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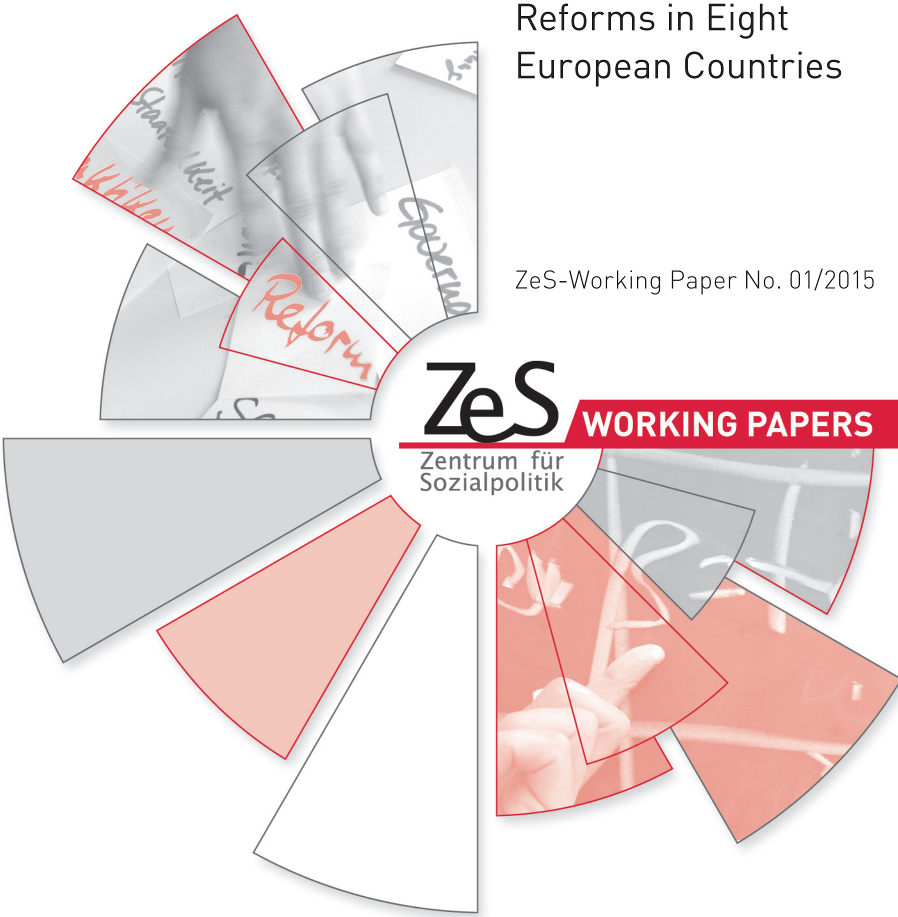
ZeS-Working Paper No. 01/2015



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SUMMARY

The 2008 financial market crisis, followed by the Great Recession and sovereign debt crises in several EU countries have triggered drastic reforms of old-age security systems. They were supposed to ensure the financial viability of public pension schemes in the short and long run and/or to realize notions of intergenerational fairness. Most urgently, however, was regaining room for fiscal manoeuvre and obtaining financial aid from supranational organizations (such as IMF or EU). These pension reforms differ from previous changes with regard to their scope and the political process. (1) They were large, thus causing a substantial and immediate impact on the living conditions of present and future retirees and, sometimes, changed the hitherto pursued policy direction. (2) The post-2008 reforms swiftly passed the legislative process and were implemented at short notice. Hence, they can be considered as "rapid policy changes". This paper analyses pension reforms in eight crisis-shaken EU countries: Greece, Hungary, Ireland, Italy, Latvia, Portugal, Romania, and Spain. It explores both reform contents and circumstances which led to the respective changes or facilitated them. As is shown, the challenges, which those countries were (or still are) confronted with, allowed or enforced alterations that would not have been feasible otherwise, or which would rather not have been initiated by the respective governments with regard to the political consequences. Moreover, cross-national comparison reveals similarities and differences and also sheds light on the social consequences that are already visible today.

ZUSAMMENFASSUNG

Die Finanzmarktkrise von 2008 und in deren Gefolge die Große Rezession sowie Staatsschuldenkrisen in verschiedenen EU-Ländern haben einschneidende Reformen der Alterssicherungssysteme ausgelöst, welche die Finanzierung der Renten kurz- und langfristig sicherstellen und/oder Vorstellungen von Generationengerechtigkeit realisieren sollen. Dringlicher war es jedoch, den fiskalischen Manövrierspielraum wieder zu erweitern und Kredithilfen von internationalen Geldgebern (IWF, EU) zu erlangen. Diese Rentenreformen unterschieden sich von früheren im Hinblick auf den Umfang und den politischen Prozess. (1) Sie waren groß, zeitigten demzufolge eine signifikante und unmittelbare Wirkung auf die Lebensbedingungen der jetzigen und künftigen Rentenbezieher, und manchmal wurde auch die bis dahin verfolgte Politikausrichtung verändert. (2) Die nach 2008 erfolgten Reformen passierten rasch den Gesetzgebungsprozess und wurden ohne lange Übergangsfristen umgesetzt. In diesem Papier werden die Rentenreformen in acht krisengeschüttelten EU-Ländern betrachtet, nämlich Griechenland, Irland, Italien, Lettland, Portugal, Rumänien, Spanien und Ungarn. Dabei geht es um die Inhalte dieser Reformen und die Umstände, die jeweils zu diesen Veränderungen geführt bzw. sie ermöglicht haben. Gezeigt wird, dass die Herausforderungen, mit denen diese Länder konfrontiert waren (oder sind), einschneidende Veränderungen erlaubten bzw. erzwangen, die ansonsten kaum durchsetzbar gewesen oder in Anbetracht der politischen Konsequenzen von den jeweiligen Regierungen so nicht in Angriff genommen worden wären. Weiterhin werden im Ländervergleich die Gemeinsamkeiten und Unterschiede beleuchtet sowie nach den bislang erkennbaren sozialen Konsequenzen gefragt.

CONTENT

1. Introduction*

The 1990s and early 2000s have shown that in democratic polities, reforms of pension systems – parametric (path-dependent) as well as systemic (path-departing) changes – turned out to be not as impracticable as research on the "new politics of the welfare state" had suggested (Pierson 1994; 2001). No longer being expansionary, they came about when incumbent governments were able to shift or share the blame for enacted retrenchments, to hide the true impact of changes, or when they expected to reap credit for amendments that put pension systems on a more sustainable footing in view of advancing population aging (Galasso 2010; Hinrichs 2011). After 2008, however, in the wake of the Great Recession in a number of European countries being plagued with high budget deficits and mounting sovereign debt, pension policy alterations came to the fore that were different in two aspects. First, their magnitude was large, particularly when the sequel of changes is added up. Sometimes even the hitherto pursued policy direction was moved, and the reforms cause a substantial and immediate negative impact on the living conditions of present and future retirees. In a situation where austerity is no longer simply 'permanent' but rather 'pervasive', it is hardly surprising that public pensions became a primary target for spending cuts because, almost everywhere, they are by far the largest item of welfare state budgets (Table 1, rows 7 and 8).

