the event of their repeatedly failing to respect the SGP, notwithstanding the fact that such a proposal requires a change in the EU treaties. In a joint proposal with France on the topic, acknowledging that a mechanism entailing suspension of voting rights would have to be included in a revision of the Treaty, the two Member States argued for a political accord that would enable eurozone Member States either to bar an offending State from taking part in specific votes or deliberations, or to make a political commitment to neutralise the effect of that member's vote. The joint statement also argues in favour of taking more explicitly into account implicit liabilities such as pension reforms when assessing the fiscal sustainability of a Member State.

In August, the Ministers of Finance of nine Member States (Poland, Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Romania, Slovakia and Sweden), in a letter addressed to the Economic Affairs Commissioner and the President of the European Council, stressed that the coordination of national economic policies should take into account pension reforms. They demanded to be allowed to exclude the cost of pension reform from public debt and deficit figures, in order to avoid EU disciplinary actions. Commissioner Olli Rehn, in a letter to these countries, said that while the request was 'justified', it was 'not possible' to accept it under the current accounting system (Euractiv, 2010). The Commission, however, offered these countries a five-year leniency period if their budget gaps exceeded the EU's ceiling of 3% of gross domestic product and/or their debt exceeded a cap of 60% of the same. Poland, Slovakia and the other countries considered this proposal inadequate and raised the issue again at the EU summit held on 28-29 October. The October meeting's conclusions merely invited the EU Council of Ministers to speed up work on ways to integrate pension reform into the EU's revised Stability and Growth Pact. As we will show in Section 2 below, this then resulted in the progress of reforms in Hungary[5].

Summing up, the initiatives undertaken over the past year have confirmed the impression that greater attention has been paid to financial sustainability than to adequacy. The question of the long-term financial viability of pension systems has been raised as part of the debate on economic governance taking place over the year, and during discussion of the effects of debt and deficit reduction (cf. Pochet, 2010). An emphasis on the adequacy of pension benefit, however, though still not widespread, has gained momentum. The Green Paper, in particular, has taken a more cautious approach to the role of the markets, thus generating a discussion of possible measures to alter the current trend in favour of individualised pension schemes and to provide further regulation of funded schemes.

2. National pension reforms as a response to the crisis?

Having examined the basic initiatives which have taken place at EU level relating to the pensions debate, Section 2 focuses on developments at national level, analysing the reforms that have been implemented over the past year. We examine the impact of the crisis on arguments used to justify reform, as well as on the reforms themselves. The section focuses on three countries: Greece (which has been under extreme budgetary and economic pressure), France and Hungary (countries which, in the Commission’s understanding, have fewer budgetary difficulties) (EPC, 2009). While the question of financial sustainability has been raised in all three countries, there has been greater criticism of past choices in Hungary than in the other two Member States. In Hungary, the government has tackled budgetary tensions by re-nationalising private pension funds. Our analysis shows that while the crisis has prompted reforms in all three countries, the actual reform measures have differed

5. In December, after the Hungarian reform, Poland reached an agreement with the European Union aimed at loosening public finance rules in order to take into account the costs of pension reform. The Polish Prime Minister stressed that the Commission was no longer refusing to allow account to be taken of these costs when calculating public debt and deficit (Simon and Rozlal, 2010).

according to national factors (e.g. the country's initial situation) and to the consistency or otherwise of the EU response.

2.2 Greece: the end of a long refused reform process?

Over the past decade Greece displayed exceptional growth rates, reaching almost 4% of GDP between 1999 and 2008, compared to the EU27 averages of 2.2%, and 2% for the then 15 eurozone countries. Nonetheless, these rates have failed to translate into an increase of productivity and competitiveness, because of an unwillingness to carry out structural reforms, especially in the post-EMU accession period, and an inability to exercise fiscal discipline. The revision of fiscal data, following the October 2009 elections, revealed an alarming situation: the Greek government deficit for 2008 was revised from 5.0% of GDP to 7.7%, while the Greek authorities also revised the planned deficit ratio for 2009 from 3.7% of GDP to 12.5% (CEC, 2010f).

