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REVIEW OF THE PENSION PROVISION ACROSS THE EUROPEAN UNION COUNTRIES

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Abstract:
This paper targets providing a detailed review of different modes of pension provision in both public and private sectors in EU countries and the recent transformations through which pension systems have been. Moreover, it is also aimed to address issues related to household’s income levels and poverty alleviation, particularly in the aftermath of the crisis. After outlining the general characteristics of the pension systems, their transformation is explained with reference to financialisation. In this regard, it is argued that pension provision in the EU countries have been heavily financialised in the last two decades which raised critical issues for the future retirees as well as the current ones. More privatised and individualised pension systems as a result of the increase in the financial component of pension schemes and entitlements are riskier. Furthermore, as pension benefits are a main income source for most old people, the replacement of solidarity within the pension provision by individual and financial interests raises crucial issues for the EU member states.

Key words: Pensions, European Union, Financialisation, Crisis

Journal of Economic Literature classification: H55, I38, J26, L33, G01

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Website: www.fessud.eu
INTRODUCTION

At first glance, different modes of pension provision across the EU countries might seem very similar to each other because of the common features they share. For instance, it is true that in most European Union member states, there is a fundamental public sector pension system which provides old-age income through statutory earnings-related schemes, and several parallel occupational and individual scheme.\(^1\) In general, a minimum guarantee pension is granted to those who do not qualify for these schemes,\(^2\) although, under different conditions, coverage rates and financing methods. Lastly, as a common feature of pension provision in most Member States, general taxes can be pointed to as the main source of minimum guarantee pensions rather than contribution revenues.\(^3\) On the other hand, despite these common features of pension arrangements across the EU, modes of pension provision are highly diverse due to different historical elements and contemporary dynamics.\(^4\) In order to develop an understanding of the peculiarities of each pension system, the distinctive features of each system should be carefully delineated. A detailed review of reform trends shows that the significance of individual and private pension schemes has been increasing in relation to rising integration of private finance into pension provision in the EU. This can be shown as evidence for the argument of ‘financialised pension provision in the EU’. In this paper, the mode of pension provision and recent reforms in each country has been explained in the appendices in order to smooth reading. Yet, each country’s experience has been set within the context of financialisation whilst covering various relevant issues.

1. MODES OF PENSION PROVISION ACROSS THE EUROPEAN UNION

Across the EU, pensions are provided in three main forms: social insurance pension schemes, social assistance, and individual insurance policies. Amongst these, the predominant form of pension provision is the social insurance pension which consists of two different versions: social security pension schemes and employment-related pension schemes. The former generally belongs to the government sector and is organised for major parts of the population, whereas the latter is established by employers including
government for public sector employees). Social security pension schemes are contractual insurance schemes where the beneficiaries are obliged to insure against old age. Contributions towards a social security pension scheme are often compulsory for a large part of the population, and the schemes are generally defined benefit which means that they are unfunded and financed on a pay-as-you-go basis (PAYG). On the other hand, earnings-related pension schemes provide benefits with levels which depend upon the earnings history of contributors. These schemes vary in the terms of management (held by government or non-government entities), and in terms of financing method (as they may be funded or unfunded). If an employment-related social insurance pension scheme is funded, benefits are obtained from the returns of the investment in financial assets. On the other hand, unfunded schemes finance current pension payments with the ongoing contributions paid by future pensioners and/or other ongoing revenue, such as taxes or transfers. In some situations unfunded schemes may hold assets for liquidity reasons, for example buffer funds.

The second form of pension provision is social assistance benefits which are payable without qualifying contributions as usually all resident households are entitled to apply for social assistance if with restrictive necessary conditions. Generally, benefits are means-tested to apply them to households that are under a certain income threshold and in need. Elements of social assistance, housing benefits, monthly cash payments etc., show more of an idiosyncratic character as they are organised and controlled under separate and independent institutions. In this case, social assistance benefits are not usually situated as a part of the social insurance system. Rather, social assistance benefits are counted as supplementary benefits. The last form of pension provision across EU is the individual insurance policies related to pensions which are based on contracts made with individuals. They are not organised collectively as in the case of social insurance. These policies are seen as supplementary pension benefits to target a certain level of income in old age.
2. RECENT PENSION REFORMS IN THE EUROPEAN UNION COUNTRIES

Pension provision systems in the EU countries, with the characteristics summarized above, have been undergoing a transformation process in recent years. There are two lines of changes regarding the pension systems: “parametric” measures and “paradigmatic” shifts. Parametric measures do not vary the structure of provision but instead differentiate the level and requirements of the pension payments, entitlements, and other conditions [such as age of retirement]. The tightening of the eligibility criteria for retirement has been one of the most popular parametric measures in the last decade across EU countries. Almost all member countries have recently introduced laws which render retirement more constrained. This has been achieved through higher eligibility age (Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Malta, Poland, Romania, Slovenia, Spain, the Netherlands and the UK), longer career [contribution period] requirement (Belgium, Italy and Spain), and abolition of early retirement options (Austria, Poland, Romania and Slovakia). Moreover, the opportunity of post-purchasing for the periods in which pension contributions could not be made [school or university education], has been abolished [Austria]. In some cases, a similar policy has been implemented by limiting the credits for non-contributory periods [Czech Republic]. Most of measures, particularly those regarding retirement age, have come into force gradually and, in general, the legislation refers to a prospective time limit of reaching a certain age. The most common age target seems to be 65. Further, equalizing the retirement age for women and men has accelerated the increase in the age of retirement for women given it has been traditionally lower than men.

Other sorts of parametric measures are: changing the contribution rates [Cyprus, Ireland, Slovakia and Latvia] of employees and employers; and, altering the indexation and calculation method of benefits. Indexation of pension benefits to inflation or otherwise has meant the increase of the pension benefit each year under a defined-benefit scheme. In general, governments or particular institutions determine this method of indexation on the basis of the Consumer Price Index and/or growth rate of Gross Domestic Product for the relevant year. Across EU countries, the most common method of indexation is Swiss Index
which means benefits are indexed, at the beginning of each year, by the arithmetic average of wage growth and inflation determined for the first half of the preceding year. In recent years, some countries introduced new indexation methods on different bases (Hungary, Ireland, Lithuania, the UK and Luxembourg). Whereas some of these measures are directly related to the efforts for compensating or confronting the impacts of crisis (by excluding the unfavourable influence of negative GDP growths, for instance), others were implemented as a result of long-term policy targets.

Parametric measures regarding calculation-method of benefits point to the trend shift from defined-benefit schemes to defined-contribution schemes. Under the defined-benefit schemes, the contributor to the scheme is promised a certain level of income during retirement, derived from an employee’s earnings history, length of service and age. Conversely, defined-contribution schemes do not suggest any specific income levels but, instead, pension benefits are direct consequences of the returns to the funds in which contributions were invested during the pensioner’s career. As a result, it can be argued that defined-contribution plans lay a larger responsibility for pension income on the employee. So, if an employee has a less lucky career period during which many financial crises have erupted and, as a result of these, the financial markets suffered a miserable performance, the employee will lose out. In this light, it is appropriate to observe that there has been a striking shift from defined-benefit schemes to defined-contribution schemes across EU countries. This shift might be interpreted to have occurred as a result of maturation of pensions in those countries which already had well-developed funded schemes (the UK, Sweden and Germany) as well as in countries which used to have statutory pay-as-you-go (PAYG) systems in the past but replaced/complemented these with new funded schemes usually based on the defined-contribution principle (Czech Republic, Estonia, Hungary, Lithuania, Romania, Slovakia and Slovenia).

Furthermore, there is an alternative calculation method of benefits which is used by Latvia, Italy, Poland and Sweden and it has been discussed intensively in recent years, the Notional Defined-Contribution method (the NDC). In this model, funding is still PAYG which means the actual money paid in is used for paying the current pensioner’s benefits.
However, the contributions are held in a notional account belonging to each individual participant, and the growth rate of the contributions is determined by the changes in the earning base. The NDC method of calculation divorces from defined-benefit schemes by fixing the contribution amount instead of the future benefit. This point has paramount importance because the future earnings are unknown, even if related to the contributions of the worker. The NDC is claimed to be more flexible:

“The annuity rates are based on a formula which automatically adjusts to changes in the numbers it deals with, such as life expectancy and contribution rates. The formula is designed to respond to movements in all the different pieces which make up the pension system, so even if the workforce (and thus the pool of contributions) starts to shrink, it reduces the growth in the earnings base, meaning the value of peoples’ pension entitlements also falls, reducing the amount the system has to pay out. It also makes it easier for an individual to understand the trade-offs which are an inevitable part of pension economics when they are contemplating retirement, so [as already mentioned] they get a more generous pension in return for working longer, and so on” (Kingman 2013).

Moreover, it is argued that the NDC brings more stability because of the adjustment mechanisms within its benefit calculating formula:

“A plan of this sort appears structured to achieve a considerable degree of fiscal stability because the promised rates of return reflect the program’s underlying PAYGO nature, rather than being market-based, and the annuity structure should buffer the system from the costs of rising longevity. Further, in the event that it begins to go off the tracks, a braking mechanism can be incorporated which automatically modifies the rate of return, to help restore the plan to financial health. Given the political difficulties of making frequent changes in PAYGO pension programs, the attractiveness of an inherently stable system is clear” (Auerbach and Lee 2006, 2).

Pension provision systems are also changing with paradigmatic shifts, although the boundaries between parametric and paradigmatic changes are not hard and fast. In contrast to parametric measures, paradigmatic shifts realise fundamental variations within the organisation and functions of the pension systems. These are shifts, for example, from:
PAYG-financed towards funded systems; re-distributive to individual systems; and fragmented to unitary systems.

PAYG schemes are financed through the intergenerational earnings-related payments and means current pensioners’ benefits are paid by the current participants’ contributions; and, in turn, current participants expect the future generation to pay for their pensions. PAYG schemes show redistributive characteristics in terms of transferring pension income through generations as well as from men to women because the latter live longer in general and pensions are usually funded by states. Pension systems managed by the state and based on the PAYG-finance method exist in every country in Europe except Cyprus, while the significance, function and coverage vary across a wide range. In most countries, they rely entirely on earnings history, function as the main provider of the pension service, and calculations are on the defined-benefit method as in Austria, Belgium, Czech Republic, Estonia, France, Greece, Finland, Hungary, Italy, Lithuania, Luxembourg, Portugal, Malta, Romania Slovakia, Slovenia, Spain and the UK. In countries such as Denmark, the Netherlands and Ireland, the PAYG schemes are financed by taxes (non-contributory), they show a universal character and function as the provider of a minimum, flat-rate income for old age. Lastly, the PAYG component of the pension system might appear as a part of the NDC scheme. Therefore, the calculation of benefits is on a defined-contribution basis instead of defined benefit (Latvia, Poland, Italy and Sweden).

Funded pension schemes, on the other hand, are financed through contributions of each individual and do not have any redistributive function. Funded schemes are usually privately managed whereas in some countries state-owned funded schemes exist as well (Cyprus, Bulgaria, Ireland, Estonia, Finland, Slovenia and Lithuania). As an exception, in the Netherlands, pension funds are governed mutually by trade unions and employers. Whereas participation in public-funded pension schemes is mandatory in general, those privately managed are voluntary. Furthermore, most of the funded pension schemes have an occupational character (participants are members of relevant profession groups), and calculations of the benefits are based on the defined-contribution principle.
Since the late 1990s, a major shift has been witnessed from state-owned, defined-benefit, PAYG schemes towards a ‘multi-tiered’ pension system. A multi-tiered system has been suggested by World Bank since the ‘Averting the Old Age Crisis’ Report in 1994. In the Report, it was argued that the world population was ageing while existing pension systems were ineffective. Furthermore, the saving function of pension systems should be separated from the redistribution function; and those functions should be placed under different financing and management regulations. Therefore, advised is a three-tiered pension system with two mandatory pillars (one publicly-managed, tax-financed, and one privately-managed and fully-funded) and one complementary, funded, private, voluntary pillar. In this way, the first pillar would alleviate old age poverty by using the taxation power of government while the second pillar would perform to smooth savings and boost capital accumulation and financial market development. And the third pillar would provide additional income for individuals who are able to afford and choose to participate. In the aftermath of the Report, pension reforms have spread around the world as well as European Union member countries. All of the paradigmatic shifts in these countries in the recent decade show the tendency to converge on the three-tiered pension system model suggested by the World Bank (Bulgaria Estonia, Hungary, Latvia, Lithuania, Romania, Slovakia and Slovenia).