Second, the political process that brought about these changes deviated from previous attempts to retrench, refinance or recalibrate old-age security systems. Although governments tried to avoid a unilateral approach, there was no lengthy process of consensus-seeking and compromise-building. Rather, the post-2008 reforms in the crisis-shaken EU countries swiftly passed the legislative process and were (or will be) implemented with no or short transitional period. Hence, they can be considered as "rapid policy changes" (Rüb 2012). Mainly, this new reform pattern sprang from the pressure exerted by financial markets and supranational actors (IMF, European Commission), limiting policy space for domestic actors. These external constraints urged governments to neglect vote-seeking objectives within the well-known credit-claiming/blame-avoidance framework for the sake of attaining short-term savings on public expenditure (Bonoli 2012). Consequently, in a number of countries politicians, who tried to cut back on pension expenditure, were punished and lost power during subsequent elections because voters rarely appreciated cuts designated to overcome a 'major crisis situation'.

* Revised version of a paper prepared for presentation at the XVIII ISA World Congress of Sociology, Research Committee 19, Session 339 ("Social Policy and the Crisis"), Yokohama (Japan), 13-19 July 2014.

In this contribution, eight countries will be analyzed – four from Southern Europe (Greece, Italy, Portugal, and Spain), three Central and Eastern European (CEE) states (Hungary, Latvia, and Romania) and Ireland. All of them have conducted pension reforms after 2008 in order to ensure their public schemes' financial viability in the short and long term or to realize notions of intergenerational equity. Most urgently, however, these countries have sought to regain room for fiscal maneuver and to obtain financial aid from supranational organizations (IMF, EU). Seven of the eight countries had to seek such aid in the wake of the financial market crisis (2007/08), which triggered an economic slump and, as one immediate outcome thereof, a sovereign debt crisis. The causal relevance of these events for the post-2008 reforms can be read off from concrete recommendations issued by the European Commission or detailed reform demands attached to bailout agreements ('memoranda of understanding'). Intensified reform efforts of deeply indebted Italy were mainly driven by the rising spread over German government bonds' interest rate, as well meaning hard external pressure that shaped domestic policy-making (Jessoula 2012: 24-5; de la Porte/Natali 2014).

In the following, the content of pension reforms will be delineated[1], but attention will also be given to the circumstances which led to respective changes. It will be shown that the challenges these countries were (are) confronted with, enforced or facilitated profound reforms which would otherwise have not been practicable or, in view of the political consequences, not been initiated by respective governments.[2] Moreover, it will be briefly touched upon the social and political consequences of the implemented policy changes. An evaluation of the social outcomes, however, is limited because not everywhere has the reform process already come to an end yet and the actions which were taken have not brought to bear their full effects.

1 If not indicated otherwise, information on the contents of reforms was obtained from the International Updates of the US Social Security Administration (http://www.ssa.gov/policy/index.html), the country reports of the project Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) (http://www.socialprotection.eu) and publications of the European Commission (2010 [Annex 6], 2012b, 2012c: 23-40) and the OECD (2012a, 2013b, 2014: 52-81).

2 The ('normal') politics of pension reform that prevailed during the two decades prior to 2009 has been studied in detail for individual countries as well as in comparison (see e.g. Myles/Pierson 2001; Bonoli/Shinkawa 2005; Schludi 2005; Immergut et al. 2007; Natali 2008). Due to limited space, such fine-grained analysis of recent reforms in eight countries that takes into account the involved actors, their interests, and the political-institutional conditions cannot be presented here. For the same reason, austerity measures in other policy domains (e.g. health care, taxation, public sector employment/wages) will be ignored.

2. Eight Countries – Three Types of Pension Systems

The eight European countries belong to different welfare-state regimes. Ireland is representing the (Anglo-Saxon) 'liberal' cluster, whereas Greece, Italy, Portugal and Spain belong to the conservative-corporatist type. Occasionally, they are said to form a specific 'Southern Model'. According to Ferrera (1996), these welfare states show a 'clientelistic' structure (privileging the labor force in certain occupations and economic sectors) and remain 'rudimentary' because, among others, family and labor market policies are still underdeveloped. Hungary, Latvia and Romania and further CEE countries belong to the 'post-socialist' cluster which, due to these countries' diverse welfare state designs, is hardly coherent enough to speak of an (emerging) 'Eastern Model' (Hacker 2009).

There is a certain arrangement of old-age security attached to the different welfare state types. Ireland (like the UK) has followed the Beveridge model, i.e. state responsibility is limited to universal basic old-age security, while status maintenance is left to (state-regulated) private provision by employers and individuals. In Southern Europe, social insurance schemes of the Bismarck type play a pivotal role. Access to and the level of public pensions depends on prior earnings-related contributions. The accruing benefits are meant to ensure status maintenance. Before the recent reforms, however, the schemes were institutionally fragmented along occupational lines – most strongly in Greece, least in Spain and Portugal – for which reason benefit generosity varied. Despite being 'rudimentary' welfare states, the social expenditure ratio is comparatively high but, because old-age security constitutes the central pillar of their social policy arrangements, the structure of expenditure is strongly 'age-biased' (much more than in Ireland – *Table 1*, rows 7 and 8). This imbalance has even grown in recent years. Causes are the hitherto very generous pension payments (at least for insiders), the broad access to early retirement (discernible in the low employment rates among those 55-64 years of age), and the already high and further increasing longevity (*Table 1*, rows 2, 3, 5, 9 and 10).

Originally, CEE countries had followed the Bismarck model, and certain elements remained intact during communist rule. The social insurance approach was revitalized after 1990, before Hungary (1998), Latvia (2001) and Romania (2007) turned to a multi-pillar pension system as propagated by the World Bank.[3] They established an additional second pillar that was private, but mandatory for

[3] It would have been quite possible to include further CEE countries in the comparison, for example Poland or Estonia whose retirement income system came close to the one in Latvia. They concluded similar reforms after 2008. – On the pre-2008 pension reforms in CEE countries see contributions in Cerami/Vanhuysse (2008).

Table 1: Pension-relevant indicators

		IE	GR	IT	PT	ES	LV	HU	RO
1	employment rate 15-64 (2007) ditto (2012)	69.2 58.8	60.9 50.8	58.7 56.8	67.6 61.4	65.8 55.8	68.1 63.0	57.3 57.2	58.8 59.5
2	ditto 55-64 (2012)	49.3	36.5	40.4	46.5	43.9	52.8	36.9	41.4
3	old age ratio (≥ 65 / 20-64) (2010) *projection 2050*	19 *44*	31 *63*	33 *61*	29 *61*	27 *62*	28 *59*	27 *55*	23 *59*
4	contributors per pensioner (2010) *projection 2050*	2.78 *1.91*	1.77 *1.29*	1.47 *1.30*	1.59 *0.90*	2.40 *1.28*	1.52 *1.04*	1.31 *1.00*	0.95 *0.76*
5	further life expectancy after reaching age 65 (2012): males females	18.0 21.1	18.1 21.0	18.8 22.6	17.6 21.3	18.6 22.8	13.6 18.5	14.3 18.1	14.6 17.7
6	Change of GDP in year 2009 in %	-7.0	-3.3	-5.5	-2.9	-3.7	-17.7	-6.8	-6.6
7	social expenditure/GDP (2007) (2011)	18.3 29.6	24.8 30.2	26.6 29.7	23.9 26.5	20.8 26.1	11.3 15.1	22.7 23.0	13.6 16.3
8	public pension expenditure in % of GDP (2007) (2010) *projection 2050*	4.0 7.5 *11.4*	11.7 13.6 *15.4*	14.0 15.3 *15.7*	11.4 12.5 *13.1*	8.4 10.1 *14.0*	5.4 9.7 *6.4*	10.9 11.9 *13.5*	6.6 9.8 *12.8*
9	gross average replacement rate (public pensions) (2010) *projection 2050*	37.3 *38.0*	59.3 *52.4*	79.5 *66.0*	56.9 *48.2*	72.4 *56.6*	48.2 *15.8*	38.4 *40.3*	41.6 *29.8*
10	net theoretical replacement rate (2010) *projection 2050*	85.8 *69.0*	121.3 *87.0*	89.5 *69.1*	85.8 *65.9*	94.5 *86.5*	80.4 *55.3*	100.1 *75.0*	70.7 *45.0*
11	targeted benefits in old age in % of average earnings minimum public pension in % of average earnings	34.9 --	13.7 36.4	21.6 19.3	17.4 33.8	19.6 33.9		-- 12.4	
12	at-risk-of-poverty rate ≥ 65 (2012) *ditto 18-64 years*	11.0 *15.1*	17.2 *23.8*	16.3 *18.6*	17.4 *16.9*	14.8 *21.9*	13.9 *19.3*	6.0 *13.6*	15.4 *21.0*
13	home ownership rate ≥ 65 (2010)	88.6	84.9	80.4	73.3	88.5	85.4	90.3	100