The initial uncertainty as to the availability and modalities of financial assistance, the leaking of scenarios concerning government default and voluntary exit from the eurozone, came to an end following agreement on a rescue package with the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB)[6]. Since the largest overruns in the state budget concerned the social security funds, and given the projected increase in public pension spending, of more than 12ppts, between 2006 and 2050, the Memorandum contained specific provisions for the reform of the pension system.

The policy package had an immediate effect on pensions. The 13th and 14th month pension payments were abolished, and replaced by a flat-rate bonus of €800/year for pensions below €2,500/month, a tax was introduced on pensions exceeding €1,400/month, and all pensions were frozen over the next three-year period (IMF, 2010). More importantly, though, the policy package speeded up the long-refused reform process (cf. Carrera *et al.*, 2010; Sakellaropoulos and Angelaki,

6. Financing to the tune of €110 billion supports the policy package provided by the eurozone Member States (€80 billion), in the form of bilateral loans centrally pooled by the Commission and the IMF (€30 billion).

2007; Sakellaropoulos and Economou, 2006; Featherstone and Papadimitriou 2007). Following a series of amendments, the Greek Parliament approved Law 3863/2010 in July 2010. The innovative character of the latest reform is shown by the introduction of a 'new architecture', whereby assistance and insurance functions are separated. From 2015, pension benefits will be made up of the newly introduced basic (flat-rate) component, amounting to €360 in 2010 prices and granted on a 12 month basis, and a PAYG element based on life-time earnings, which will require a 40 year employment history. This will replace the current best five out of the last ten years rule which required a 35 year history. While the system retains its PAYG structure, future pension benefits have been estimated at between 25% and even as much as 50% lower than is currently the case (INE, 2010). Overall, the reform establishes a closer link between employment history and pension levels. The law also introduces a safeguard clause, whereby if actuarial analysis suggests that the reform falls somewhat short of curtailing increases in future pension costs to 2.5 ppts of GDP (taking 2009 as the reference year) a Ministerial Decree will introduce certain necessary measures. This clause, coupled with the pending assessment of the sustainability of supplementary pensions, has given rise to speculation concerning possible further future interventions (Tinios, 2010).

The President of the General Confederation of Labor (GSEE) described the law as 'unfair and anti-social', despite the concessions which trade unions had managed to obtain. GSEE claimed that future pensions would be as low as 50% of current levels, with the new system clearly favouring sustainability over adequacy.

As to the effects of the reform, current pensioners have already seen a drop in their income, as a result of the abolition of the Easter, summer and Christmas bonuses, while the three-year pension freeze, and the introduction of a contribution towards the Social Insurance Solidarity Account, will result in further cuts. The impact on future pensioners is, however, somewhat more complex to assess. The impact is clearer for women, who are among the losers of the reform. The current system allows mothers of dependent children to retire ten years earlier than men, if covered by the IKA, or 15 years earlier, for public sector workers and those covered by the special funds of state-owned enterprises. This provision has been abolished and replaced by the introduction of care credits.

The impact of the crisis on pension reform is most evident in the case of Greece, where the system's unfavourable long-term projections have played a key role in the evolution of its public finances. The latest reform, described as far-reaching by international standards by the joint IMF-EC-ECB mission to Greece, has clearly concentrated on safeguarding the system's long-term sustainability. There are still unanswered questions, however, related to the current, and more importantly the future adequacy of benefits provided by the system.

2.3 France: a pension system crippled by the crisis?

While France has received less attention than other European countries such as Greece or Ireland, its public finances have also been under strain, with the public deficit standing at 7.5% of GDP and debt at 78.1% of GDP in 2009, according to Eurostat figures. The crisis did not leave the pension system untouched, despite the fact that EPC (2009: 26) has classified France among those countries with a moderate increase in age-related expenditure, as a result of the implementation of substantial reforms.

In April 2010, against this background, the Pensions Advisory Council (COR), a government-appointed body, presented its updated projections, taking into account the impact of the crisis in the short, medium and long terms. The Council examined the impact on the French pension system, basing itself on three alternative scenarios, due to the uncertain long-term effects of the crisis. These ranged from optimistic to pessimistic, and were influenced by two factors: the unemployment rate and growth in productivity. The system's financial requirements in 2050 would vary between 1.7% and 3% of GDP depending on the scenario (COR, 2010).