Another way of transforming the pension systems in a paradigmatic way is to establish new rules which tempers the alteration across the eligibility criteria for certain groups, thus eroding the redistributive character of the pension system. For instance, in the recent reforms, equalising the retirement age and contribution period for women and men is a common policy (Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Malta, Poland, Romania, Slovenia, Spain, the Netherlands and the UK). It increases the inequalities between women and men at the expense of women because women are disadvantaged in the labour market and finding a well-paid job at later ages after bearing children is harder. Therefore, the rise in the full-retirement age would diminish their chances of gaining an equitable pension in retirement. Since women are generally excluded from, or constrained within, labour market in the
years of child-care, the rules which increase the contribution period and abolish opportunity credits for childcare (Belgium, Italy, Spain, Austria, Poland, Romania and Slovakia), render women more disadvantaged. Furthermore, in the recent reforms, benefits are linked more strictly to the contribution history, even in the unfunded schemes, which eliminates redistribution from advantaged groups towards those who are vulnerable. This paradigmatic shift is realised through different processes incorporating the parametric measures mentioned above (altering the eligibility criteria, minimum contribution period and retirement age increase) while they have significant consequences in the long run.

Lastly, a common policy, regarding modes of pension provision in the EU countries, is the reduction of the fragmented structure of pension schemes by setting the same rules for both public and private sector employees, for different professional groups, and for people working in hazardous and arduous occupations (Belgium, Cyprus, France, Greece, Latvia and Romania). In this regard, more transparent and predictable pension systems were targeted and transparency rules have been implemented (Germany and Slovenia). Transparency rules stand for the regulations which render the current contributions and possible future benefits easier to track. When the pension system is over-fragmented, which means different calculation methods for several occupational groups, transparency is low which leads to lower predictability as well. After these policy changes, pension systems have become more unitary, less fragmented whereas they also lose the ability to produce different services for different needs. Treating a male mineworker as if he has the same advantages and disadvantages as a female doctor will create future anomalies.

3. PENSIONS VS CRISIS AND POVERTY

Incorporated into the reforms noted above, some countries introduced regulations for investment rules for pension funds. In general, these rules restricted the pension funds not to invest in risky assets (Estonia, Ireland, Slovakia and Sweden). On the other hand, private, voluntary, funded schemes have been promoted through tax-incentives which are also subject to criticism for redistributing income to middle- or high-income earners (who are the main clients of the voluntary, private, funded schemes). Moreover, while pension
funds are maturing, allowing for riskier investments is inevitable even under financial crisis circumstances. For instance, in Slovakia, regulations that organise investment activities of pension funds have been changed recently in a way which allows investment in riskier assets. The maturation of the pension funds and problems originating from difficulties in finding profitable investment options are given as reasons for the loosening.

Another response has been to decrease the pension benefits to keep government social expenditure under control. Pension benefits have either been frozen (not increased annually) or indexed on a different basis with lower benefits resulting. However, in some countries, policies in the opposite direction were implemented; compensation mechanisms for pension losses or excluding the negative impact of lower economic growth (by removing GDP share from the indexes) have been used as a way of covering people’s losses. In any case, increase in social expenditure has not stemmed from pensions but from explosive increases in unemployment levels across Europe. For instance, in 2010, EU27 countries spent 29.4% of their GDP for social protection. The expenditure on full unemployment benefits consisted of 0.7 % of GDP in EU27 countries whereas this proportion increased dramatically to 1.0% by 2011. If we look for the proportion of old-age pension expenditure within the overall social protection expenditure, we see that it remains constant at a level of 0.7% of GDP in EU27 countries. Unemployment is a major problem in most EU countries but equally leading to severe problems amongst the elderly. Whereas in some cases, governments have introduced laws for increasing employment across old ages (Sweden), most countries failed to provide secure work for them. This raises another topic: poverty amongst the elderly!

The risk of poverty threshold is set at 60% of the national median income and the share of people under this threshold, before social transfers, indicates the risk of poverty percentages. The rates are high across EU countries as seen below:
Table 1: At-risk-of-poverty rate of older people by sex (2011)

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (27 countries)</td>
<td>15.9</td>
<td>13.2</td>
</tr>
<tr>
<td>EU (15 countries)</td>
<td>16.4</td>
<td>13.9</td>
</tr>
<tr>
<td>New Member States (12)</td>
<td>13.6</td>
<td>9.1</td>
</tr>
<tr>
<td>Euro area (17 countries)</td>
<td>15.3</td>
<td>13.2</td>
</tr>
<tr>
<td>Cyprus (highest)</td>
<td>35.5</td>
<td>33.4</td>
</tr>
</tbody>
</table>

Source: SILC.

These income rates are much lower than the rates in 2008 and 2009 due to extra expenditure on social protection in 2010. Nevertheless, it can still be argued that poverty amongst elderly is too high for countries with well-developed pension systems and long histories of pension provision. Strikingly, numbers are even more disappointing in the case of women whereas all pension reforms, covered in detail in appendix 2, show the intention of equalizing the eligibility criteria of women with men. This will abolish the regulations that were put in place to decrease the disadvantages of women in light of their working lives. For instance, as women generally devote a couple of years for childcare during which they cannot contribute to pensions, they were allowed to retire with shorter contribution histories. However, within the new set of eligibility criteria, they lost these rights. In recent literature, pensions are acknowledged to be an important poverty reduction tool, being the main income source for most older people. Minimum income provisions are argued to be crucial elements in poverty alleviation, and consistent with the recent policy push of establishing a ‘safety net’. Safety nets are situated to provide a ‘sustainable’ income, above poverty, which means the replacement rates offered within the safety net measures are far from providing desirable standards of live. Such safety nets keep a certain proportion of elderly population slightly above poverty levels. While governments try to diminish the unfavourable outcome of severe poverty, raising the pension benefits in order to increase
the older population’s consumption has other advantages. Recent surveys show that production and consumption of goods and services adjusted for the needs of elderly people might play a significant role in economies. This phenomenon is called ‘grey consumption’ and is seen as a key driver of economic growth in the future.12

Not surprisingly, then, the crisis has had some direct impacts on the policy-making process of pension provision in many countries. For instance, in Austria regarding the premium-aided pension savings scheme, some public subsidies are planned to encourage investment in private pension schemes, and the investment of this scheme was regulated in order to offer the option of less risky investments within this scheme by reducing the minimum quota of investment in the stock market. In the Czech Republic, in 2011, reform of the existing voluntary funded scheme was approved by the Parliament with the aim of increasing the security of the capital of participants and of encouraging people to increase their contributions. Moreover, since 1 January 2013, the accumulated capital of participants is separated from the assets of pension institutions. Since this regulation sought to ensure returns during the crisis, for contracts signed after 1 January 2013 the guarantee of at least zero returns will no longer exist. Finally, the thresholds for the minimum and maximum state contributions (subsidies) will be increased to encourage participants to save more. In Estonia, transfers from the social tax to the mandatory funded scheme were temporarily suspended for some periods between 2009 and 2011 in order to reduce the deficit of the state PAYG pension system. A compensation mechanism will transfer additional social tax revenues to the funded scheme in 2014-2017. In the aftermath of the crisis in Portugal, losses in the value of pension fund portfolios placed a serious strain upon these schemes, and the liabilities have now been transferred to the state. More generally, governments developed some compensation mechanism for anticipated losses. In Sweden, for example, pension incomes decreased by 3% in 2010, and 4.3% in 2011 (because of the combined effect of the balancing mechanism, see below,13 and low income growth). To counter this impact, the government introduced an additional basic tax allowance in 2009 for pensioners of 65 years or older. It has since been increased in both 2010 and 2011, which meant that few pensioners received a lower net income due to the activation of the balancing
mechanism. Last, but not least, in Ireland, most DB schemes (75%) are now in actuarial deficit and do not meet the minimum funding standard. The impact of the current crisis is also evident in the decline in the number of occupational schemes and in the fall in supplementary pension coverage rates. Reports of high charges and a lack of transparency in the fee structure associated with some pensions have caused concern. A study of the charges applied within the pensions industry is currently underway.

In the appendices, the developments mentioned so far are investigated in more detail for each country. Thereby, a better understanding of the EU pension systems under financialisation can be achieved.

4. FINANCIALISATION OF PENSION Provision

Transformation of pension provision is not peculiar to the European Union countries. Indeed, since 1981, pension systems all around the world have undergone a fundamental alteration which is characterised by private, individual pension provision instead of state and collective schemes; it has been associated with dissolution of the welfare state. Indeed, starting from 1981, 32 countries in total have introduced some forms of pension privatization (Béland and Orenstein 2013). It started in Latin America with Chile and then spread around the world. Recently, former Soviet Union countries in Central and East Asia introduced mandatory funded pension schemes which decrease the coverage and responsibility of their PAYG schemes. Not surprisingly, as covered in detail above, some of the European Union countries have been a part of this process. The transformation of pensions is generally associated with the transformation of the welfare state.

“Today, governments of countries of the Organisation for Economic Co-operation and Development (OECD) typically spend 30-40% of their Gross Domestic Product (GDP) on welfare programmes and this level of expenditure has remained stable over the past 30 years or so. But this fact belies the transformations that have occurs within the welfare systems over that period. To begin with, mature welfare systems spend far more on pensions and healthcare than they have in the past They have also become more restrictive, more commodifying and more market-orientated” (Farnsworth and Irving 2011, 4).
Some views associated changing social policy trends in the last three decades with post-industrialisation. Accordingly, the changes in social policy decisions are related to the problems stemming from the post-industrial era of economies, characterised by low productivity in the manufacturing sector as a contrast to increasing volume of service sectors. As a result of this balance shift from the manufacture towards the service sector, the social security systems in general and pension systems in particular are distorted since they were organised under circumstances of industrialisation (Pierson 2001). A main reason for the distortion is argued to be the difference between productivity levels of manufacture and service sectors, with the latter claimed to have lower productivity, see (Schwartz 2001) for a detailed account. Another approach puts ‘globalisation’ at the centre of the welfare state retrenchment discussions and points to the international organisations’ influence on the national governments during the policymaking processes related to social policy (Yeates 2009). The main idea can be summarised as follow:

“The collapse of the cold war, the consequent proliferation of little states, and the consequential increase in the importance of supranational, regional and global economic and political processes lead now to the need for social policy analysis to change gear from a focus solely on national and comparative social policy to a focus that gives equal weight to supranational and global social policy” (Deacon, Hulse, and Stubbs 2009, 9–10).

As one of the adherents of the globalisation school, Orenstein (2008) explains the spread of the pension privatization between 1981 and 2004 as a result of the campaign run by transnational actors as a part of broader neo-liberal agenda for global economic policy (Orenstein 2005).

“Transnational actors, including international organizations, transnational non-governmental organization (NGOs), expert networks, and individual policy entrepreneurs, have become leading sources of policy norms and ideas in countries worldwide in areas that often exceed their original mandate” (Orenstein 2009, 59).