Sources: rows 1, 2, 5, 6, 7, 12 and 13 = Eurostat Statistical Database (and own calculations); rows 3, 4, 8 (2007 figures: European Commission 2009: 200) and 9 = European Commission 2012a (country fiches); row 10 = European Commission 2012b (country profiles); row 11 = OECD 2013b: 123.

the younger part of the work force. While the total contribution rate remained unchanged, the share allocated to the pay-as-you-go first-pillar scheme was reduced (and also the accruing pension level). The remaining part was transferred into the second pillar and invested in private pension funds. This systemic change was expected to deliver a higher total benefit level and to further domestic capital market development.

The pre-2008 reforms in the CEE states and other European countries were mainly motivated by the advancing demographic shift showing up in an increasing old-age dependency ratio or a deteriorating system dependency ratio (*Table 1*, rows 3 and 4), the latter (contributors per pensioner) being more relevant for the financing of old-age security systems. Both developments are the result of rising longevity and declined birth rates. At least since the 1990s, the OECD, the European Commission (EC) and the International Monetary Fund (IMF) have purveyed the conviction that high social security contributions and taxes have a negative effect on employment levels, thereby supporting national actors in their policy efforts to keep in check the tax and contribution burdens. Thus, when the contributions of employers and employees to state pensions are supposed not to rise (much) and if no (higher) tax-financed payments are to be transferred to pension schemes, only a limited number of levers remain by which increasing spending (as a result of demographic change) can be contained. The ratio between pensioners and contributors may be changed by lifting the pensionable age, and it is possible to lower the level of newly awarded pensions by modifying the rules of benefit calculation or to change the way in which pensions in payment are indexed.

3. The Post-2008 Pension Reforms

3.1 IRELAND

Ireland's basic state pension is contribution-financed and flat-rate (but means-tested for about twenty percent of retirees without a complete contribution record). For a single person, the level amounts to about 37 percent of average wages. During the 2000s, benefit increases in real terms significantly reduced the risk of old-age poverty – from 44 percent in 2001 to 10.6 percent in 2010. Over the last two decades, occupational pension plans constantly covered about one half of the employees. In 2001, a National Pension Reserve Fund (NPRF) was established in order to ease the financing of the basic state pension and the occupational scheme for public service workers after 2025 when population aging will accelerate. Every year the government has paid one percent of GDP into the NPRF.

The financial market crisis has severely hit the assets of the NPRF and occupational pension funds. In 2011, still eighty percent of the defined-benefit (DB) plans were in deficit (OECD 2013a: 53). The funding gap has to be removed until 2016 and private pension funds will have to make up for a risk reserve from then on. From 2011 to 2014, they are obligated to compound a special levy of 0.6 percent (p.a.) on accumulated assets and an additional levy of 0.15 percent in 2014 and 2015. The larger part of the (shrunken) NPRF assets has been used to bail out and recapitalize the banking sector. Before, the government had already stalled the payments into the NPRF, because it had to cover growing deficits of the social insurance fund with tax money when fewer people were gainfully employed and paid contributions (*Table 1*, row 1). Considerable savings for the exchequer stem from changes of the DB-type public service pension schemes (*Table 2*): Pensions in payment above a certain threshold have been cut in a progressive manner; the accrual of entitlements is capped at forty years of service; newly awarded pensions turn out to be lower due to pay cuts; public service workers have to pay higher contributions without earning higher entitlements; newly recruited public servants have to reckon with more unfavorable rules for calculating and adjusting their (future) pensions (OECD 2013a: 41-3). These changes were components of the austerity package agreed with the 'Troika' which also included the gradual increase of the state pension age from 66 to 68 (legislated in 2011) and tightened contributory requirements. Already since 2009, there has been no adjustment of the basic state pension, still remaining at 230.30 Euro per week for a single beneficiary.

3.2 THE SOUTH EUROPEAN COUNTRIES

Greece is clearly the straggler among the Southern European countries with regard to social policy reforms in general and the adaptation of old-age pension systems to changed economic and demographic circumstances in particular. As early as in the 1990s, there had been complaints about the ineffectiveness and inefficiency of the Greek welfare state and disparate benefit levels – with public employees and some groups of professionals benefiting disproportionately – and an inability to modernize, eventually leading to crisis, was identified (Katrougalos 1996; Venieris 1996). These problems became manifest when the size of the Greek economy contracted by 23.5 percent in real terms between 2007 and 2012 (Matsaganis 2013: 3) and the employment rate declined by ten percentage points during the same period (*Table 1*, row 1).

Drastic pension reforms came about only in 2010 and thereafter due to obligations related to the bailouts (Nektarios 2012; OECD 2013d: 115-20). A significant structural reform of the extremely complex Greek old-age pension system – consisting of a mandatory income-related general scheme and a (largely) compulsory supplementary component (also earnings-related) – started in 2008, however. The merger of occupationally differentiated schemes and standardized rules are supposed to bring about greater transparency, fairness and, additionally, lower administrative costs. From 2012 on, all supplementary pension schemes have been brought together into a single pension fund. However, these reforms – aiming at a more harmonized, rationalized and, hence, equitable pension system – have not been fully implemented yet. Moreover, effectively collecting due contributions is still hampered by deficient administrative capacities and the significant incidence of undeclared work (Koutsogeorgopoulou et al. 2014: 33-5).

Strictly following the lenders' detailed demands for change, in 2010 the Greek Parliament decided to lower the accrual rate, most decisive for the replacement ratio in a defined-benefit scheme, from two to three percent to 0.8 to 1.5 percent for