A few months later, President Sarkozy presented a plan to increase retirement age from the current 60 to 62 by 2018. Despite the strikes and demonstrations that paralysed the country on several occasions, and following minor concessions and amendments made to the pension proposals, the bill was voted through by the French Parliament and approved by the National Assembly in late October 2010. The reform was deemed essential as it would erase the growing deficit in the PAYG system, curb rising public debt and preserve the country's coveted AAA credit rating, enabling it to borrow at the lowest market rates (Euractiv, 2010). The reform was also a key test for President Sarkozy; failing to go through with the proposed reform would have had an impact on his credibility and would in turn have raised doubts about the government's plan to carry out the promised budget cuts[7].

The key elements of the law entail an increase in retirement age from 60 to 62 years between 2011 and 2018, an increase in the contributions required for the award of a full pension from 40 in 2008 to 41 in 2010 and 41.5 by 2020, while the age at which workers who have not made full contributions can receive a pension without penalties will be raised to 67 years. The reform also foresees changes in the amount of income tax payable on certain levels and types of income, such as increases in the highest band of income tax, on the levies on stock options, on supplementary pension schemes, capital income and inheritance income. While it introduces measures that promote the employment of older workers, it also includes solidarity elements targeted at young people in precarious situations, farmers and women. The reform is expected to bring the system back into balance by 2018.

The reaction of trade unions was largely negative. The General Confederation of Labour (CGT) described the law as a brutal reform resulting in an unprecedented blow to social progress. Trade unions have not given their support to the bill and four of the five large trade unions have expressed outright opposition. The General Confederation of Labour – *Force Ouvrière* (CGT-FO) – called for the withdrawal of the bill while the French Democratic Confederation of Labour (CFDT) demanded that it be rewritten, since the costs of the changes were being met largely by employees (to the tune of an estimated 85%). It also commented that the government had failed to take into account the reduced life expectancy of workers in certain occupations. CFDT stated that the law penalises those who have entered the labour market at an early age and those in precarious work situations, while it does not take into account the consequences on workers' health of continuing work after the age of 60.

7. 'France Pension Reform', *The New York Times*, 25 October 2010.

Doubts have also been raised as to the impact of the reform on the pension reserve fund (FRR) set up in the late 1990s, so as to prepare for the demographic change after 2020 and the system's sustainability in the post-2018 period. In November, the French Parliament decided to earmark €33bn from the FRR fund to reduce the short-term pension scheme deficit. In this way, the retirement savings intended for the years 2020-2040 will be used earlier, that is in the years 2011-2024, and the government will spend the resources it has been saving up on purposes other than those which were originally planned.

The General Confederation of Labour (CGT) complained that the bill represented an unprecedented blow to social progress, and its leader stated that 'the bill should not be examined in its current form by the Council of Ministers on 13 July, but there should be proper negotiations'. 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 insurance fund, pointed to the lack of finance designated for the pension system, but greeted as significant the measure whereby maternity leave will be taken into account for the calculation of the state pension (Jean, 2010).

2.4 Hungary: stepping back from privatisation

Hungary was the first Central or Eastern European country to introduce a multi-pillar system in 1997. The reform led to a reduction of pension benefits, resulting from a thorough reworking of the assessment base, a new defined-benefit formula and less generous indexation. Since 1998, assessment has been based on average wages earned since 1988. The degressive benefit formula is due to become linear in 2013, and different treatment will be given to those participating in the funded tier and those remaining in the public tier only (Guardiancich, 2010). The mandatory supplementary fully-funded schemes introduced in 1998 consisted of 19 mandatory pension funds. These insured almost 3 million members (71% of the economically active population) and, by mid-2009, had collected the equivalent of 6.8% of GDP. The operational structure of these pension funds is a uniquely inefficient feature of the Hungarian pension system[8]. Financial holdings dominate the market, while the decentralised collection of contributions, introduced in 1998, was finally centralised and delegated to the Tax Office (Guardiancich, 2010: 2).