Orenstein argues that these transnational actors have been playing an increasing role in domestic policy through advocacy campaigns which lead to pension reforms. In his analysis of global social policy, Orenstein posits the transition from Washington Consensus
to Post-Washington Consensus as a central point that implies the set of neo-liberal economic policy description advanced by Washington DC-based institutions, such as the IMF, the World Bank and the US Treasury. The policy descriptions advanced by these institutions advocated ‘free’ trade, market liberalisation and deregulation, privatization and residual social provision (Orenstein 2009). This view explains the reforms in the EU countries as following:

“While starting in 1990s, ECOFIN (European Council for Finance) issued statements strongly in favor of pension privatization and fiscal ‘sustainability’ and ‘modernization,’ social policy ministers came out against privatization and in favor of pension ‘adequacy.’ With the foundation of a joint committee to study the pensions issue in 2001 (Council of the European Union, 2001), such contrasting views began to be reconciled. This process culminated in a 2012 White Paper: An Agenda for Adequate, Safe and Sustainable Pensions, in which pension privatization was no longer seen as the chief means with which to address Europe’s demographic aging problem (European Commission, 2012). Instead, increases in retirement age, unification of male and female retirement ages, and restricting access to early retirement were stressed. Encouraging greater supplementary pension saving was also mentioned as an important target; however, it was portrayed as ‘supplementary’ to, rather than as a replacement of, public PAYG systems. This represented a change in emphasis even over the preceding Green Paper (European Commission, 2010), which accorded private pensions a more central role in resolving Europe’s demographic challenges” (Béland and Orenstein 2013, 132).

All these views provide useful insights to some extent in understanding the spread of pension reforms. However, they are not adequate to provide a full explanation for the way in which this reform process has been formed and why it stopped. Why did international financial institutions suggest a model which specifically emphasises the role of financial markets? In this paper, it is argued that the reason underlying this policy advice is financialisation!

The rising significance of finance has had a substantial impact on the forms and levels of social provision that were put in place under circumstances in which industrial
sectors had flourished. One result is that social provision, pensions in particular, has become a new arena for profit-making activities of financial actors. Under financialisation, modes of pension provision have been transformed in a way which is necessary for developing financial markets as well as establishing a favourable environment for financial actors’ profit-making activities. And in this regard, financialisation has also altered the way in which the concept of pension provision has been perceived. In the past, pensions used to be understood as the mechanism for survival in old ages (or under circumstances of incapacity). Now, a pension is increasingly middle-class saving through individual funds deployed by financial actors. As mentioned above, the World Bank’s famous Report (Averting the Old-Age Crisis 1994) attributed to pension systems the function of increasing saving rates, developing financial markets and enhancing economic growth. Policymakers in different countries were persuaded to follow these imperatives through several mechanisms. For instance, since the 2008 crisis, some countries introduced pension rules as a part of bailout agreements with international financial institutions (Greece and Ireland). These functions have been met by private, funded schemes which have proliferated in the last decade. In line with these developments, the significance of pension funds in the national and international financial markets has grown dramatically. As Fine (2012:12) puts it:

“Financialisation is characterised, its consequences have been: reductions in overall levels and efficacy of real investment as financial instruments and activities expand at its expense even if excessive investment does take place in particular sectors at particular times (as with the dotcom bubble of a decade ago); prioritising shareholder value, or financial worth, over other economic and social values; pushing of policies towards conservatism and commercialisation in all respects; extending influence of finance more broadly, both directly and indirectly, over economic and social policy; placing more aspects of economic and social life at the risk of volatility from financial instability and, conversely, places the economy and social life at risk of crisis from triggers within particular markets (as with the food and energy crises that preceded the financial crisis).”
Therefore, the pension reforms in the European Union countries are not simply the result of the privatization trend triggered by the World Bank. The financialisation approach, moreover, has the advantage of explaining the halt to the reforms after the crisis. As covered above in this paper, most of the EU countries responded to the financial crisis through regulations related to the financialised pension schemes because the increasing significance of private pension schemes exposed households to the volatilities of financial markets. For this reason, some governments have introduced measures against risky investment of pension funds in the aftermath of the 2008 crisis, which can be interpreted as a break with financialisation of pension provision.

CONCLUDING REMARKS

As can easily be seen from developments in recent years, pension systems have become more and more financialised which also means that households are more involved in financial activities through savings mechanisms for old age. However, this also puts household well-being at risk because of the characteristics of the financial activities. Luckily, the recent literature on crisis and pension schemes seems to acknowledge the significance of efficient and safe pension provision. High unemployment, low growth rates and rising national debt levels are the usual suspects for explaining difficulties that pension systems have confronted in recent years. What is unusual in this sense is that now ‘financial market volatility’ is included as an aggravating factor for pension schemes. Moreover, it is emphasised that there is no ideal pension system to fit every country, and principles such as solidarity between generations and national solidarity are key in this context. Some of the concerns in respect of private funded schemes are as follow:

“Increasing reliance on private schemes has fiscal costs, given the widespread practice of providing tax incentives during the accumulation phase. The costs of tax relief can be considerable and its effectiveness and redistributive impacts questionable. With public budgets under heavy pressure, some Member States are now reconsidering the efficiency of this spending. Furthermore, if private schemes cannot deliver their promises, there will inevitably be pressures on the public purse to pick up part of the tab.”
These considerations are still inadequate because they are far from showing the functions of private pension schemes with respect to financialisation. The general view of private pension schemes decreasing the burden on state pensions seem to be invalid in the aftermath of the crisis because the crisis showed the instability of financial markets and reminded governments of their responsibilities for covering possible outcomes. Further, increasing prevalence of budget deficits across the EU countries raised reconsiderations of tax incentives (for participation into private, individual pension schemes). As a result, recent policies regarding pension system transformation in the EU countries should be understood in the context of a broader framework which associates financialisation with households’ well-being. Moreover, low economic capacity and unemployment, which are both directly related to financialisation and crisis, had worsened the people’s well-being in terms of prospective old-age well-being, while the unemployed have not been able to contribute to pension schemes. Besides, the employed workers also have had to accept lower earnings or shorter working periods, which would in the long run lead to contribution gaps and inadequate entitlements for retirement. The impact of these would be of significance particularly in respect of the latest reforms which have tightened early retirement options, increased contributory periods and abolished the opportunity windows for unemployment gaps. The rising difficulty of funding a full and adequate pension provided by a state scheme became associated not only with budget deficits but also with making people more in need of private, funded pension schemes. In relation to this, the arguments on ‘grey consumption’ (mentioned above) should be considered.

In recent years, higher life expectancy has been attributed in a way as if it were a ‘curse’ which causes large budget deficits, and its impacts should be eliminated by enforcing people to work longer. Meanwhile, recent reforms have created more financialised pension provision in the EU countries. However, in recalling the key role played by pensions in alleviation of poverty, it can be argued that pensions are essential for the well-being of European Union residents and, for this reason, the risks brought by financialisation should be reconsidered.
APPENDIX I: Pension provision in each country across the European Union

AUSTRIA

The pension provision in Austria is provided through a statutory pension scheme which is an earnings-related and unfunded scheme. The scheme is organised on a PAYG basis, financed mainly by insurance contributions and provides old-age pensions for all people in employment.17 The current statutory retirement age is 65 years for men and 60 years for women. Early retirement is possible under certain circumstances and ‘corridor pension’.18 Pension benefits are principally indexed according to the consumer price index (CPI). The Austrian statutory pension system does not provide for an unconditional minimum pension. However, the means-tested equalisation supplement may be applied for people who are eligible for a pension entitlement but their benefit levels are low. Private pension schemes have a limited role, though it has been increasing recently. In 2010 about 22% of the employees were entitled to receive an additional pension from an occupational scheme (about 4.5% of the population aged 65 and above were already beneficiaries). Since 2003, private individual savings are available through the premium-aided pension savings scheme which has a limited impact as covering only about a quarter of the population at age below 60 in 2010.19

BELGIUM

In Belgium, the pension system is based on a publicly-managed statutory social security system which consists of three different retirement schemes; for employees, self-employed and civil servants. This system is unfunded, organised on a PAYG basis and benefits are calculated with defined benefit principle as a percentage of the capped average salary.20 Besides three schemes, the statutory social security system contains pension expenditures by several state-owned companies as well as the outlays by the assistance scheme (guaranteed income for elderly persons).21 Occupational pension schemes are less common, and voluntary individual pension schemes are of minor importance. Pensions are automatically adjusted to the price index.22 The retirement age is
65 and a career length of 45 years gives the right to a full pension for both men and women. For the private sector, the legal retirement age is not compulsory: working longer is possible. There are also supplementary pension rights in connection to professional activity on enterprise or on sectoral levels which are funded, and can be of both the defined-benefit or defined-contribution type.

BULGARIA

Bulgaria has a pension system formed by three parts: first, mandatory state pension insurance, functioning on the basis of the PAYG principle; second, mandatory supplementary pension insurance which is comprised of two schemes, universal pension funds (covering those born after 1959) and, workplace-based professional pension funds (covering persons working in the first and second category of work); third, supplementary, voluntary, funded pension insurance. In Bulgaria, all works and activities are divided into three categories depending on their nature and difficulty and working conditions. The categories are taken into account for the calculation of pension benefits, which directly links the rate of pensions to the insurance contributions expressed by duration of length of service and income for the whole working life. The indexation is determined by 50% of the consumer price index and 50% of the growth of the contributory income.

CYPRUS

The Cypriot pension system contains two parts: the first part consists of the General Social Insurance Scheme (GSIS) which is a compulsory and earnings-related, funded scheme that covers every person gainfully employed in Cyprus, and the Social Pension Scheme (SPS) which is income-tested and covers each resident of Cyprus with low pension income. The second part of the system is formed by occupational pension plans and includes Government Employees’ Pension, Semi-government Sector Employees’ Pension, and Voluntary Provident Funds and other collective arrangements. The pensionable age is 65 years for both men and women; yet early retirement, without any actuarial reduction, at the age of 63 is common (if certain qualifying conditions are satisfied). The basic component of
the pension income is indexed to the rate of annual increase of the average gross insurable earnings, while supplementary component increases in accordance with the consumer price index. There is also a minimum pension The Social Pension Scheme (SPS) which is paid to insured persons who are eligible for a pension and their total basic and supplementary pension is less than that amount of minimum pension.26 The second part of the system includes the occupational plans and, currently, around 45% of employed persons are covered by an occupational employer-sponsored pension plan. The Government Employees Pension Scheme (GEPS) has been in the process of integration within the GSIS and is, therefore, closed to newcomers since 2011.27

CZECH REPUBLIC
The Czech pension system is based on two parts: the dominant component is a universal state pension scheme which works on defined-benefit, PAYG principle. The second part is a voluntary, funded scheme which includes supplementary pension insurance with state contributions. Participation in the PAYG scheme is compulsory for all economically active persons and allows restricted voluntary participation for the economically non-active and the coverage rate is almost 100% of the workforce. Contributions are made by employees, employers and the self-employed; and, the value of the pension depends principally on the number of years of contribution, earnings during the years, the income ceiling and earnings thresholds.28 To be entitled to an old age pension a person has to reach an insurance period of at least 25 years and a retirement age specified by a law; or at least 15 years of insurance and the age of 65. The second part of the system is a voluntary, supplementary, fully-funded and state-subsidized, defined contribution (DC) pension scheme. Employer’s and employee’s contributions are subject to additional tax allowances but these remain of minor importance (average monthly participant contribution as of 2011 was only 1.8% of average gross wages). There is no occupational pension scheme in the Czech pension system.29
DENMARK