Table 2: Synopsis of pension reform elements, concluded 2008 and later

	Normal retirement age	Early retirement	Benefit formula	Indexation	Harmonization	Miscellaneous
IE	66 → 67 (2021) → 68 (2028)	'transitional state pension' at age 65 abolished in 2014	public service pensions: career average earnings for newly recruited employees	state pensions frozen at 2009 level (230.30 € per week)	increasing NRA also applies to public sector workers	cuts of public service pensions; state pension contributions levied without income ceiling and minimum threshold
GR	F: 60 → 65 (2011/13); M/F: 65 → 67 (2012/13); 2021ff. NRA linked to further life expectancy	after 40 contribution years: age 60 (2011) → 62 (2013); number of arduous professions reduced to < 10 % of workforce	accrual rate lowered: 2 to 3 % → 0.8 to 1.5 %; calculation base: best 5 out of last 10 years → entire career	suspended until end of assistance program; 2015ff.: not higher than CPI	number of general and supplementary schemes reduced; public sector workers integrated in general scheme	further adjustments if pension spending would increase by more than 2.5 percentage points between 2009 and 2060; progressive solidarity tax on higher pensions
IT	F: 60 → 65 (2018); F public sector: 61 → 65 (2010/11); public sector (M/F): 65 → 66 (2011/12); 2013ff. NRA linked to life expectancy (forecast: (2019/21: ~ 67; 2050: ~ 70)	years of contributions required for seniority pensions indexed to changes in life expectancy 2013ff.	NDC rules apply to all future pensioners (pro rata); minimum contributory period for NDC pension: 5 → 20 years	suspended for pensions > 1,400 € in 2012 + 2013; 2014: benefits < 3 × minimum pension higher adjustment	rules of the separated schemes further aligned	age-specific divisors for converting notional 'assets' into a stream of benefits (due to risen life expectancy) adjusted for the first time in 2013
ES	2013/27: 65 → 67; still 65: 35 → 38.5 years of contributions	voluntary ER: 63 → 65 and 33 → 35 insurance years; involuntary ER (unemployed) 61 → 63 and 31 → 33 (decrements about 7.5 % p.a.)	full pension: 35 → 37 contribution years (50 % after 15); calculation base: last 15 → 25 insurance years; 2019ff.: rising longevity influences initial benefit level	no CPI adjustment in 2012/13/14 (small arbitrary increases instead); 2015ff.: annual changes determined by sustainability factor	special schemes for civil servants, farm workers + self-employed abolished	sustainability factor: rising life expectancy affects calculation of newly awarded pensions as of 2019 (instead of 2027); reserve fund melting off (used for pension payments)

PT	65 → 66 (2013/14); after it: adjusted according to sustainability factor	no ret. before 65 for employed workers until 2014; 62 if unemployed after 57	whole insurance career, but best 40 years for full pension	no adjustment in 2011; 2012: CPI only for lower pensions	special schemes (public sector, banking, telecom) phase out	special solidarity contribution on higher pensions (2011) replaced with 'sustainability contribution' (2015)
HU	62 → 65 (2014/22) = age 65 valid for birth cohorts 1957ff.	F: any age after 40 insurance years (incl. child care periods) since 2011; all other ER options eliminated (2012)	benefit calculation changed: ~ -8.5 % for newly awarded pensions	Swiss index → CPI adjustment since 2012		elimination of 13th monthly pension payment (2009); mandatory 2nd pillar cancelled + assets shifted to state budget; no ceiling on employees' share of contributions (2013)
RO	M: 63 → 65 (2015) F: 58 → 60 (2015) → 63 (2030) → 65 (2035)	5 years before NRA with temporary decrement of 9 % p.a.; eligibility criteria disability pensions tightened	full pension: 33/28 → 35 insurance years for M 2015, for F 2030; minimum contribution period: 13 → 15 years (2015)	no indexation 2010 – 2012; 2013: +4 %, 2014: +3,75 %; 2021/2030 shift to pure inflation adjustment	special schemes for certain occupations integrated in general scheme (2010)	2nd pillar contribution rate: scheduled increase 2 → 6 % (2009/16) delayed by one year; minimum pension introduced 2009 (~ 90 €/month)
LV	62 → 65 (2014/25)	2 years before NRA with deductions if 30 insurance years; all other ER options abolished as of 2012	minimum years of contributions: 10 → 15 (2014) → 20 (2025)	no adjustment 2009 – 2012; +4 % for pensions < 285 € in 2013; 2014ff.: CPI plus 25 % of wage increase		2nd pillar contribution rate: 8 → 2 % (2009); resurgence: 2 → 6 (2013/16)

one year of contribution payments. The attainable benefit level is thereby significantly reduced, and incentives are created to stay in employment for more years because the accrual rate is progressive with the total length of insurance (Nektarios 2012: 267). Furthermore, the pensionable ages of men and women were equalized at age 65 until 2013. In future, entitlement to a full pension will require 40 instead of 35 insurance years and pensions will be calculated on the basis of the whole working life. Without reductions (6 % a year) only those workers who can prove forty insurance years can take early retirement (from 60 years of age).[4] From 2021 on, the standard and the early retirement age will be adjusted every three years according to the development of life expectancy. Two of the previous 14 monthly payments were abolished and replaced by a (largely) uniform 'vacation allowance' of 800 Euro only for pensioners above age sixty. This allowance was cancelled in 2013. In future, the indexation of pensions in payment must not be higher than the increase in consumer prices; for the period 2011-2014, the adjustment was suspended entirely. Moreover, further measures have to be taken if projections show an increase of pension expenditure of more than 2.5 percentage points of GDP by 2060 in comparison to 2009.[5]

Subsequently, in 2012, a new (NDC[6] look-alike) benefit formula with a built-in sustainability factor for the supplementary pension scheme was enacted; pensions of the general scheme higher than 1,300 Euro were cut by twelve percent on average[7]; access to invalidity pensions was made more difficult; and disproportionately high one-off payments in the area of supplementary pensions were cut. By 2015, incurring deficits of both the general and the supplementary pension scheme will no longer be covered by state subsidies. From then on, the government's fi-

[4] Several hundreds of professions had been listed as 'heavy' or 'hazardous', implying the entitlement to a full pension after 35 years of contributions as early as age 55. The 2010 reform stipulated that a revised list must not cover more than 10 % of the labour force and a full pension should not be available before reaching the age of 60 and less than 40 years of service.

[5] When comparing the estimates of 2008 and 2011, Greece did best in containing projected spending increases until 2050: The increase would be lowered by 8.7 percentage points (from 24.1 down to 15.4 % of GDP), if the legislated reforms were actually implemented (European Commission 2009: 291, 2012a: 143, 328). During the period 2005 to 2008, Portugal was ranking first (see below).

[6] NDC is the abbreviation of 'notional defined contribution' and denotes a pension scheme that, although still operating on a pay-as-you-go basis, mimics the working of a fully funded plan with benefits calculated in quasi-actuarial manner in relationship to contributions paid.

[7] Already in 2010, monthly pensions above 1,400 Euro were cut by 8 % and in 2011 those greater than 1,000 Euro by 5 to 15 %. "Official estimates suggest that pensioners drawing a total pension (…) of EUR 900 per month before the crisis suffered an overall reduction of 26 % in 2009-12. The corresponding reduction for those on a total pension of EUR 2,100 per month was 34 %" (Koutsogeorgopoulou et al. 2014: 34). Furthermore, in 2013, only pensions below 1,000 Euro were exempted from further progressive cuts.

nancial responsibility is restricted to a flat-rate basic pension[8], which is scheduled to go into effect the same year (European Commission 2012a: 98; Petmesidou 2013: 604).

The 'haircut', predating another support package for Greece in November 2012, deprived the social insurance funds of a large part of its reserves held in Greek government bonds, and the liquidity problems of the pension system were aggravated due to lower government subsidies and fewer workers paying contributions. Obligations related to the support package included an immediate increase of pensionable age to 67 years in 2013, but still allowing workers with forty insurance years to retire at age 62 (with deductions), and to cut pensions of retirees, who benefited from the previously more generous calculation formula and/or prematurely claimed their pension.