As a consequence of increased budgetary tensions since the crisis, Hungary has re-nationalised funded pension schemes and excluded the cost of the reforms from its public debt figures. Many commentators consider the EU decision to reject the CEE governments' demand for special treatment of pension reform costs to be one of the reasons why the Hungarian government pushed through the new legislation at such speed (Simon and Rozlal, 2010). In December, Parliament voted to roll back the 1997 pension reform: the pension legislation was adopted with 250 votes in favour, 58 votes against and 43 abstentions. The reform effectively allows the government to seize up to 10 billion euros in private pension assets, in order to cut the budget deficit while avoiding austerity measures. The legislation imposes penalties on workers who do not transfer their pension assets back into the state system by the end of January (Bryant and Cienski, 2010).

The government will sell these assets and use the income to reduce debt, to plug holes in the state pension fund and create room for tax cuts for households and small companies. Through this strategy (and the parallel increase of taxes on banks and mostly foreign-owned businesses) Prime Minister Orban has promised to end years of austerity and has bolstered the popularity of his right-of-centre Fidesz party in opinion polls. But the strategy – which also includes regaining 'financial sovereignty' by ending a €20 billion safety net deal with the European Union and the International Monetary Fund – has resulted in reductions in the value of Hungarian assets, and prompted a downgrade by Moody's ratings agency. As a consequence of the reform, the Hungarian government will cut the deficit to below 3% of gross domestic product next year. But long-term budgetary tensions (with a public debt of 80% of GDP: just above the EU average but higher than any other Central or Eastern European country) are expected to remain.

8. The funds are mutual associations jointly owned by members. This system conceals profit-making organisations within a non-profit governance structure.

Several trade union federations reacted negatively to the government's budgetary proposals. In November the joint committee of unions sent a document to the centre-right government, stressing that most of the new bills submitted to parliament violate legal security and endanger the interests of employees. The committee also protested that the government is seeking to divert the savings in private pension funds.

Hungary's choice of policies is not unique in the EU. Bulgaria has in fact come up with very similar initiatives. Both countries have chosen to re-nationalise their pre-funded pension schemes, thus reducing public deficit and debt. These policies have surprised the European Commission, as the latter is attempting to provide an EU-wide solution to pension reform in its revised budget rules. The Commission, and especially the Economic and Monetary Affairs Commissioner, expressed its concern regarding the innovations in the pension system announced by the Hungarian authorities. Following the Hungarian vote, moreover, the Commission struck a deal with Poland aimed at loosening public finance rules in order to take into account the costs of pension reform (Euractiv, 2010).

Conclusions

This chapter has shed light on the pension debates at EU and national level over the past year, in an attempt to highlight the shift (if any) in policy discourse and reform measures. Evidence from EU and national discussions since the crisis shows that the dominant issue is still the financial sustainability of pension schemes. More attention is being paid, however, to the whole question of adequacy. These two trends reflect the inconsistencies and ambiguity existing at EU level.

The reforms instituted in Greece, France and Hungary have confirmed the predominance of budgetary concerns. Greek and French policymakers have introduced new pension cuts as part of broader strategies to reduce public budget deficit and debt. In Hungary, by contrast, budgetary stability has been pursued through an about-turn in pension policy. After the EU Commission rejected its request to exclude the cost of pension reform from public debt and deficit figures, the Hungarian government reversed the radical reforms of the 1990s.

The first part of this chapter focused on developments at EU level. Certain new initiatives over the past year – such as the setting up of the Barroso Group on pensions and the publication of the Green Paper – have attempted to provide a holistic approach to the pension debate, while underlining the interdependence of the goals of adequacy and sustainability. If we examine the actions taken by the EU, we can identify two parallel approaches. One concentrates on financial sustainability, and reflects the need to pursue cost-containment (as a consequence of increased financial pressures); the second focuses on the need to address certain shortcomings in the adequacy of pensions, which have become particularly evident since the crisis. The former approach is still predominant, although the latter, while less widespread, has gained momentum.