The Danish pension system contains three parts: first, a statutory, public old-age pension that is granted from the age 65, i.e. the national basic old age pension. This national old-age pension is a universal, non-contributory, financed by taxes on a PAYG-basis and it is achieved after 40 years of residence in Denmark after the age of 15. In addition, there is also a smaller supplementary pension (ATP)³⁰ and both basic and supplementary amounts are reduced once income level exceeds a certain amount. Benefits are taxable and consist of a flat-rate amount, and means-tested supplementary benefits are available for people with little or no other income.³¹ The second part of the pension system comprises occupational pensions which are based on collective agreements, and of major importance - covering 90 per cent of all employees. The bulk of these labour market pensions are defined-contribution, fully-funded, savings-based group schemes. The third part comprises individual pension schemes, and almost one million (more than 30% of labour force) Danes pay into these. In statutory and occupational schemes the pension eligibility age is presently 65 years and in the early retirement option is at 60.³² Both are to be gradually raised and indexed to life expectancy as part of reforms.³³ In addition, there are a number of supplementary, statutory pensions such as the Special Pension Savings Scheme (SP) and the Supplementary Labour Market Pension Scheme for Recipients of Anticipatory Pension (SAP), and the voluntary early retirement pension (VERP), which is a voluntary, contributory scheme where the financing involves a subsidy from general taxation.³⁴

ESTONIA

The Estonian pension system consists of three main schemes: the first is the state pension fund which is a defined-benefit, statutory, PAYG system and is included in general government accounts; the second is mandatory and a funded scheme functioning on a defined-contribution basis (it is compulsory to newcomers in the labour market and to all the persons who were born from 1984); and the third is a voluntary, funded, defined-contribution pension scheme.
The first pension scheme comprises two components: employment-based pensions and flat-rate, residence-based national pension. The coverage of this insurance system is practically universal. The right to claim a national pension starts from the age of 63 on condition that the applicant has lived in Estonia for at least 5 years.\textsuperscript{35} In 2012, the pensionable age was 63 years for men and 61.5 years for women. It will be equalised at 63 by 2016 and, from 2017, this will gradually increase to 65 by 2026. Old age pension includes three parts: the flat-rate base amount, length-of-service component, and insurance component. Pensions are indexed annually. The index is a weighted average of past consumer price indices and past growth of social tax revenues to the pension insurance system (in a 20-80 proportion). The compulsory funded defined-contribution (DC) scheme diverts a portion of contributions from the statutory PAYG scheme into private funds and introduces additional contributions by employees.\textsuperscript{36} Participation is mandatory for persons born from 1983. Tax incentives have been introduced to encourage participation in the voluntary private pension schemes, but it is still limited to about 6% of the working age population.\textsuperscript{37}

FINLAND

The Finnish public pension system comprises two statutory pension schemes: one is the national guarantee pension scheme providing a minimum pension to all residents whereas the other is an employment-based, earnings-related defined-benefit pension scheme. The coverage of the statutory schemes is comprehensive and net replacement ratio of public pensions is relatively high. Thus supplementary pensions, such as occupational pensions or individual pensions, are of little importance. The financing method of the earnings-related pensions is a combination of a fully-funded and PAYG contributions from both employers and employees.\textsuperscript{38} The pre-funded scheme covers approximately one quarter of earnings-related pension outlays, the rest is financed through the PAYG system. The pre-funding is collective and it actually has no effect on the size of the pension. The main purpose of the pre-funding is to smooth pension contributions in the coming years. The financial position in the earnings-related pension schemes is healthy as
the system is running on surpluses.\textsuperscript{39} The earnings-related pension scheme covers all employees and the self-employed. The retirement age is flexible between 63 and 68. The pension eligibility age for the national and the guarantee pension is 65 but earlier pension take up is possible from age 62 with a deduction in the amount of pension. Earnings-related pensions are indexed with a weighted index comprising 20\% of wage and 80\% of price developments.\textsuperscript{40}

FRANCE

The French pension system is based on the PAYG principle and essentially is characterised by a relatively high degree of \textit{occupational fragmentation}. The “régime général” covers all \texttt{private-sector} workers (around 60\% of the workforce) with a defined-benefit pension and is complemented by a mandatory PAYG pension scheme which is established by two national collective agreements (employees and cadres). These are ‘point’ schemes in which benefits are tightly linked with the amount of contributions from workers and employers. Civil servants and employees of \texttt{public-sector} companies are covered by special schemes and they receive defined-benefit pensions. The minimum retirement age is 60 years and 4 months, due to increase gradually to 62 years by 2017 after 41 years of working. Workers with long careers and who have a long contribution record can retire early under specific conditions and draw a full pension but eligibility rules will gradually become \textbf{strict} following the 2010 reform. Besides the contributory schemes, a means-tested minimum pension (minimum vieillesse) is granted to all residents in need and above the age of 65.\textsuperscript{41} The funded pension plans are of minor importance despite the tax incentives.

GERMANY

The pension system in Germany contains \textbf{three} parts; a PAYG, \textit{earnings-related statutory} pension scheme which presently covers around 80\% of employees; the \textit{occupational} pension system; and, lastly, the \texttt{private} pension systems which are not mandatory, but of growing importance (since these systems are tax-promoted and subsidised by government especially for low income earners). Further, Germany runs a statutory pension system for
civil servants, judges and professional soldiers, which are basically financed by budget resources, and special schemes exist notably for farmers and the liberal professions. If individual old-age provision income is insufficient, means-tested benefits can be claimed from a need-oriented social protection scheme. The budget of the statutory pension system is based on two major sources: the contributions by employers [25%] and insured persons [75%] and the tax-funded government subsidies.\(^\text{42}\) The statutory pension scheme used to be of the defined-benefit type. However, there is a shift towards the defined contribution formula since 1989/92. Also, civil servants’ pensions used to be PAYG-financed but they are currently in the process of shifting towards capital funding. Under current legislation the pensionable age for men and women in 2012 is 65 years and one month. Early retirement is still possible, under certain conditions and deductions. Occupational pension schemes as a voluntary component constitute the second part of the system but its coverage is limited.\(^\text{43}\) The third part of the system consists of a great variety of voluntary capital-funded additional types of retirement savings.

GREECE

Pensions in Greece are based on the three parts in principle: a PAYG-based, mandatory, public system; fully-funded occupational pension schemes; and private insurance schemes. However, the second and third parts of the system are insignificant compared to the first, which provides primary and auxiliary pensions under numerous funds. Besides the defined-benefit public pensions, there are occupation-based auxiliary funds which provide supplementary income as a part of the first pillar. Retirement age is set at 65 years across all schemes (and early retirement at 60). Social insurance funds\(^\text{44}\) are self-governing bodies operating under the auspices of the Ministry of Labour and Social Security and managed by representatives of employees, employers and the state.\(^\text{45}\) Moreover, there is an income-tested scheme that is called Social Solidarity Benefit [EKAS]\(^\text{46}\) that has provided income to low-income pensioners since 1996.
HUNGARY
The mandatory pension system in Hungary consists of two parts: the first is a uniform, state, PAYG-financed, defined-benefit, social security pension scheme. It provides earnings-related old-age benefits, which are financed mainly from separate pension contributions. The second part is operated on a funding basis, defined-contribution, private pension funds. The funds are of a personal rather than occupational nature and accumulate and invest contributions paid by their members into their individual accounts. Persons entering the labour market for the first time are automatically enrolled into the new “two-pillar” scheme, and currently more than half of the labour force is member of the new system. Moreover, various forms of voluntary supplementary pension insurance schemes are in place such as voluntary mutual pension funds, pension savings accounts and life insurance. Since 2012, employer contributions were renamed as a social contribution tax, and the rate of this tax remained at the previous level [27%, with pension and health and labour market contributions combined]. However, these fall under the tax legislation and not of contributions. The retirement age is 62 and the indexing rule is the Swiss index (half-wage-half-price).

IRELAND
The Irish pension system is divided into two main parts; the Social Welfare System which works on PAYG basis and provides flat rate payments under two schemes, social insurance and social assistance; and, the voluntary, supplementary pension schemes. The Social Welfare system is administered by the state and funded through social insurance contributions and tax revenue. The eligibility for contributory social insurance pension benefits derives from an individual’s Pay Related Social Insurance (PRSI) record, whereas non-contributory social assistance pensions are available on a means-tested basis to those who do not meet the social insurance requirements. The state pension provides a comparatively low replacement rate though it is the primary source of income of older people, making up two-thirds of the gross income of those over 65 years old. The second part consists of voluntary supplementary pensions including public service PAYG
schemes; and funded occupational pension schemes and personal pensions arranged by individuals. In order to increase retirement saving through supplementary pensions tax reliefs are in place for employers and individuals.

ITALY
The Italian pension system is almost entirely composed of a compulsory, public component that is financed on a PAYG basis. It provides contributory pensions to those who fulfil contribution requirements. The most fundamental characteristic of this system is its highly fragmented structure.50 A public scheme based on notionally-defined contributions (NDC system) has been set to replace the old defined benefit structures gradually, and it is applied fully to people that have entered the labour market since 1995. The NDC system applies homogenously across the six major pension schemes for: private and public employees, farmers, artisans, dealers-shopkeepers, and atypical employees hired as project workers. Rules for calculating benefits are standardized so that the differences between contribution rates will be reflected in the pension levels for the various professional categories. The standard age for pension entitlement is 66 years and three months for public sector employees and male workers in the private sector while, for female employees in the private sector, it is 62 years and the minimum pensionable age will be 67 in 2021 for everyone. Besides the public scheme, there are typical occupational pensions for specific groups of employees and the personal pension plans through life insurance contracts (PIP). A means-tested, tax-financed ’social pension’ for the elderly in need is also available.

LATVIA
The statutory pension insurance in Latvia consists of two parts; the first scheme is designed as an earnings-related, notional defined contribution (NDC) scheme, which is financed on a PAYG basis, but resembles a funded scheme in terms of its construction. The second pension scheme operates according to the accumulation and investment principle. It is voluntary for those borne before 1971 and mandatory for younger cohorts. Moreover,
there is the possibility of making private savings in pension funds on a voluntary basis through the third part. Working pensioners continue to contribute and accumulate additional notional pension capital. This newly accrued pension capital also yields a rate of return, and the benefit is recalculated upon final retirement to include this new capital. The principle behind this is that it provides an opportunity and support for gradual withdrawal from the labour force.

LITHUANIA

Lithuania’s statutory social insurance pension system consists primarily of two parts: the state PAYG financed, defined-benefit scheme and a mandatory, funded, defined-contribution scheme. These schemes are financed by a fraction of the social insurance contribution of employers, employees and self-employers. Moreover, a universal, non-contributory social pension and a voluntary, fully-funded, defined-contribution schemes are available. The pensionable age has been gradually increased to reach 65 in 2026. The qualifying period to receive full social insurance basic pension is 30 years. Participation in the defined-contribution scheme is voluntary. Nevertheless, the number of participants in the scheme has grown rapidly due to involvement of younger population (with 90% activity rate).

Moreover, the income-tested social assistance state pensions are paid to persons who do not have a sufficient social insurance record. As only 63% of the working age population is covered by pension social insurance, an increase of social assistance pensions in the future is expected (13% of all pensioners in 2060). Lastly, the voluntary pension provision also exists but its take-up remains marginal within the labour force. It is possible to establish occupational pension schemes though none has been created yet despite the adaptation of the Law on Funded Occupational Pensions in 2006.

LUXEMBOURG

The public pension system in Luxembourg is divided into: a general scheme for private sector employees and the self-employed; as well as, a special scheme for civil servants
and other public sector employees. Both systems are organised as PAYG systems and, together, cover the whole of economically active society on a mandatory basis. The civil servants’ scheme, despite being harmonised with the general scheme as regards contributions and determination of benefits, is still kept separate. Employers, employees and the state pay the contributions in equal shares of 8% of gross salary. Over the last decades, Luxembourg has enjoyed a period of continuous economic growth which, along with a large influx of cross-border workers, has built a very strong economic basis for the pension fund (by the end of 2010 the pension system was able to accumulate a large reserve of 3.8 times yearly expenditure, which equalled 27% of GDP). Any insured person who has reached 65th birthday is entitled to a retirement pension and early retirement is possible at the age of 60. Pension benefits are linked to two indices, a consumer-price and a wage index. The second and third pension parts of the system play an increasing but still marginal role in Luxembourg as the public system alone represents 91.83% of all pension contributions. The supplementary company-based pension plans represent 6.65% and, the third tier, with a total of 1.53% of all annual pension contributions, still remains insignificant.