In *Italy*, the first attempt to contain the steep rise of public pension spending dates back to 1992. In 1995, the basis of the pension system was changed to the NDC model which, within the framework of a lingering pay-as-you-go scheme, emulates the working of a fully funded plan with quasi-actuarial benefits. All subsequent reforms aimed at an accelerated implementation of the NDC rules, tighter eligibility criteria for so-called 'seniority pensions' (which, originally, could be claimed after a 35-years insurance period, regardless of age), and advancing the harmonization of the fragmented public pension system (Natali/Stamati 2014: 317-8). Until 2007, these attempts were only partially successful, but massive changes took place between 2009 and 2011, when the creditworthiness of the Italian state became increasingly endangered. No other country spent more on public pensions at that time (about 15 % of GDP) (see Jessoula, 2012: 14-20; Ministero 2012: 41-3). The most important changes were launched by the 'technocratic' Monti government in 2011, which, due to suppressed differences between political parties, proved able to rapidly pass the reforms through the parliament.

The harmonization of still occupationally differentiated pension arrangements was taken further, including an equalization of contribution rates (*Table 2*). Furthermore, the alignment of women's pensionable age with that of men was speeded up and will be completed in 2018 (in the public sector already realized in 2011 and then – as for all men – raised to age 66 in 2012). Besides, the standard retirement age and the age of eligibility for seniority pensions have been linked to the development of further life expectancy from 2013 onwards. Thus, in 2019 (but in 2021 at latest), a pensionable age of 67 years is expected for men and women in both the private and public sectors, rising to just below seventy by 2050. 'Seniority pensions' – hitherto available either after forty years of contributions or at 62 years of age after 35 contribution years – are de facto abolished since the conditions follow the rising age limits while early retirement is possible only with deductions and if the accruing pension level exceeds

8 An amount of 360 Euro (2010 prices) will be taken into account when the individual benefit is calculated, but new retirees with fewer than 15 contribution years have to pass a means-test.

the social minimum pension by one and a half times. In contrast, corresponding increments are expected to result in pensions that ensure the standard of living for those who continue working up to the age of seventy. Considerable short- and medium-term savings arise from accelerated implementation of the NDC system. From 2012 on, new pensions will be calculated pro rata, according to the contribution periods before 1995 in the old (DB) system and the contribution years under NDC rules after 1995. Beginning in 2013, the age-specific coefficients for converting notional assets into a monthly pension are furthermore periodically adjusted to lower mortality. Finally, the adjustment of pensions to price development for pensions over 1,400 Euro was suspended for 2012 and 2013 (Natali/Stamati 2014: 318).

In *Spain*, there had been a switch from expansion to consolidation already in 1985, and since 1995 all pension reforms have been based on the (repeatedly renewed) Toledo Pact between the respective government and the social partners. As a result, between 1998 and 2010, the Spanish social security system ran surpluses, so that 66 billion Euro (around 6.3 % of GDP) had accumulated in the reserve fund in 2011. After 2008, the assets have been increasingly invested in Spanish government bonds (Casey 2014: 36-7).

The most substantial changes of the 2011 reform, which will come into force mainly between 2013 and 2027, include a rise in the statutory retirement age from 65 to 67 for workers showing less than 38.5 years of contribution payments. Early retirement rules have again been tightened (beyond the 2011 legislation) in 2013. The age range will move from 63 to 65 and the required insurance years from 33 to 35. For unemployed persons (involuntary early retirement) the conditions change from age 61 to 63 and 31 to 33 insurance years. Premature claiming of benefits goes along with deductions (7.5 % per year) while deferring retirement age is rewarded with supplements (between 2 and 4 % a year). In future, a 'full' pension will require 37 instead of 35 contribution years (while it will still be the case that 15 years qualifies someone for half of a full pension), and from 2022 on, pensions will no longer be calculated on the basis of the last 15 but 25 insurance years (*Table 2*). Finally, a sustainability factor was scheduled to take effect in 2027, but the implementation was accelerated once Spain had to apply for loans from the European Stability Mechanism (ESM) in 2012: Beginning in 2019, the level of newly awarded pensions will be affected by changes in further life expectancy at normal retirement age, and there will be no return to price indexation of pensions in payment. Instead, as of 2014, the annual adjustment will be determined by the scheme's financial position (ratio of contribution revenues to pension payments) over the past five and (projected) next five years, but must not be less than 0.25 percent.[9]

[9] The cumulative effect of the reforms (including the 2013 legislation) will be well beyond the calculations presented in the 2012 Ageing Report (see *Table 1*, row 9). The replacement ratio is expected to drop sharply from 72.4 % in 2010 to 52.1 % in 2030 and further to 44.9 % in 2060. Instead of a rise (see *Table 1*, row 8), there should be a (small) decline in the GDP share of public pension expenditure

In the wake of an Excessive Deficit Procedure, *Portugal* negotiated a pension reform package with social partners in 2007. It included higher pension decrements for retirement before age 65 and strengthened financial incentives to continue working beyond that age; the already legislated pension calculation on the basis of the whole working career was brought forward to 2017; a sustainability factor was introduced (2008), linking the level of newly awarded pensions to increases of longevity; indexing of pensions in payment was debased; and normal retirement age of public service workers rose from 60 to 65 (completed in 2013). The combined effects are quite significant: A comparison of projected pension spending in 2050 on the basis of calculations from 2005 and 2008 shows that Portugal had taken the biggest leap of all EU countries. Instead of 20.8 percent of GDP, only 13.6 percent pension expenditure was estimated for 2050 (European Commission 2009: 104).

Therefore, in order to reduce its public deficit in the short term, Portugal was obliged to take only a few pension reform measures when it sought financial assistance in 2011. Benefits were frozen in 2011 and not fully indexed to inflation in 2012. Pensions above a certain threshold (2011-2013: 1,350 €; 2014: 1,000 €) are burdened with a special levy rising with income level, and early retirement of employed workers is ruled out until 2014 whereas older unemployed cannot take out a public pension before age 62 (*Table 2*). Furthermore, employees of state-owned enterprises – banks, telecommunications – were integrated in the pay-as-you-go pension insurance system and a total of 9.3 billion Euro of the capital reserves of special schemes was transferred to the state budget[10] and, hence, reduced the present deficit, but increased the unfunded obligations of the general scheme (the so-called 'implicit debt'). Finally, in January 2014, the age limit that entitles to an unreduced pension was raised from 65 to age 66. This cost-saving measure replaces the sustainability factor, linking initial pensions to average life expectancy, which was declared unconstitutional as well as other pension cuts (public sector pensions from the old scheme larger than 600 Euro). In future, normal retirement age will change along with longevity gains.

3.3 THE CEE COUNTRIES

The parametric pension reforms during the 1990s in Hungary, Romania and Latvia were less a reaction to demographic change than to economic transformation. The successive paradigmatic restructuring of their pension systems followed a widespread comprehension of 'privatization' as expression of 'modernization' (Orenstein 2008; Cerami 2011; Fultz 2012). These (and further) countries became amenable to the transnational policy campaign launched by the World Bank. A multi-pil-

in 2060 (9.6 %) compared to 2010 when the figure stood at 10.1 % (European Commission 2014: 14).

[10] Already in 2005, three billion Euro had been transferred from the capital reserves of the state-owned banks' special pension scheme to cover the deficits of the general pension scheme.

lar pension system including a mandatory and fully funded private pillar promised to ensure adequate as well financially sustainable old-age security. However, the problems with this new approach came to the fore during the economic slump. Even though it triggered significant changes, the recession was not the root cause.

