

# Pension-Reforms in Six West-European Countries - Which lessons can be drawn for Germany?

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## Abstract

*In recent years most European countries have implemented reforms of the pension system but the scope and the direction of these reforms have been different. This article compares the characteristics of pensions systems in six European countries: Sweden, Denmark, the Netherlands, Great Britain, France, and Germany in order to analyse recent reform strategies. We could document a trend towards diversification in pension systems and observed that the previously distinct models of Esping-Andersen's 'three worlds' have become hazier. Our research does not point to convergence of these systems, however. Most systems follow an incremental strategy where fundamental reforms are seldom. We conclude that the countries may learn from each other but it is necessary for them to account for their individual national and systemic backgrounds. Thereby the focus of pension reform research should be placed on aims and strategies rather than on specific measures of a given reform.*

Social security systems in all European countries are facing enormous challenges because of their extensive social, demographic and economic changes (see Kaufmann 1997; Schmid 2000). Especially the pension-system, one of the major pillars of social security, has felt these challenges:

- Because of a growing number of pensioners combined with a high number of unemployed, and consequently fewer contributors, there have been higher expenses. Indeed, a decreasing number of people who pay contributions have to

support an increasing number of payment-receivers, and this trend will even intensify in the future. For Germany it is estimated that the ratio between pensioners and payers will grow from 30% (1991) to 42,5% (2000) and even up to 60,6% for 2030.

- Further problems arise when these pension-systems have to be adjusted because of the changing structures of employment (e.g. a growing number of part-time employment and precarious employment-situations].

All European countries face these fundamental problems in their pension systems but because these countries have different national and socio-economic structures, they handle these problems in different ways (Bonoli 2000). It is necessary to examine the reforms in these countries closely. Therefore we describe the architecture of the welfare regimes in general, the pension-system in detail, and the current general reforms. Here we focus on Sweden, Denmark, the Netherlands, Great Britain, France and Germany.

In our analysis we are guided by the following basic theoretical and methodological approaches:

1. According to the current trends in comparative welfare-state analyses we distinguish between different types or regimes that have evolved over time and which were categorised by Esping-Andersen as “social-democratic”, “conservative” or “liberal”. An important older typology distinguishes between “Bismarck” and “Beveridge” systems (Schmid 2000, 2001; Schmidt 2001). Both of these regime typologies tend to be stable or path-dependent where the status quo is the best prediction for the future.
2. We also take into account the findings of comparative public policy analysis (see Schmidt 1993), which states that reforms can be implemented depending on their content, their scope, the veto-players and the institutional restrictions. Systems like Germany, which are strongly federalist and corporatist tend to have only small corridors for reform (see also Cox in this volume).
3. Also considered in this study are the distribution-systems among generations and other parts of modern welfare-states.
4. Finally, our methodological design follows a similar system design in which the cases show similar political and socio-

economic structures. Therefore we concentrate on the already listed EU member-states and exclude other interesting cases like Switzerland, Japan or the USA.

In this respect two questions are crucial for our study: First, are fundamental reforms possible even when they faced resistance and blockades? Second, is it possible for Germany to learn from other countries' experiences?

## **2. Pension-Systems in Europe in the 1990's**

### **2.1 Basic Types and Variants**

In principal, pension-systems in Europe can be distinguished into two major groups (Kohl 1988):

- systems financed through contribution and
- so-called "basic" or public pension systems

The first group was devised mainly from Bismarck's principle of Age- and Invalidation-Protection (1889). The central aim of this type of pension is to secure the employed population in old age. Pensions are claimed by individuals. One characteristic of this system is the so-called "generation-contract" (Kolb 1985): the pension systems are financed by contributions and are normally allocation systems, also called PAYG (pay as you go). The contributions are used directly to satisfy the pension claims of the prior generation, thus there is a balance between the generations. Bismarck-type social security is primarily aimed at a high degree of security during retirement for (dependent) employees. With income-dependent retirement payments pensioners should be able to more or less maintain their former standard of living.