MALTA
In Malta, public pension provision consists of contributory, mandatory earnings related pension scheme, financed on a PAYG basis and a non-contributory means-tested (non-contributory) welfare programme which provides additional assistance to certain specific categories. The entire population is covered under the contributory scheme which is an unfunded, defined-benefit scheme system where an employee, self-occupied or self-employed person pays a weekly contribution. The contribution payable by employees and employers represents 10% of the basic weekly wage matched by the State contributions equivalent to 50% of the total amount paid by both employee and employer. Contributions are payable by all persons between age 16 and pension age. A self-employed worker pays a contribution based on his/her total net income, with a maximum rate of 15%. Higher income levels are excluded from this system by means of ceilings, and these offer better
replacement rates to lower income earners while containing the financial cost of the system. Occupational pension schemes and personal pension provisions are still in a very nascent stage of development in Malta as there are no voluntary or mandatory private pension schemes.\textsuperscript{63}

NETHERLANDS

The Dutch pension system consists of three parts: the basic state old-age pension under a statutory insurance scheme (AOW – General Old-Age Pension Act); the supplementary pension schemes through agreements between social partners at company or sector level (occupational pension schemes); and private savings for retirement. The statutory insurance is a PAYG scheme which provides a flat-rate pension for the all people who are 65 and older.\textsuperscript{64} People who are not entitled to the AOW benefit, and who have a total income below the subsistence level, are granted social assistance. The second part comprises the occupational, non-statutory pre-funded pension scheme which covers more than 90% of employees in the Netherlands.\textsuperscript{65} Recently, many pension funds have switched from final pay schemes to average pay schemes. A distinctive feature of the occupational pension schemes is that they are jointly managed by trade unions and employers organisations. These pension schemes, as agreed by the employers and employees, can have the character of a defined benefit (DB) scheme or a defined contribution (DC) scheme with the defined benefit schemes are more dominant (90%).\textsuperscript{66} There are also mixed Collective Defined Contribution (CDC) schemes, which combine a defined benefit promise to the participant and a fixed premium for the employer. The third part consists of individual funded pension provisions encouraged by tax advantages within certain limits. This part is relatively small and employees use it mostly to compensate pension deficits due to deficits in their work record. In recent years, these funds gained importance because of the growing number of self-employed people.
POLAND

In Poland, pensions are paid out from two insurance systems: the first covers general employees and the self-employed outside the agricultural sector; and the second consists of special schemes, for instance a tax-financed social insurance scheme for farmers and for uniformed services such as military, police and prison services.\textsuperscript{67} The first system is a statutory pension system which consists of two parts: an unfunded notional defined contribution scheme administered by the Social Insurance Institution (ZUS); and a fully-funded, privately managed, defined contribution scheme of open pension funds. This system is financed by the contributions of employees and their employers. The contribution is collected by ZUS and divided into the contribution for the NDC pensions and for the fully-funded schemes.\textsuperscript{68} The only eligibility condition is the standard retirement age, 60 for women and 65 for men, and extensive early retirement possibilities were abolished from 2009. Pension payments are adjusted annually according to the consumer price index of the households of pensioners (or the general consumer price index, if it is higher than the index for the households of pensioners), and increased by at least 20% of real growth of average earnings in the previous year. As pensions are financed from contributions before taxes, old-age pensions are subject to personal income tax. Additional sources of income security, employee pension programmes, occupational pension schemes, and private individual retirement accounts are of insignificant importance.

PORTUGAL

The Portuguese public pension system is based on the statutory social security (SS) regime which is an earnings-related unfunded scheme for private sector employees, self-employed workers and civil servants. The statutory pensions are calculated using a defined benefit formula, financed on a PAYG basis by social contributions and coverage is around 90% of the SS pensioners. Moreover, there are non-contributory, means-tested pensions which are fully financed by state transfers and cover the aged not eligible for social statutory benefits and in need. There is also a non-mandatory funded scheme since 2008. The statutory retirement age is 65 for both men and women and 15 years of insurance is
required to be entitled to the old-age pension. There is a special pathway to retirement at the age of 62 for long-term unemployed older workers if unemployment occurs after the completion of 57 years. There is a flexible retirement option for workers having completed 30 years of insurance who, at the age of 55, can retire after that age subject to a 6% penalty upon the benefit per anticipated year of retirement. Complementary private retirement schemes play a modest role. Large companies have set up occupational pension plans with defined contributions that are fully-funded. Individuals have subscribed to fully-funded private pension plans with defined contributions, largely due to the tax deductions allowed until recently.

ROMANIA

The Romanian pension system consists of three parts: a PAYG scheme; a mandatory private defined-contribution funded scheme (part of the individual contribution from the public pension system is accumulated in individual accounts); and voluntary private pensions functioning on defined-contribution principle. The PAYG scheme covers the employed persons with individual labour contracts, civil servants, diplomatic personnel, legislative and juridical authorities, craft cooperative members, and recipients of unemployment benefits, and the pension benefits are calculated on the basis of individuals’ accumulated points (which are determined by contributor’s wage relative to the average wage in the economy). In 2012 the pensionable age was 59 years and 3 months for women and 64 years and 3 months for men, with the full contribution period of 28.6 years for women and 33.6 years for men. There are two early retirement options in the Romanian old-age pension system: employees aged a maximum 5 years below the pensionable age and who contributed for at least 8 years above the standard contribution period are eligible for a full early retirement pension; and partial early retirement is allowed for those having completed their contribution period and who are up to 5 years below the pensionable age. In case of partial early retirement, the benefit is penalised by 0.75% for each month below the pensionable age.
SLOVAKIA
The pension system in Slovakia consists of three parts: broadly-used mandatory, defined-benefit, PAYG system, ‘pension insurance’; a mandatory defined-contribution funded scheme, ‘old-age pension saving’; and the voluntary supplementary defined-contribution funded scheme, ‘supplementary pension saving’. The first scheme is administered by the public Social Insurance Agency and financed by contributions paid by economically active persons (18% of gross earnings if a person is enrolled only in the DB scheme). The second scheme is managed by six private pension management companies and financed by contributions paid by economically active persons each at a rate of 9% of gross earnings. Supplementary pensions are financed by employers’ and employees’ contributions paid beyond mandatory social security contributions. The minimum insurance/saving period for pension entitlements in the first scheme is set at 15 years and in the second scheme at 10 years. The statutory retirement age is 62 years and early retirement is possible, but no sooner than 2 years before statutory retirement age, and with restrictions on retiree’s economic activity. Pensions are indexed every 1st January by the arithmetic average of wage growth and inflation determined for the first half of the preceding year (so-called Swiss indexation). There is no guarantee of a minimum old-age pension; old persons in need may apply for a social assistance benefit. The pension system in Slovakia covers disability and survivors’ pensions besides old age whilst certain public services are covered by special social security systems.

SLOVENIA
Currently, the pension system in Slovenia is a combination of two schemes: a defined benefit PAYG-financed model and a funded defined contribution scheme which is mandatory for only public employees and arduous occupation workers. The first system is managed by an autonomous public finance agency, by the Pension and Invalidity Insurance Institute, whereas the second is managed by a state-owned insurance company. The eligibility criteria for a public pension is currently, retirement age of 63 for men and 61 for women and 20 years of insurance period. Persons who do not satisfy the condition of 20
years can retire at 65 (men) and 63 (women), but if they have at least 15 years of insurance and people with long careers (respectively, 40 and 38 years of work for men and women) can retire at 58 without deductions. The second part of the system consists of funded DC type schemes and two-thirds of all employees are now enrolled. They are mandatory only for public employees and for persons employed in arduous occupations. Contributions are low even for the mandatorily insured.

SPAIN

The Spanish public pension system is organized in two main schemes: a labour-market-based defined-benefit social security scheme which is contributory; and a non-contributory basic scheme that is means-tested system introduced for those who are not eligible for the contribution. Both of them are financed on a PAYG basis. The contributory system is mandatory for all employees and also for the self-employed, and the majority of workers are covered by the system of social security which manages more than 93% of the contributory pensions. Also there are special schemes for some workers (civil servants, justice system and the army). Eligibility requirements for old age pensions under the SS Contributory Public Pension System are 65 years of age and 15 contribution years. Pension benefits are taxed as labour income while compulsory social contributions are excluded from the income tax base. The Spanish system has a redistributive character with the use of differentiated taxation for pension benefits and contributions across several thresholds. Private pension plans are voluntary and they include individual and occupational pension funds which are financed by employers and employees and usually work on a defined-contribution basis. The pension funds derived from private pension plans have to be administered and managed by an authorised financial entity outside the companies. Private pension benefits are also taxed as labour income. However, contributions to private pension schemes enjoy favourable tax treatment. Still, coverage of occupational and other supplementary pension in Spain is low (pension funds are less than 10% of GDP).
SWEDEN

The Swedish public social insurance pension consists of three parts: first, the *income pension* which is a notional defined-contribution (NDC) scheme functioning on a PAYG method; second, the *premium pension* that is a fully-funded, mandatory, defined contribution scheme; and third, a defined benefit *guaranteed minimum* pension which is financed by general taxation and is called the guaranteed pension. *Income pension* is an earnings-related and individual-accounts based old-age pension scheme which consists of a PAYG financed component and a fully-funded, defined contribution (DC) component. If the income pension is inadequate it is supplemented by the guaranteed pension. The retirement age is flexible and one can claim income and the premium pension from age 61 and early pension take up reduces benefits, while postponing retirement beyond age 65 leads to a higher pension benefit. On the other hand, the guaranteed pension may only be obtained from 65 years of age and on a low-income pension. There is no upper age limit from when a pension has to been drawn as an employee has the right to work until 67 and may work longer if the employer allows it. Besides the public system, *occupational pension* schemes, established through sector-wide collective agreements, cover around 90% of employees. There is no distinction in Sweden between public and private sector employees. However, rules and schemes vary within private schemes, and these schemes are most important for high-income earners. There are four major occupational plans: blue-collar workers in the private sector; white-collar workers in the private sector; central government employees; and local government employees. Recently, these four occupational systems have been renegotiated and have *moved from DB to DC designs for new entrants* as with the public system. Private pension savings enjoy being tax-deductible in contrast to other private savings.

UNITED KINGDOM

The UK pension system consists of *three* parts: the first scheme is provided by the *state* and consists of a basic level of pension provision. The state pension includes a flat rate *Basic State Pension* (BSP) which depends on level of *contributions* to the National
Insurance (NI). Pensioners with 30 qualifying years are entitled to a flat Basic State Pension at 65 years old. Through the ‘pension credit’, a means-tested supplement is also granted to people aged 60 and over and in need. The second part of the system is an earnings-related, mandatory scheme which operates on a PAYG basis and is also provided by the state for employees (but not for the self-employed). This scheme consists of the State Second Pension (S2P), from which people can opt out and make equivalent private savings in a contracted-out funded pension. Public sector employees are offered membership of an occupational and defined benefit pension scheme whereas private sector schemes are governed by Trusts. The third part of the pension system in the UK consists of private pensions, which are voluntary pension arrangements that are not directly funded by the state. There are some tax exemptions for these funds under certain circumstances. While, in the past, the majority of these pension schemes have been defined-benefit schemes, there has been a clear trend towards defined-contribution systems.
APPENDIX II. Reforms in pension systems in each country across the European Union

Outcomes of the reforms implemented in the EU countries recently can be summarised with one sentence: getting retired has become one difficult task for everyone and, now, it is more a personal issue. Higher minimum retirement age, little chance of early retirement, more contributions, longer careers, less intergenerational solidarity, less inter-sexual redistribution, are the new rules of the game. Besides these quantitative adjustments, two qualitative shifts can be observed: from a state-mediated pension income through PAYG finance mechanism towards a financial market-mediated pension income through the returns of investments in private funds. The second shift, on the other hand, is seen from defined-benefit calculation to defined-contribution principle in which pension benefits are directly linked to financial market performance. These are the general tendencies. However, each country’s experience is still peculiar and is subject to closer scrutiny in the following.