Hungary was a forerunner to introduce the multi-pillar pension model. Already highly indebted before 2008, it became dependent on international loans as a result of the economic crisis. The balance-of-payment assistance was granted on condition of structural reforms, including pensions. The package contained a gradual increase of the standard retirement age (from 62 to 65); a less favourable calculation of initial pensions and indexation of current benefits, and the abolition of the 13th monthly pension payment (Simonovits 2011). The newly elected Orbán government (2010) rejected further external rescue measures and turned to the structure of the pension system for regaining fiscal latitude. The pay-as-you-go first pillar lacked the necessary resources to honour entitlements of present retirees because eight percentage points of the total contribution rate (33.5 % in 2010) were diverted into the second pillar. Those shortfalls had to be balanced out of the state budget, which ultimately led to an increase of public debt. Shortly after coming into office, the government started a turnaround which meant a factual abolition of the multi-pillar system: Contribution payments into the second pillar were stopped while the contribution revenues of the first pillar were increased accordingly. The already accumulated assets of the second-pillar pension funds were 'confiscated' and transferred into the state budget, thereby immediately reducing the deficit and the amount of public debt. The entitlements the participants had earned in the second pillar were shifted to the first pillar, which increased its long-term obligations (or rather the 'implicit debt'). In order to extenuate the future spending increase, opportunities to retire early via disability pensions or due to long service have been eliminated almost completely, except for women (*Table 2*).

At the onset of the crisis, *Romania's* public pension scheme was facing serious challenges: There had been already less contributors than beneficiaries (*Table 1*, row 4) while the informal economy was (and still is) sizable, thus causing a widespread contribution evasion (like in Hungary and Greece). After joining the EU, Romania has lost a rising number of potential contributors due to emigration (like Latvia). Moreover, discretionary pension increases of more than one third in both 2007 and 2008 and another 13 percent rise in 2009 (Ghinararu 2011: 240) proved to be largely responsible for the arising state budget deficit when the country was hit hard by the recession. Romania had to solicit for a twenty billion Euro loan from the IMF in 2009 but left its recently established and still small second-pillar scheme intact. It merely postponed the final division of the total contribution rate by one year. In 2009, Romania even introduced a modest minimum pension scheme. Reforms which started to take effect in 2011 continued along the legislation of the year 2000 (Ghinararu 2011): Normal retirement age will increase further (but remains lower for women); the years of contribution required for pension eligibility and for a full pension will rise once more. Furthermore, pensions of the first-pillar scheme have not been adjusted from 2010 to 2012. Between 2021 and 2030, the indexation will gradually shift from hundred percent of inflation plus fifty percent of average real wage increases to pure price level changes. The traditionally far more generous special pension regimes for government employees are integrated into the general scheme and, as a result, benefit levels of different occupational groups will converge. Finally, the eligibility criteria for early and disability pensions have been tightened and recipients of early retirement pensions face higher decrements (0.75 % per month instead of 0.5 %). However, an across-the-board reduction of pensions in payment by 15 percent, as demanded by the IMF, was ruled unconstitutionally in June 2010 and hence removed from the reform package.

Of all EU member states, *Latvia* experienced the most drastic economic slump in 2009 (*Table 1*, row 6). It had to seek external aid from different lenders as well. Thus, the first priority was to ensure the financing of pensions in the short run. Instead of finalizing the planned split of contributions between the first and second pillar in 2010 (10 percentage points for each), the rate diverted into the fully funded second pillar was lowered from eight to two percent in 2009 in order to close the financing gap of the first pillar. According to the NDC rules, this shift implies correspondingly higher first-pillar pension entitlements in future. Additionally, the limit on earnings subject to social insurance contributions was lifted from 2009 to 2013. For the same period, the adjustment of pensions in payment according to consumer price changes was suspended.[11] Further immediate savings accrued from the predefined functioning of the NDC-type first pillar: A lower level of employment (*Table 1*, row 1), meaning fewer contributors, together with a significantly reduced average earnings automatically devaluated the notional 'assets' available for conversion into a pension. Claiming a first pension in 2009 or 2011 made up for a difference of more than thirty percent – otherwise identical employment careers assumed (European Commission 2012b: 296). Changes aiming at the long-term sustainability of the first pillar have been legislated in 2012: Normal retirement age will increase to 65 while the minimum period required for an old-age pension will rise to twenty years. Top growth rates from 2011 onwards alleviated Latvia's fiscal problems and allowed for a changed division of the total contribution rate between the first and second pillar. In 2016, the partition will be 14/6 percent and is expected to remain stable from then on, i.e. it will differ from the originally planned equal split.

[11] Another emergency measure – a temporary 10 percent reduction of all pensions in payment (70 % for pensioners also earning a salary) from July 2009 to end of 2012 – was scrapped by the Latvian Constitutional Court in December 2009, and thus the withheld amounts had to be reimbursed.

4. Commonalities and Differences

The severity and duration of the crises varied and left different imprints on EU members' state finances and welfare state arrangements. Nevertheless, after 2008, the countries studied in this paper have legislated similar changes of their pension systems for attaining savings on public pension expenditure in the short and long run. The set of adjustments does not differ much from those reform elements that had been employed before 2008 or in other countries since the range of options is inherently limited – although varying with the type of the public pension scheme (basic or earnings-related). However, in most of the eight countries the magnitude and hence the impact of the post-2008 changes differ from what was legislated before or from reforms concluded in less troubled countries at the same time in view of advancing population aging: The pre-2008 reforms caused less immediate impairments of the living conditions of pensioners and workers close to retirement.

Suspended or less favorable indexation rules, which came about in all eight countries, ease financial troubles of public schemes most rapidly and, due to the base effect, will ripple through subsequent years, thus yielding further savings (*Table 2*). Nominal cuts of pensions in payment (as recently happened in Hungary, Greece and Ireland) are even more effective but can also turn out to be problematic. Corresponding legislation has been ruled unconstitutional in Romania, Latvia and in Portugal. In the latter country, the 13th and 14th monthly pension payment was eliminated in 2012 but partly reinstated by the constitutional court one year later. A reduced (but still permanent) special levy (2.0 to 3.5 % instead of 3.5 to 10 %) on public pensions greater than 1,000 Euro will not go into effect in 2015 due to the court's recent verdict (Fischer 2014).

Short term savings also result from closing early retirement pathways, tightening entry conditions or computing decrements when the pension is claimed prematurely. Such changes happened in all eight countries as was also true for an increased normal retirement age which, depending on the length of the phasing-in period, delivers medium or long term savings. However, the target ages set in the CEE countries remain (much) lower than those in Italy, Spain or Ireland. That appears comprehensible in view of further life expectancy at age 65 being shorter by about three years (*Table 1*, row 5). Likewise, mainly long-term savings will accrue from changes of the benefit formulae affecting future claimants. In particular, tightening the contribution/benefit link as in NDC schemes (Italy and Latvia) or taking into account more insurance years (up to the whole employment career) lead to lower pensions for the newly retired. Whereas NDC schemes operate with a built-in life expectancy factor (when converting notional 'assets'), all Southern European countries have introduced a sustainability factor that automatically changes system parameters (normal retirement age, number of insurance years required for a 'full pension' or the initial benefit level) upon longevity developments. Moreover, all eight countries have made steps forward to harmonization of pension schemes, either by unifying hitherto fragmented schemes in order to save on administrative costs and/or by removing existent privileges for certain occupational groups (such as a lower normal retirement age or higher accrual rates) (see also Natali/Stamati 2014: 323). Predominantly, those equalizing reforms focused on public service workers and on women when they were still entitled to a lower pensionable age (however, Hungary and Romania remain exceptions in that respect). In not a single country was the solvency of public pension schemes strengthened by raising the contribution rate – at least not for employers. On the contrary, intended to stimulate job growth, their rate was (temporarily) lowered in Greece, Ireland, Portugal and Romania[12], whereas employees became subject to a higher contribution rate in Ireland, Latvia, and Portugal (2015).