The second section focused on developments at Member State level. Our analysis has shown that reforms have been prompted by the crisis, but that the extent of the pressure varied according to the country's initial situation. The Greek crisis resulted in a reform which has been more radical than those implemented in the other countries studied. Reform measures implemented in France were also prompted by the crisis and by the need to reduce deficit levels and appease international markets. In sharp contrast to the Greek case, however, the pressure was lower, as a result of reforms that had already been implemented over the past decades. The measures taken, therefore, did not fundamentally alter the system, but were primarily aimed at making it more sustainable, though at the expense of the adequacy of pension levels. Overall, it could be argued that in the case of France, the crisis speeded up the reform process. In Hungary, however, there was no such trend towards reform involving the further containment of public pension spending. The most recent reform represented a step back from the partial privatisation of the system carried out in 1997. It allowed the government to keep the budgetary deficit at a generally lower level, while watering down austerity measures. This is not an isolated case in Central and Eastern European Member States. Bulgaria has followed suit, and the debate in Poland shows a similar trend towards reversing the previous move towards multi-pillar systems. While many national factors may help to explain this sort of about-turn, commentators have stressed the direct effect of the EU debate on economic governance. We can safely assume that the Hungarian reform was the unintended consequence of SGP rules for deficit and debt calculation. The pension privatisation policy pursued by some EU members over the last decade has resulted in an increase in short-term costs. The EU decision to reject the request from Member States to take account of the cost of transferring pensions into private hands contributed to the country's decision to reverse pension reforms, in order to meet EU budgetary requirements.

This parallel focus at EU and national level demonstrates that the crisis has had a direct but contradictory impact on pension policy and discourse. On the one hand, EU (and especially eurozone) members with severe pressure on public state budgets (and with social insurance pension systems) have pursued reforms aimed at reducing spending on pensions. On the other hand, some countries which had already introduced a multi-pillar system in the past have reversed the trend through the re-nationalisation of private pension funds. While this chapter has not aimed to carry out a systematic assessment of the possibility of formulating pension policy at European level, evidence from the EU countries examined shows that the crisis, and the approaches taken to it at EU level, have had a two-fold and somewhat contradictory effect: new cutbacks have been introduced, while some countries have reversed previous privatisation measures in order to prevent further retrenchment and/or tax increases, and to avoid EU sanctions.

References

AGE (2010) 'Green Paper on Pensions: The European Commission raises good questions but will Member States provide the right answers to rebuild citizens' confidence in the pension systems?' *Press Release*, 7 July 2010 (www.age-platform.org).

Barbier, J-C. (2008). *La longue marche vers l'Europe sociale,* PUF, Le Lien Social, Paris.

Barbier, J-C. (2010), 'Stratégie de Lisbonne: les promesses sociales non tenues', *CES Working Papers* No. 2010-18, *Document de travail du Centre d'économie de la Sorbonne,* Paris, CES Université Paris 1-Panthéon Sorbonne CNRS.

Bryant, C. and Cienski, J. (2010), 'Hungary reverses pensions reform', *Financial Times*, 14 December 2010 (http://www.ft.com/cms/s/0/0e01c370-06de-11e0-8c29-00144feabdc0.html#axzz18OEIVgKz).

Carrera, L.N., Angelaki, M. and Carolo, D. (2010) 'Political Competition and Societal Veto Players. The Politics of Pension Reforms in Southern Europe', *Rivista Italiana di Politiche Pubbliche*, No.1-2010, pp.5-31.

CEC (2010a), Interim EPC-SPC Joint Report on Pensions, Brussels, 28 May 2010.

CEC (2010b), 1st Meeting of the Commissioners' Group on Pensions, Minutes, 17 June 2010.

CEC (2010c), Green Paper: 'Towards adequate, sustainable and safe European pension systems', COM (2010) 365 final of 7 July 2010.

CEC (2010d), Communication from the Commission 'Reinforcing economic policy coordination', COM (2010) 250 final of 12 May 2010.

CEC (2010e), Communication from the Commission 'Enhancing economic policy coordination for stability, growth and jobs - tools for stronger EU economic governance', COM (2010) 367/2 of June 2010.

CEC (2010f), 'The Economic Adjustment Programme for Greece', *European Economy Occasional Papers*, No.61, Directorate General for Economic and Financial Affairs, May 2010.

CFDT (2010), *Retraites. La loi validée et promulgée reste injuste*, 10 November 2010 (http://www.cfdt.fr/rewrite/article/30199/les-actualites/dossier-special-reforme-des-retraites/retraites--la-loi-validee-et-promulguee-reste-injuste.htm).