AUSTRIA

The Austrian statutory pension system was subjected to reform in 2010 with early retirement substantially tightened. The opportunity for post-purchasing insurance periods (for times of school and university studies) was abolished, and deductions for this type of early retirement were introduced. In 2012, a further major pension reform was introduced which both lowered the valorisation index for 2013 and 2014 and sharply increased the contribution rates for self-employed persons in the years 2012 to 2015. It also raised the ceiling for the gross earnings and contributions, making the pre-retirement scheme (corridor-pension) much more expensive with higher deductions (increasing the eligibility criteria for corridor-pension and the phased out pension from 37.5 to 40 years in the period 2013 until 2017). More importantly, the 2012 reform abolishes the parallel-calculation and shifts the corresponding – group solely into the individual pensions – account scheme. Thus, all pensions rights accrued according to the parallel-calculation are transferred to the individual account. Thereby, it is aimed to give a clear and transparent
signal and regular information to the insured person and converge the pensions of white-collar and blue-collar workers as well as male and female pensioners.\textsuperscript{78}

**BELGIUM**

The reform trends in Belgium have focused on limitation to early retirement and on length of career instead of age. The possibility to enter early retirement will, from 2015 onwards, be open only for those who reach the age of 62 (instead of 60 today) after 40 years career (instead of 35 today). Periods of inactivity for the calculation of pension rights will be considered differently and less advantageously. A move is made towards a more homogeneous treatment and the pension schemes for civil servants regulated toward longer contributory conditions. The main objective of the recent reform has been to add 2 years to the effective retirement age without touching the pensionable age itself by revising the early retirement conditions.\textsuperscript{79}

**BULGARIA**

By 2012 the retirement age in Bulgaria started to increase by 4 months in the beginning of every calendar year till reaching the age of 65 for men and 63 for women. It is envisaged to increase the retirement age to 67 in 2017 with the preserved requirement of 15 years. Moreover, the length of service started to increase by 4 months per year until 2020 when men will retire after 40 years at work and women after 37 years work. Eligibility criteria for those working under difficult conditions have been tightened.\textsuperscript{80} Moreover, starting on 1 January 2015, early retirement pensions for these workers (I and II category) will be paid from the Professional Fund.\textsuperscript{81}

**CYPRUS**

Recent reform measures adopted include: the progressive increase of contribution rates (which will increase significantly the future revenues of the GSIS); tightening of eligibility criteria for retirement; and gradual increase of the effective retirement age 65 (which is already above the EU-27 average). Moreover, the occupational Government Employee
Pension Scheme (GEPS) has become closed to new members and any newcomers have to join GSIS under the same terms and conditions as private sector workers. These legislative amendments will have a significant downward effect on the public pension expenditures particularly in the long term.\textsuperscript{82}

**CZECH REPUBLIC**

The recent parametric changes implemented in the PAYG scheme can be counted as: [a] limiting credits for some of the non-contributory periods, [b] the gradual extension of the minimum required insurance period to 35 years by 2019, [c] changes in the pension formula,\textsuperscript{83} [d] the extension of early retirement period with more deductions, and [e] eligibility age for pension has increased and will continue to increase to equalise for both women and men at 67 in 2044.\textsuperscript{84} By 2011, a fundamental reform for pension provision in the Czech Republic has been processed which creates a funded, defined-contribution scheme that partially replaces the current PAYG scheme. Decision on participation in the funded scheme is voluntary and irreversible. The pension contributions are managed by pension institutions, and each pension company is required to offer four pension funds involving different levels of risk and investment strategies. Capital accumulated in the funded scheme is used to purchase retirement plans from life insurance companies. Participation in the funded scheme affects the pension benefit received from the PAYG scheme. The reforms aim principally to diversify the sources of income in old age.

**DENMARK**

The pension system is undergoing a transformation and over the next decade the role of private pensions in pension incomes will increase significantly. Primarily this is because contribution rates to the occupational pension schemes established in the late 1980s and early 1990s have been raised and schemes now are beginning to mature. Also, there has been a large increase in the prevalence and volume of complementary retirement savings in the third part of the system due to the long growth period from the mid-1990s to 2008. In 2011 a reform of the early retirement scheme was passed. The main
elements of the reform were: implementation of an already enacted gradual increase of the eligible age for public old age pension and VERP; the public old age pension age will be increased from 65 to 67 years in the period 2019-22; and the eligible age for VERP will be increased from 60 to 62 in the period 2014-2017. The indexing to gains in life expectancy will begin affecting persons born from 1963 onwards, so when average longevity goes up pensionable ages in early retirement and retirement ages will be raised. Stricter income-testing methods are introduced for early retirement benefits. Thus, it is now less attractive for persons with large pensions in the second and third parts of the system.\textsuperscript{85}

**ESTONIA**

In 2010 the parliament approved an increase of the statutory pension age to 65 by 2026.\textsuperscript{86} In order to react to mismanagement and large losses in investment funds within the second part of the system, an amendment was adopted to clarify management and reporting rules of the pension funds in 2011. An upper limit has been set for tax-free contributions to the voluntary pension scheme which has rendered investment in pension funds more expensive for high income earners. Also employers have become allowed to contribute to the voluntary pension scheme of their employees without paying income tax (but only social tax). These changes are supposed to encourage both individuals and employers to invest more in the voluntary pension scheme, which has suffered severe loss of confidence and popularity among investors in recent years.\textsuperscript{87}

**FINLAND**

The increase in minimum pension age is an important topic of discussion in Finland recently besides the prolonged unemployment benefit for the elderly. An additional major motivation to postpone retirement is the need to strengthen public finances at a time when Europe is facing weak growth prospects and the Finnish population is aging rapidly. Private voluntary individual pension provision has been growing through the 2000s. However, growth has almost stopped recently. Legislation on a new type of long-term saving, 'PS-accounts', entered into force in 2010. The PS-accounts are voluntary, tax-supported saving
accounts enjoying tax deductions like those of voluntary pension insurance. However, expectations of future changes in tax rules and uncertainty about the pensionable age have reduced the demand for these insurance products.

FRANCE
After a very long stable period, in 2010 the statutory retirement age has been decided to be increased gradually from 60 to 62 years by 2018. Also, an increase in the full rate age for a pension, from 65 to 67 years by 2023, has been set. The contribution rates and rights to early retirement for workers with a permanent disability are decided to be harmonised between the public and private sector schemes. An additional reform in 2011 increased the retirement ages to 62 years by 2017 instead of 2018 and 67 years by 2022 instead of 2023. The popular on-going discussions on pension system include subjects such as the unification of the different PAYG schemes and the introduction of a NDC system.

GERMANY
In 2007, Germany introduced a gradual increase of the pensionable age from 65 to 67 by the year 2029. A redesign of the formula to calculate and adjust pension benefits was introduced in order to realise a contribution from the rate growth of the statutory pension scheme. Thus the “net pension level” (net pensions compared to net earnings) was to be reduced about 7 percentage points up to 2030. The emerging gap in income in old age is attempted to be closed by private, voluntary and subsidised pensions. The financing of pensions are shifted more towards private pre-funded pensions while the role of PAYG is reduced as replacement rates of statutory pensions are scaled down. However, public debate has questioned the transparency and costs of private pensions in terms of avoiding poverty in old age. And, despite the rapidly rising number of private pension contracts and proliferation of defined-contribution occupational schemes, public debate motivated the government to start a pension dialogue in 2011. In particular a new benefit was proposed for pensioners with low retirement income but the debate is still on-going.
GREECE

In 2010 a decision of shifting from highly fragmented, Bismarckian social insurance system to a unified, multi-tier system, was made (it will be in force from 2015). And annual adjustment of pensions (from 2014 onwards) on the basis of a coefficient drawing on GDP fluctuations, on the CPI and the financial situation of pension funds was introduced. As a result of these and other measures, significant changes in pensionable income and replacement rates were made, and retirement age and length of service increased so as to be equalised across the working population. Pension amounts were frozen in 2010 and significant cuts followed over the next couple of years. Furthermore, in 2011, more cuts for auxiliary and monthly primary gross pensions were put into effect. Additionally penalties for working retirees were introduced. Recently, auxiliary pensions have been overhauled as a requirement of the second bailout agreement negotiated with international creditors. In this regard, a new auxiliary pension fund, ETEA was introduced. This reform also introduces the amalgamation of the five largest supplementary pension schemes and the reduction of supplementary pension income by an average rate of 15% with the aim to equalise replacement rates across schemes.

HUNGARY

In 2009 parametric corrections were introduced such as: a new indexation method (a combination of the price-index and the wage-index conditioned by a complex system on GDP-growth and which was replaced by the unconditional price index in 2011); the standard retirement age was increased from 62 years to 65 years by 2022; and an early retirement option was closed and the 13th month of extra benefit was abolished. The recent trend of reforms in Hungary was renationalisation of the mandatory private funds. Thus, the entire structure of the mandatory pension system was redefined in 2010. The system, which was a mixture of a major PAYG and smaller funded schemes, has been replaced by a new combination of a pure PAYG scheme and a pure pre-funded scheme (thereby, the mixed system would have been terminated). In 2011 measures were introduced which made early retirement more difficult. A large group of early retirees includes regular old-age
beneficiaries on service-length-based early retirement, and this channel of early retirement was closed down altogether. No new such benefits will be established in the future. Moreover, starting from 2012, disability ceased to be a part of the pension system, and the disability pension was transformed to disability provision and rehabilitation provision, the latter being different from the former rehabilitation benefit, which was also withdrawn. The disability provision will function in effect in the same way as the disability pension. Young beneficiaries of old-age pensioners below retirement age, who worked as members of the armed forces or had dangerous and hazardous jobs, will be offered government jobs or they have to accept a 16% lower benefit.90

IRELAND

On the recent reforms regarding pension system in Ireland, two issues have significant impact: the economic crisis and the publication of the National Pensions Framework (NPF) which maps out a range of measures to increase pension coverage particularly among low and middle income groups while ensuring that state support for pensions is equitable and sustainable. Subsequently, increases in state pension age, and the reform of tax relief arrangements for supplementary pensions were introduced as a response to the EU/IMF loan agreement with Ireland. In 2011, the age of eligibility for a state pension was increased to 66 years for all in 2014, to 67 in 2021, and to 68 in 2028. With the regulations in recent years, the public service entitlements were reduced directly [2010] or indirectly (with new arrangements of levy [2009] or indexation [2011]). Moreover, supplementary pensions were made attractive with several measures, such as: “the introduction of greater flexibility for schemes to restructure; establishing a separate offence for failure by employers to remit pension scheme contributions; enhancing the admissibility of documentary evidence; and protection of trustees for breach of trust”.91 The new eligibility criteria have come into force for new applicants since 2012 and with these the minimum contributions required for qualification for the state pension will be doubled.
ITALY

In previous years, reforms have been introduced which entail a significant increase in the pensionable age starting from 2013, **abolition of the early retirement option and equalisation of eligibility criteria for men and for women** employed in the public sector. A minimum contribution period of 20 years has been introduced and retirement is possible only once the pension entitlement is at least 1.5 times higher than the old age social allowance. Moreover, seniority pensions have been abolished. The rules applied in 2011, on the other hand, have **allowed people to retire before reaching the pensionable age if they provide certain combinations of age and contributory record criteria**. The 2011 reform has made a major step towards a more thorough harmonization of rules across generations by shortening the phasing-in period of the NDC system. In the short to medium term, workers subject to the NDC system retire after contributing for 42 years and 1 month (41 and 1 month for women). Recently, age and contribution requirements for early retirement are now also **linked to changes in life expectancy**.