As a result of the intensified reform activity, the predicted growth in public pension spending until 2040 will be considerably lower as was calculated in the 2009 Ageing Report (*Table 1*, row 8; European Commission 2012a: 142-4). Since the most recent reforms were not included in the projections, the future increase should be even smaller (see also footnote 9 on Spain).

The financial market crisis of 2008 posed serious problems for countries whose pension system relied heavily on private, fully funded components. In our sample, this was Ireland. Because those events – occupational and sovereign pension funds suddenly losing much of their assets – are unpredictable and cannot be ruled out in future, such vulnerability also affects the CEE countries where pre-funded private pensions were expected to play a larger role in the retirement income mix. In the CEE countries, the development of the mandatory second pillar reveals the specific challenge of transition costs that is also known as 'double payment problem': The younger cohorts (plus the middle-aged workers who voluntarily joined the second pillar in larger numbers than expected) also build up financial assets for the private component of their retirement income out of the diverted share of social insurance contributions. However, for several decades the pension entitlements of present-day retirees and older workers will have to be honored. The lowered contribution revenues of the first pillar are insufficient to meet these obligations (Holzmann/Guven 2009: 170, 230-1) while a rising gap could be covered out of the state budget only as long as it was not under pressure itself. However, this was exactly the case after the economic slump in 2009 and forced the governments in Latvia and Hungary (and elsewhere) to take action. The financial market crisis did not only shake the public's confidence in fully funded pensions. It also triggered a rethinking among political actors in CEE

[12] A most significant reduction by 5 percentage points of employers' contribution rate from previously 20.8 % and 25.8 % for arduous (30.8 % for very arduous) working conditions became effective in Romania in October 2014. The arising shortfalls have to be covered by the government and may endanger a balanced state budget, unless an enormous job growth will be triggered.

countries, leading to a revision of the implemented multi-pillar model, like in Poland or Slovakia (Orenstein 2011; Drahokoupil/Domonkos 2012).

Utilizing pension (reserve) funds for the sake of a currently lower public deficit was not confined to Hungary and Latvia. Portugal's government took over the assets of special pension schemes. Similarly, in Ireland the reserve funds of certain public sector pension plans were transferred to the national budget (the same happened de facto with the larger part of the NPRF) (Casey 2014: 33, 37-8). These attempts to meet strict deficit criteria imply that – since earned entitlements were not declared void – an enlarged part of future pension payments is moved to pay-as-you-go funding in all four countries, whereas exactly the opposite was originally intended. The effects of the portfolio shift of the Spanish social security reserve fund after 2008 are not much different: Selling off Dutch, French and German government bonds and purchasing Spanish ones instead, pushed up the price of the latter and thus stemmed the rise in the interest rate (Casey 2014: 37). That way the costs of servicing the Spanish sovereign debt were kept in check. However, the Spanish government will have to redeem the issued bonds when the social security system is confronted with contribution shortfalls due to population aging or economic recession. All in all, whenever governments held a grip on (pension) reserve funds or mandatory second-pillar pension schemes, they used them as a 'piggy bank' to reduce budget deficits. This is actually a new element of crisis policies that was facilitated by the pension reforms of the late 1990s and early 2000s. Without doubt, such crisis management shifts enlarged pension obligations into the future.

5. The Social Impact of Recent Pension Reforms

A look at the income situation of older people (65+) in 2012 reveals a diverse and surprising picture. The at-risk-of-poverty (AROP) rate, meaning less than sixty percent of the weighted median income, is lowest in Hungary, followed by Latvia and Ireland. In all countries, except Portugal, the AROP rate of the elderly is below that of the adult population below age 65 (*Table 1*, row 12). At first glance, it is surprising that the AROP rate for the 65-plus has nowhere increased after 2008. Rather, the rate actually fell – most considerably in Latvia (52.0 % in 2008, 13.9 % in 2012). Such development is mainly due to the fact that, for example in Ireland, Greece and Latvia, the median income threshold decreased as a result of unemployment, wage cuts and profit setbacks among the self-employed whereas, at first, pensions remained largely stable and indeed functioned as 'automatic stabilizers'. The increased GDP share (2007/2010) of public pension spending (*Table 1*, row 8) shows this quite clearly. Stable or even declined AROP rates do not mean that the elderly have become more 'wealthy'. Rather, by now they have merely incurred smaller income losses than the population of employable age; and those among the elderly, who received the lowest benefits regularly suffered least because direct pension cuts or retrenchments via 'solidarity levies', benefit freezes or the like, when they occurred, were targeted at retirees with higher pensions.[13]

The altogether not too bleak present situation of pensioners (at least in relative terms) might change when the reforms will take full effect. The downside of containing the long-term growth of public pension spending is lower replacement rates (*Table 1*, rows 9 and 10).[14] These figures, however, only provide a rough clue because the calculations are based on standardized assumptions regardless of the actual prevalence of complete and non-perforated employment careers in a given country, wage fluctuations over the life course, or participation in supplementary pension schemes. OECD data (2013b: 123) show that in Greece and Portugal about sixty percent of the retirees receive no more than the (contributory) minimum pension while in Italy and Spain the same is true for around thirty percent. The level of these minimum pensions or targeted benefits (*Table 1*, row 11) is considerably lower than the standardized 'replacement ratios'. Thus, only limited informative value should be attached to them.

In order to evaluate the living conditions of present and future retirees, a few further aspects have to be considered. In all eight countries the homeownership rate among the elderly is very high (*Table 1*, row 13), and few are still burdened with mortgages. If homeowners' imputed rents are taken into account, income inequality and the AROP rate are generally reduced whereas disposable income increases (Sauli/Törmälähto 2010; OECD 2013b: 76-87, 104-5). Thus, homeownership may partially compensate for low minimum benefits (*Table 1*, row 11). Effects in the opposite direction may emanate from co-payments when utilizing the health care system. Those individual out-of-pocket expenses amount to more than one third (Greece and Latvia) or one quarter (Hungary and Portugal) of total health care funding (OECD 2012b: 129). If pensioners, usually more in need of health care than younger people, are not exempted from co-payments their disposable in-

13 In Greece, however, certain professions successfully defended their privileges as Matsaganis (2012: 416) concludes from a closer inspection of recent pension policy: "The familiar pattern of powerful groups securing for themselves favourable treatment at the expense of less powerful ones reasserted itself – even under emergency conditions."

14 The 'gross average replacement rate' is calculated as the average first public pension of those who retire in a given year as a share of the economy-wide average wage at retirement (European Commission 2012a: 129). The 'net theoretical replacement rate' indicates the first public pension of a hypothetical average income earner retiring at 65 after a contribution period of 40 years as compared to the last wage before retirement (both pension and wage after income tax and social security contributions) (European Commission 2012b: 218, 240).

come is reduced. Furthermore, in none of the eight countries the adjustment of pensions in payments is fully linked to the development of wages anymore. The switch to consumer price indexation (or even temporary suspension) decouples retirees from future gains in prosperity and exposes them to an increasing risk of relative poverty the older they get (European Commission 2012b: 83; ILO 2014: 91-4). Finally, high unemployment does not only mean lower contribution revenues today, but also incomplete insurance records and hence lesser pension entitlements in future. Particularly since the contribution/benefit link has been tightened all over by taking account of more insurance years or the entire working life when benefits are calculated, 'atypical' employment biographies imply a heightened poverty risk.