COR (2010), *Retraites: perspectives actualisées à moyen et long terme en vue du rendez-vous de 2010*, *Eighth COR Report*, Conseil d'orientations des retraites, adopted on 14 April 2010.

Council of the European Union (2010), 3019th Council Meeting, Employment, Social Policy, Health and Consumer Affairs, *Press Release* 10560/10, Luxembourg, 7 and 8 June 2010.

ECB (2010), 'European Economic Governance', A Franco-German paper', European Central Bank, Frankfurt-am-Main (http://www.kas.de/wf/doc/kas_20191-1522-2-30.pdf?100722171635).

EPC (2009), 'The 2009 Ageing Report: Economic and Budgetary Projections for the EU-27 Member States (2008-2060)', Joint Report prepared by the European Commission (DG ECFIN) and the Economic Policy Committee (AWG), European Economy, No.2/2009.

ETUC (2010a) 'Green Paper for pensions: for the ETUC, job creation must be a priority', *Press Release*, 8 July 2010 (http://www.etuc.org/a/7469).

ETUC (2010b) 'EU pensions Green Paper: 'Unrealistic' says ETUC', *Press Release*, 7 July 2010 (http://www.etuc.org/a/7462).

Euractiv (2010), 'Poland strikes pension deal with EU' (http://www.euractiv.com/en/euro-finance/poland-strikes-pension-deal-with-eu-news-500531).

Featherstone, K. and Papadimitriou, D. (2007), *The Limits of External Europeanization. Reform Capacity and Policy Conflict in Greece*, Palgrave, London.

Guardiancich, I. (2010), 'Hungary, Country Report', paper prepared for the Federal Public Service - Social Security, Belgian Government (http://www.ose.be/files/publication/2010/country_reports_pension/OSE_2010_CRpension_Hungary.pdf).

IMF (2010), 'Greece: Stand-By Agreement-Review Under the Emergency Financing Mechanism', *IMF Country Report*, No.10/217, July 2010.

INE/GSEE-ADEDY (2010), *The Greek economy and employment. Annual Report 2010*, Athens, August 2010 [in Greek].

Natali, D. (2010a), 'Pensions in turmoil owing to the crisis: key messages from the EU', in Degryse, C. (ed.), *Social Developments in the European Union 2009*, ETUI/OSE, Brussels, pp.119-147.

Natali, D. (2010b), 'The Lisbon Strategy, Europe 2020 and the crisis in between', in Marlier, E. and Natali, D. (eds.), with Van Dam, R., *Europe 2020: Towards a more social Europe?*, PIE-Peter Lang, Brussels, pp.93-114.

Pochet, P. (2010), EU 2020, 'Social Impact of the new form of European governance', *ETUI Policy Brief*, No.5/10, European Trade Union Institute, Brussels.

Pochet, P. and Natali, D. (2005), 'European Networks on Pensions: 'The Participation of Organised Interests in the EU Policy Making Process', *Revue belge de la sécurite sociale*, No.2, pp.307-335.

Sakellaropoulos, Th. and Angelaki, M. (2007) 'The Politics of Pension Reform in Southern Europe', in Van Langendonck, J. (ed.), *The Right to Social Security*, Intersentia, Antwerp, pp.121-141.

Sakellaropoulos, Th. and Economou, Ch. (2006) 'National Priorities and European Challenges in the Reform Process of the Social Protection and Employment Policies in Greece, 1980-2004', *Social Cohesion and Development*, Vol.1, No.1, pp.5-36.

Simon, Z. and Rozlal, M. (2010), 'EU Says Pension Accounting Change Sought by Poland, Hungary `not Possible', Bloomberg (http://www.bloomberg.com / news / 2010-10-22/ eu-says-pension-accounting-change-sought-by-poland-hungary-not-possible.html).

Stergiou, A. and Sakellaropoulos, Th. (2010), *The Social Insurance Reform*, Dionicos, Athens [in Greek].

Task Force (2010), 'Strengthening economic governance in the EU'. Report of the task force to the European Council, Brussels, 21 October 2010 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf).

Tinios, P. (2010) *Social Insurance*, Kritiki, Athens [in Greek].

UEAPME (2010), Position Paper on the European Commission's Green Paper on demographic change, November 2010.