LATVIA

A gradual increase in the pensionable age has been carried out in Latvia in the past, so that the **pensionable age reached 62 years for both men and women** in 2008. The Government has recently approved a further gradual increase in the pensionable age up to the age of **65 from 2014 to 2020**. The minimum insurance period to qualify for an old-age pension is currently 10 years and from 2014 it will be extended to 15 years and from 2020 to 20 years. The rights to favourable entitlement conditions for certain categories of employees have been gradually abolished; for example, **low age requirements for those working in hard or hazardous working conditions** have been abolished. According to the recent reforms, pensions will not be indexed until 2013. Since 1 January 2011 the amount of old-age pensions is linked to the contributions actually paid to the State Social Insurance Agency. In 2011 the link between entitlement to social insurance benefits and actual payment of the contributions is established. The contribution rate for the second part of the system, which consists of mandatory funded scheme, remains at 2% level until 2013, after
which the rate will be increased to 6%. The supplements to newly granted pensions are abolished from 2012.92

**LITHUANIA**

In Lithuania, as indebtedness of the pension system was growing, in 2010 **pensions were reduced** in a progressive way [with proportionally bigger reductions of higher pensions]. Pensions of working pensioners were reduced to a smaller extent than those of non-working retirees. Despite the inadequate recovery of the economy in 2010-2011 and the reduction of pensions, the Social Insurance Fund recorded **high deficit rates**. In order to solve the deficit problem of the pension system two important documents were prepared: “Concept of Social Insurance and Pensions System Reform” and “Guidelines of Social Insurance and Pensions System Reform”. Issues included within these papers are such as: new calculation of pensions with a **strict dependence on full life contributions**; NDC or “pension points” **alternatives of calculation**; a shift of financing of basic pension into general taxation, leaving only supplementary [earnings-related] part of pension on contributory basis; introduction of **pension incentives to work longer**, applying flexible retirement age; and establishing **clear rules of pension indexation**. Lastly, the funded system is in decline as its importance and role have diminished due to **unsuccessful performance of the funds** in recent years.93

**LUXEMBOURG**

The benefit indexation policy of pensions in Luxembourg has been under discussion since 2009. In 2011 it was again subject to strong **criticism by the International Monetary Fund (IMF)** and the increase in benefits for 2011 (+1.9%) was divided over two years [thus awarded at +0.95% at the beginning of the years 2011 and 2012]. And a law of 31 January 2012 **temporarily modified the price index mechanisms** for wages and pension benefits for the period until 2014. After that period, the automatic price-index mechanism will be re-established without, however, compensating for any loss of intermediate adjustments that might result from these temporary measures. Recent discussion focuses on a moderate
adjustment of the pension formula which would result in a lower replacement rate and keep the current configuration of benefits unchanged.

**MALTA**

In 2006 a vast reform programme was implemented and the key reform measures included: the increase in retirement ages for females and males from the current 61 years (in 2012) to 62 years in 2014 reaching 65 years of age by 2026; the increase in the contribution period to be entitled to the full two-thirds pension reaching 40 years by 2026 (currently 30 years); and a new calculation of the **guaranteed national minimum pension which represents a higher rate than present** and offers an adequate income and calculation of the pension benefits in a way that keeps track of increases in national average wages and inflation.94

**NETHERLANDS**

In 2011 a law introduced a rise in the retirement age from 65 years to 66 years from 2020. Within the law a mechanism is included to enable flexible early retirement for people of 65 and older, and retirement will become possible for at most 2 years below the **enhanced statutory retirement age** though for every year earlier the benefit will be reduced by 6.5%. On the other hand, working longer than the statutory retirement age will be rewarded by a bonus of 6.5% per year with a maximum of 5 years. More importantly, the **AOW-benefit will be increased** with 0.6% per year starting in 2013 until 2028. This rise in the old-age pension has to be regarded as a **compensation for the rise of the retirement age and makes it possible for some occupational groups to retire earlier**. This is important for workers with demanding jobs and people who started working at an early age.95

**POLAND**

In Poland, the access to early retirement was tightened in 2008 and it was **abolished entirely in 2009**. In 2010, measures were taken for **reducing the transition costs**
stemming from the pension reform in order to lower the budget subsidies to the pension system. In 2011, the contribution rate to the second part has been limited to 2.3% and, as a result, the importance of the funded part of the system was decreased. In order to compensate for this reduction, a new form of supplementary voluntary old-age income security has been introduced. This form of provision was started in 2012 and the contributions within this system are subject to tax exemption. Starting in 2013, the pensionable age will be raised by three months every year, reaching 67 years for both ages (by 2020 for men and by 2040 for women).96

PORTUGAL

The fertility rate in Portugal is very low and, at the same time, there is a rising life expectancy. Life expectancy after 65 should rise until 2060 by 5.1 additional years from the 2008 level of 18.1 years and to account for the increasing life expectancy, the statutory pension is adjusted by the sustainability factor. The application of the sustainability factor means a growing cut of the statutory value of the benefit for successive new retirees; thus, the SS pension defined benefit becomes hybrid and the increasing longevity risk is shared by the scheme’s operator and the beneficiary. With the austerity measures of the bailout assistance agreement (with the European Union and the International Monetary Fund), the use of means testing and better targeted social support has been reinforced. There will be taxation for all types of cash social transfers and, for 2012 and 2013, a further cut on pension benefits has been decided, suppressing 2 of the 14 standard monthly payments of higher pensions. Companies established pension funds to finance benefits for the closed groups of pensioners in the banking and telecommunications industries in 2011.97

ROMANIA

In 2011 the rules and mechanisms for establishment of the Guarantee Fund in the mandatory funded scheme were set. The fund, which has become fully functional from 2012, has two roles: to guarantee the payment of benefits if the pension funds fail to fulfil
their payment obligations; and to finance pensions when pension fund companies come under strain because of increased longevity. The resources of the Guarantee Fund will come from a 1% contribution on the minimum required capital of pension funds. Since 2011, all the employees belonging to professional categories have to adhere to a pension fund of the mandatory funded scheme by July 2012 and the contribution rules, the benefit entitlement and the retirement age were equally harmonized. Moreover, the law introduced more restrictive conditions for early retirement and partial early retirement and tightened retirement conditions in the regime of disability pensions. The pensionable age has been gradually increasing and it will be 60 for women and 65 for men at the end of 2014. The standard contribution period giving rights to full pension benefits will attain 35 years for women and 35 years for men.98

SLOVAKIA

In 2008, the minimum period for entitlements in both tiers has been increased from 10 to 15 years. The maximum rate for contributions paid has been raised from three to four times the average wage; only the ceiling for pension benefits in the DB scheme was preserved. Early retirement conditions were tightened and entry to the funded scheme was changed to voluntary for new entrants to the labour market. This resulted in a significant decrease of young people enrolling in the two-tier system (13% of new entrants, 2011 data). In 2009, the administration fees charged by pension management companies have been substantially reduced and pension funds have been also required to exclude of all higher-risk securities from their portfolio. Furthermore, the tightening of rating requirements on stock investments had a similar effect. From 2011, the pension benefit formula in the DB scheme has been partly modified and access to early retirement has been further tightened after concurrence of early pension and gainful activity has been disallowed. Strong guarantees for the future pension income are preserved only in conservative funds (bond funds). On the other hand, the relaxed regulation of other funds (mixed and equity funds, and a new type of index funds) has been effective since 2011. The mission of these funds is to facilitate riskier investments for matured pension schemes.99
SLOVENIA

In 2010 in Slovenia, gradual changes in the pension system were introduced such as increasing the pensionable age, tightening eligibility conditions, improving transparency and more importantly the stabilization of replacement rates. These rates were set at 60% for 40 years of work for men and 38 years of work for women. The Slovenian trade unions opposed this law and a referendum was held in and the new pension legislation was rejected. After this an emergency law freezing all indexation of social benefits, pensions and public sector salaries for the first 6 months of the year 2012 was accepted at the end of the December 2011. The discussions are still going on in this context.

SPAIN

In Spain, recent reforms have increased the minimum contribution period to 25 in 2011 but it will be implemented progressively from 2013 to 2027. From 2027, the proportionality between the contributory period and benefits will increase. Thus the maximum benefit will be entitled with 37 or more years of contributions. In 2011 a general increase of two years in the legal retirement age has been established, from 65 to 67 with progressive application from 2013 to 2027. Every five years from 2027 onwards, the main parameters of the system will be revised taking into account the changes in life expectancy, and the 2011 reform of the contributory system is expected to cut pension expenditure in the long term by the equivalent of 3.6% of GDP. Besides old-age pensions, other pensions have also been in the reform process recently.

SWEDEN

As mentioned before, the benefit calculation method of Sweden’s pension system has been undergoing transformation from defined-benefit to defined-contribution. In addition, as the funded part of the pension system has nearly 800 funds and this has led to growth in advisory services, steps have been taken by the government to regulate the operations of such services better and to improve public information on pensions. In
order to increase work incentives particularly for older-aged workers, the Government introduced an in-work tax credit that is larger for those older than 65, thus encouraging older workers to stay in the labour force longer. Moreover, in 2008 and 2009, the pay-roll taxes were abolished for employees aged 65 or older which entails that employers do not pay social security contributions for the employed older than 65.100

UNITED KINGDOM

One of the most important changes that has come into effect recently in UK pension policy is the difference between the indexation methods regarding basic state pension and the additional state pension (SERPS/S2P). In 2011, the Basic State Pension was increased according to the Consumer Price Index (CPI) instead of using the Retail Prices Index (RPI). The additional State Pension (SERPS/S2P) and public service pensions were also increased by the CPI, which led to lower increases in pension benefits. Moreover, with a recent decision, the Basic State Pension will be uprated with a triple guarantee (amongst earnings, prices [using the CPI] or 2.5%, whichever is highest). This can be also regarded as a compensation mechanism for losses in pension benefits. The state pension age has been increased from 65 to 66 to be fully implemented by 2020, and proposals for the subsequent increase from age 66 to age 67 have been announced whereas the default retirement age was abolished in October 2011. Significant changes were made to the tax relief system for personal and occupational pensions although the annual allowance is still approximately twice the level of average income and thus primarily benefits higher income groups. The UK Government published a White Paper in the 2012 for further discussion on pension reforms.101 Private pension saving has been declining in the UK for years and participation in occupational pensions varies hugely by sector and earnings level. To counter the trend of declining coverage, employers will have automatically to enrol all workers as part of the 2008 pension reform starting from 2012 (to be fully implemented by 2018). Moreover, within the private sector many final-salary schemes have closed for new employees, and some for current workers and the public service scheme, whilst retaining its DB nature, is also moving away from a salary basis to a career average

52
basis. The majority of those private sector employees with workplace pension coverage rely on schemes based on the principle of defined-contributions. Alongside, automatic enrolment, a low cost defined-contribution pension scheme that is called NEST (National Employment Savings Trust) was introduced and employers can enrol their employees into this scheme.
APPENDIX III: The European System of Integrated Social Protection Statistics (ESSPROS)

The need for a specific instrument for the statistical observation of social protection that differs widely across countries gave rise to The European System of Integrated Social Protection Statistics (ESSPROS) which is a common framework developed in the late 1970s by Eurostat that enables international comparison of national data on social protection. ESSPROS provides a coherent comparison between European countries of social benefits such as old-age pensions. The ESSPROS statistical unit is ‘a scheme’, defined as a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing and, according to this definition, there are a total of 887 schemes for the 27 EU countries (2009 year numbers). Moreover, the receipts of social protection schemes are classified by type and origin. Type’ indicates the nature of, or reason for, a payment (Social contributions, General government contributions, Transfers from other schemes). ‘Origin’ specifies the institutional sector from which the payment is received, namely all resident institutional units (corporations, general government, households, non-profit institutions serving households) and the rest of the world. Social protection benefits are defined as transfers to households, in cash or in kind, intended to relieve them of the financial burden of a number of risks or needs and risks include old age, disability, sickness/health care, survivors, family/children, unemployment, housing and social exclusion not classified elsewhere.102
Footnotes

1 The statutory earnings-related, old-age, public pension schemes, which can be a common scheme for all employees or several parallel schemes in different sectors or occupational groups, exist in most countries, except for Denmark, Greece, Ireland and the Netherlands.