6. Conclusion

A strict austerity agenda is now prevailing in Europe, being enforced by the new economic governance architecture that has been instituted as a response to the crisis phenomena since 2008 (see Hacker 2013). These new instruments may exert hard pressure on national governments to reduce budget deficits and to keep sovereign debt in check – also by reforming their pension systems according to detailed specifications (see also Theodoropoulou 2014). Such kind of pressure is incomparably stronger than the 'soft governance' that emanated from the Open Method of Coordination, predominantly aiming at 'learning' and convergence. The post-2008 reforms in the eight countries studied in this paper have either been imposed on governments by actors in charge of lending money to those ailing countries as 'conditionality programs' (IMF, the 'Troika') or were defined as an irrefutable necessity in the respective national context (Italy and the 2011 reform in Spain) and amounted to rapid policy change in the pension policy domain. In either case, 'normal' pension politics was suspended, and the reforms passed in an accelerated decision-making process without being prepared by expert commissions or negotiated with social partners (Spain being the exception) (Duchemin/Weber 2013). Nor were reform plans extensively communicated in order to win public support and hence maintaining the output legitimacy of the political system. Moreover, the post-2008 legislation has significantly accelerated the effective date of already concluded reforms if not fundamentally changed the course of national pension policy. We have observed in section three a clear-cut reversal from an established early retirement policy towards the prolongation of working lives, or the shift from orderly increases of pensions in payment towards more unfavorable indexing formulae, adjustment moratoria and even benefit cuts. In CEE countries, the multipillar path, which had been entered before, was reconsidered or even completely left.

The more or less externally imposed pension policy changes left the respective governments with few chances for blame avoidance (like obfuscation or compensation, see Pierson 1994). Rather, the retrenchments had an immediate and tangible impact and made governments susceptible to electoral retribution. In all eight countries the incumbent government that had committed these 'atrocities' (nowhere limited to the pension domain) was ousted in subsequent elections. The consequences are more far-reaching as the OECD shows in a recent publication: In the five most pressured and highly indebted European OECD member countries (Greece, Italy, Ireland, Portugal, and Spain), trust in the national government has declined significantly during the period 2007 to 2012 and in all five countries the trust level is well below the OECD average (OECD 2013c: 25-6, 32-3).[15]

Political actors striving to implement pension reforms that aim at savings on expenditure face a dilemma: 'Grandfather clauses' and long phasing-in periods until complete implementation reduce their effectiveness, which is the short-term savings potential. In contrast, rapid implementation of massive retrenchments may meet resistance from labor unions, senior citizens and others, especially when the measures are unilaterally imposed by the government and are not based on compromises. Almost without exception, the post-2008 reform legislation was followed by a swift implementation process by which it was drastically intervened into the future plans of older workers (e.g. by the rapid rise of normal retirement age in Italy and Greece) or the consumer customs of retirees (e.g. the nominal pension cuts in Greece; Petmesidou 2013: 607), often implying serious hardships. Thus it cannot be taken for granted that the changes in pension policy – including the automatic adjustment mechanisms – will in fact be implemented as legislated. If older workers face difficulties to actually work longer and unemployment – both overall and in particular among young people – remains high, a lower instead of a higher retirement age may appear as an outlet. This possibility may well apply also to the instrument of 'automatic government' which is an attempt to sidestep a recurrent public debate about policy change. Inbuilt 'sustainability factors', linking parameters of the pension system to longevity changes, are such instruments. It has been shown (Bosworth/Weaver 2011) that those automatic stabilizers have not always been applied as scheduled. Rather, governments often pre-empt popular protest or electoral defeat by suspending the application or changing the rules. Such (opportunistic) behaviour of governments cannot be ruled out with regard to pension reforms when the fiscal situation relaxes a little bit.

[15] On the alienation between voters and their representatives in Portugal, see Moury/Freire 2013.

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Herbert Obinger, Klaus Petersen

Mass Warfare and the Welfare State
Causal Mechanisms and Effects

ZeS-Working Paper No. 02/2014.

The question whether and how warfare has influenced the development of advanced Western welfare states is contested. So far, scholarly work either focused on the trade-off between military and social spending or on case studies of individual countries. What is missing, however, is a systematic comparative approach that is informed by an explicit consideration of the underlying causal mechanisms. This paper outlines an agenda for a comparative analysis of the warfare -welfare state nexus. By distinguishing between three different phases (war preparation, warfare, and post-war period) it provides a comprehensive analysis of possible causal mechanisms linking war and the welfare state and provides preliminary empirical evidence for war waging, occupied and neutral countries in the age of mass warfare stretching from ca. the 1860s to the 1960s.

Aline Grünewald

Social Security
around the World
A Review of Datasets

ZeS-Working Paper No. 03/2014.

Due to increasing scholarly interest in social policy reforms and processes of policy diffusion, comprehensive datasets on social security systems are all the more necessary. As such, this paper provides an overview of existing datasets on social security and discusses their strengths and shortcomings. The projects presented are appropriate for empirical analyses, including both event history analyses and multivariate regressions. As much of the research on social security systems thus far has mainly focused on OECD countries, this paper takes a closer look on data of the Non-OECD world, which can be used to supplement existing data projects and for the analysis of global social security dynamics.

Simone Scherger, Steffen Hagemann

Concepts of Retirement and the Evaluation of Post-Retirement Work Positions of Political Actors in Germany and the UK

ZeS-Working Paper No. 04/2014.

Concepts of retirement and related moral arguments play an important role in debates around pension reform. What retirement is – or should be – varies according to the surrounding welfare culture and an actor's general interests and beliefs. In this paper, we study the meaning that specific collective actors in Germany and the UK attribute to retirement, and their evaluation of post-retirement work, which is an exception to 'normal' retirement. For this purpose, we examine interviews with experts from unions, employer federations and relevant non-profit organisations which have been conducted in the context of a wider comparative project. Additionally, we draw on policy documents by the same actors. Our analysis of the interviews and the documents reveals similar retirement concepts among the same kinds of actors across countries: trade unions and at least some non-profit organisations advocate retirement as a social right and as a distinct (ideally work-free) phase of life. In contrast, employers have a less substantial concept of retirement. At the same time, when morally justifying what retirement should be in their view, the actors refer to ideas that establish a connection to the specific welfare culture surrounding them.

Asa Maron

Reforming Governance in the Israeli Welfare State: The Role of Organizational Settlements beyond the State in Instituting Change

ZeS-Working Paper No. 05/2014.

Welfare state governance reforms are established by new constellations of actors and experimental organizational structures. This paper analyses two most similar cases of governance reforms in two welfare state domains: (1) services for children and teens at risk; and (2) employment services and social security benefits. It utilizes a comprehensive empirical study that surveys reform initiatives and the establishment of innovative governance coalitions formed in order to enable the recalibration of the Israeli welfare state to changing conditions. In both cases, preliminary deliberations of senior bureaucrats were able to establish change coalitions, which were vital in order to overcome bureaucratic stalemates that result from path-dependent administrative legacies. Notwithstanding, governance coalitions differ in their ability to institutionalize new governance configurations within the state: while the new configuration for governing services for at risk populations won political legitimacy and was instituted, the workfare governance configuration suffered from political illegitimacy and was ultimately abolished. By focusing on the organizational aspects of welfare state reform, the paper argues that tentative coalitions' potential to transform into legitimate and sustainable governance configurations depends on their ability to establish inclusive organizational settlements between agencies with different interests, beyond the bureaucratic structure of the state.


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