2 In some countries these pensions are due to means-tests, in some states such as Denmark, Ireland, the Netherlands and the United Kingdom, the minimum guarantee pension is provided by a flat-rate pension that pays the same amount to every retiree.

3 Pension Systems In The EU – Contingent Liabilities And Assets In The Public And Private Sector [Directorate General For Internal Policies Policy Department 2011].


5 The narrowest form of a social security pension is very basic as the level is fixed independently of the size of contributions. Flat-rate pensions are found in Ireland and the Netherlands.


9 http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

10 http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

11 Description of the data: The share of persons with an equivalent disposable income, before social transfers, below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income [after social transfers]. Retirement and survivor’s pensions are counted as income before transfers and not as social transfers.

12 Active ageing and solidarity between generation - a statistical portrait of European Union. [Eurostat 2012].

13 Balance mechanism: “if assets [the buffer fund plus the estimated value of assets in the form of contribution revenues] fall below liabilities [accrued notional pension capital and capital value of outgoing pensions], then indexation of pensions in payment and returns
credited to notional accounts are reduced by the ratio of assets to liabilities. The balance ratio for year t is used to calculate the balance number or the need for activating the balancing mechanism in year t + 2. An activated balancing mechanism would mean lower replacement rates from the national system but will produce higher results when the pension system recovers and the balance figure increases [the balance index can exceed the income index during the recovery period]. Source: Pensions at a Glance (OECD 2011, 305).

14 The term ‘privatization’ is also problematic in terms of pension systems because as can be seen in detail in the appendices, most of the second-pillar scheme are both funded and managed by state. So, the boundaries between private (individual) and public can be ambiguous in pension discussions. For a fuller account see [Deken 2013].


17 The civil servants were not covered by this system in the past, however after harmonisation call in 2005 they have been included to this system.

18 Certain circumstances for early retirements are disability, long-term insurance periods, long-term insurance contributions and physically hard work whereas corridor-pension is available at the age of 62 for both sexes, when having 37.5 insurance years with some deductions.


20 For civil servants, the amount of the pensions is calculated on the basis of the average of the last 10 years of career since 2012 [a maximum pension amounting to 3/4th of the final wage does apply].

21 When income resources for a person older than 65 are not sufficient, he/she has a right to a means-tested minimum income guarantee as a supplementary to pension right is acquired. This is called GRAPA and it is a part of the social assistance measures for providing a safety net income.


The first category includes those employed in the hardest and most hazardous production and activity conditions such as underground and underwater works. The second category includes work of those employed in hard and hazardous positions such as producing ferrous and non-ferrous metals, cement, chemical materials. The third category covers all the rest of the other works.

This part of the system is funded by tripartite contributions: 13.6% of gross insurable earnings – up to a ceiling of €1,025 per week and €4,442 per month since January 2012-shared equally by the employee and the employers and 4.3% by the state. The contribution rate for the self-employed people amounts to 12.6%.

The Social Pension Scheme (SPS) closes the gap in accessibility to pensions by providing income-tested pensions to those residents, of 65 years or more who, for any reason did not participate enough in the labour market and as a consequence have no or low pension income. The SPS ensures universality in pension provision and it is financed by the Consolidated Fund.

GEPS provides pensions to civil servants, members of the educational service, the police and the armed forces. Moreover, there are other occupational pension schemes which operate on a funded basis and provide cover to permanent employees of semi-state utility organizations, local governments and of other public law authorities under the same terms and conditions as for civil servants.

The pension consists of two elements: the basic amount (flat rate) which is the same for all types of pension; and a percentage-based component, based on the insured period. Pensions in payment are indexed on an annual basis each January they are not subject to taxation.


The ATP is a fully funded defined-contribution scheme financed from mandatory contributions from all employed persons and all working age claimants of social security and social assistance benefits. The ATP is organised in a separate fund under tri-partite management.

32 It is possible to defer the public old-age pension for up to ten years and the increment for deferring pension for a year is the ratio of the period of deferral to average life expectancy at the time the pension is drawn. According to this, for example if population projections show life expectancy for a 68-year-old to be 17.1 years, the increment for deferring for a year from age 67 would be 1/17.1 = 5.8%.


35 There is also a possibility for early retirement 3 years prior to the pensionable age if the person has a work record of at least 15 years. For every month of early pension the pension entitlement is reduced by 0.4%. However, if the pension is deferred, the entitlement is increased by 0.9% for every month after the pensionable age.


38 The contributions to pension schemes and investment incomes of the pension institutions are exempted from taxation. Tax treatment of supplementary pensions arranged by the employer (occupational schemes) is the same as that of statutory pensions. These statutory pensions are taxed as earned income with tax deductions applying for smaller pensions.

39 The market value of the pension funds’ assets amounted to 77% of GDP in 2010.

40 Since 2005 the pension is calculated on the basis of career average wages. The benefit formula includes a life expectancy coefficient that reduces the monthly value of the pension benefit in line with the increases in longevity. Individuals from cohorts with higher life expectancy need to work longer to compensate for the impact of the life expectancy coefficient.


4225% of the total receipts and by this it is aimed to provide social redistribution within the system as well as reducing the contribution rate for employers and employees. Employees and employers contribute 9.95% each of the employees’ gross wage to the statutory pension system.

43 Traditionally, pensions are defined-benefit, employer-financed and pre-funded in terms of book reserves or pension plan assets. Occupational pension schemes for contractual
wage earners in the public sector are based on collective agreements and they are based on a point model system which may involve a shift from a defined benefit to a defined contribution design.

44 Currently there are four major social insurance funds: (a) IKA, the social insurance organisation traditionally for private sector employees though since 2011 covers new entrants into the public sector as well, so as to become the fund for all wage and salary earners; (b) OAEE, the social insurance fund for self-employed workers (excluding professionals); (c) OGA, the farmers’ retirement fund; and (d) ETAA the unified fund for independent professionals (lawyers, engineers, medical doctors).


46 The amount of the basic pension was set at €360 in 2010 with provisions to be annually adjusted on the basis of GDP growth (50%) and of changes in the consumer price index (CPI) (50%), and the contributory part is linked to paid contributions. In case of early retirement, the basic pension will be reduced in accordance with the rate of the contributory part (penalties are set for each year of early retirement). EKAS will be abolished and the state’s guarantee of auxiliary pensions will end.

47 Those who had already acquired pension rights before 1998 could voluntarily opt for the new system at the time of its inception and half of the labour force did do so. Those who did not join the funded scheme remained in the pure PAYG scheme, which is identical with the first part of the new system except for the level of contributions and benefits.


49 The National Pensions Reserve Fund which was established with the purpose of pre-funding in part the future cost of Social Welfare and Public Service pensions.

50 It consists of almost 50 different schemes whereas the largest 5 of them cover nearly all of the employers and the rest of the schemes includes only small number of workers.

51 The first part of the system is contributory, and consist of two parts: the main (basic pension which depends only on the social insurance period) and the supplementary parts (earnings-related, this part depending on work record and income, calculated with a formula comprising years of work record, individual wage coefficient and average insurable income in the country).

52 The non-contributory social pension grants additional pensions for some professional groups (military, police, judges, etc.) as the state pension system functions independently from the social insurance pension system. The state pensions are awarded to the
signatories of the Lithuanian Declaration of the Independence, the persons for distinguished achievements for the state (I and II degree), officers, military servants, judges, scientists and for deprived persons.

53 Eligibility age was set at 62.5 years for men and 60 for women until the end of 2011. Starting from 2012, it is increased by 2 months per year for men and 4 months per year for women up to 65 in 2026.

54 The minimum qualifying period is 15 years, and when a person has less than 30 years of insurance, the flat-rate part is proportionally reduced; for each year of insurance above 30 years the 3% of basic pension supplement is paid.

55 However, irreversible as opting out from the scheme once joined is not allowed. There are no restrictions for participation except being insured by the State social insurance pension system and aged below the legal retirement age. In 2008 the number of switchers accounted for 57% of the employed.


58 The public sector has two distinct pension schemes: the transitional special pension scheme for civil servants who joined the public sector before 31 December 1998; and the new special pension scheme for employees who entered the public service after 31 December 1998. The new scheme retains the status of a special scheme, but it is based on the same principles as the general scheme for the private sector, with the exception of no income ceiling for the assessment of contributions.

59 The financial model of the public system is based on a contribution rate, which is always fixed for a period of seven years, a government participation of one third of the individual pension contribution, and a reserve fund for compensation.


62 Contributions are also payable by pensioners in gainful employment that retired after January 5, 2008. Pensioners who retired earlier than this date are allowed to work without prejudicing their pension rights in age from 61 years to 65 years without paying social security contributions.
There are a number of voluntary long-term savings products. However, they are not pension products. Also the legislation process for framing the occupational and private schemes has been continuing.

There is no means-test and other forms of income have no effect on the AOW benefit. To be eligible to have the AOW, which equals 70% of the minimum wage for a single person and for couples 100% of the minimum wage, one should be resident of the Netherlands between the ages of 15 and 65.

Occupational pensions are subject to negotiation between the social partners and part of the employment conditions laid down in a collective agreement (which may be through an industry-wide, company-specific, or social partner agreement) and have to be financed by capital funding. Every year employees build up pension rights for each year of service of about 2% of their salary. These pension rights are regarded as deferred salary. Solidarity is achieved by levying an equal contribution rate to be paid by all members.


The contribution rate for the fully-funded part is 2.3%, with the PAYG part at 17.22% but it will be gradually increased to 3.5% in 2017.

The occupational private pension schemes are agreed in the wage bargaining framework.


Pension credit is very important for topping up gaps in the contribution history. It has two elements: the “Guarantee Credit” and a “Savings Credit” which is only available to people aged 65 and over.

All employees (and their employers) are compelled to make contributions for earnings between the Primary Earnings Threshold and the UEL either to S2P or to a contracted-out alternative [If they choose the contracted-out alternative, both employers and employees receive a rebate of National Insurance contributions].


The generation in between, born 1.1.1955 and later and having insurance periods before 2005, is subject to the so-called parallel-calculation: this means that the old-regime would be – at least partly – in effect up to the year 2050: this complex benefit-calculation formula prohibits clear individual information of the accrued pension-entitlements and their future prospects.


In 2012 the retirement age for first labour category started to increase by 4 months until 2014 when it will be 48 years for women and 53 years for men. At the same time, the retirement ages will be 53 years for women and 58 years for men for the workers of the second category.


In 2011 the contributory principle within the social insurance pension system and the link between the contributions and benefits in the pension formula were strengthened.


It will reduce expenditure on old-age pensions but increase pressure to withdraw from the labour force via other social protection schemes [especially through the work incapacity pension scheme].


The minimum contribution period to receive a full pension will gradually increase from 37 years to 40 years by 2015 and retirement age set at 65 years for the entire working population. Pension benefits will be reduced by 6 % each year for individuals who retire between the ages of 60 and 65 with less than 40 contribution years. Provision is made also for revising pensionable age from 2021 onwards [and every three years] in respect of longevity. An upper ceiling of gross monthly pension income has been introduced and the list of arduous or hazardous jobs has been revised.


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Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 [contract number : 266800]. The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:
The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?’
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