Welfare-states á la Beveridge are characterised by universal entitlement. Every citizen receives security via a basic social safeguard, which is independent from their former occupation and income. In most cases benefits are not means-tested. So, this system is a public welfare system in which the state guarantees a minimum level of income that is tax-financed. Employment is not a condition for getting benefits as it is in the case of contribution financed systems.

Within these types different systems can vary significantly in the scope of benefits and services. Because of recent reforms the dividing line between those two types is blurred. Nonetheless the original orientation of Beveridge or Bismark exists still in its main features and is of importance for reform-options.

Another dimension was introduced by Esping-Andersen in his presentation of the “three worlds of welfare” (1990). He distinguishes three basic types of welfare states reflecting their political base: the social-democratic, the liberal and the conservative welfare-state with the following characteristics:

- 1) social-democratic welfare-state:
  - universal security is on a high level
  - financing is collective (mostly by taxes)
  - reallocation-impact is high
  - protection from economic or structural crisis is good
- 2) liberal welfare-state:
  - this type is consistent with the market; the state intervenes only minimally
  - private provision has the primacy
  - a selective pittance-principle for individual emergencies
  - the standard of benefits is low
- 3) conservative welfare-state:
  - coverage of the economically active population
  - individual claims under the terms of the achievement principle
  - there is a additional system for minimum-coverage depending on need
  - the level of the benefits is medium

## **2.2 Selected variations of pension systems (end of the 90s)**

### **a) Sweden**

Until today the Swedish pension system is a universal welfare-system that can be categorised as social-democratic (see Esping-Andersen 1990). Everyone can receive the basic pension, and only additional contributions (max. 55% of the basic pension + housing benefits) are means-tested. The system consists of two pillars, the basic pension and a general additional pension (see European Commission 2000 and DRV 1999).

- Every citizen is entitled to receive the basic pension. If one has lived in Sweden for more than 40 years, or if one has been employed in Sweden for more than 30 years, the basic pension is paid off in full. There are also possibilities to receive additional benefits. Furthermore, the payments depend on the marital status and is annually adjusted to inflation.
- In addition to the basic pension a supplementary pension can be received starting since the 1960s. The payments of this pension depend on the average income. Every employee who received an income and paid taxes for more than 30 years receives a general additional pension up to a limit of 60% of his or her income. The importance of this additional pension has increased since the 1990s and its finance-volume has recently has risen noticeably higher than that of the basic pensions.
- Beside these contributions there are also occupational and private pension schemes. About half of the Swedish pensioners receive such pension-payments, but the financial volume is only 15% of the total pension-volume.

Payments are relatively high, as the pensions reach about 65 to 85% of the previous income. Poverty among pensioners is very low because of the universal character of the basic pension. However, the increasing importance of the additional pension has led to more divergence in the level of pensions in recent years.

## **b) Denmark**

The Danish pension system is mainly financed by taxes and also shows a universal character and a high level of benefits. During the last decade the system has evolved to a system that is based on four pillars. These are:

- the public pension (plus supplement)
- additional labour market pension (ATP)
- occupational pension
- private pension insurance

Public pension and additional labour market pension form the public part and guarantee a basic social security on a high level. The

occupational and private pensions lie in the responsibility of the social partners respectively in that of every individual employee.

Public pension in Denmark can be received at the age of 67. The public pension, additional supplements and additional pensions are fully liable for taxation. Those who have lived in Denmark for at least three years between the age of 15 and 67 are entitled to get a public pension. To qualify for the full pension one must have lived in Denmark for at least forty years between the age of 15 and 67, otherwise pensions are proportionally reduced. In addition to the public pension, there are income-dependent pension-supplements and other additional payments.

The ATP was introduced in 1964. Every employee between 16 and 66 is obliged to take part in it. The entitlement is not dependent on the income but on the life-working-time. A full pension requires that contributions have been made in total since 1964; the payments of the additional pension normally start at the age of 67 but can be suspended for three years. Thereby the additional pension will grow every six months by 5%. Employees at the age of 60 and older who have been in the system for a considerable time can receive a part-pension. The weekly working time is then reduced and part of the loss of income is compensated by the ATP. This part-pension is not financed by contributions but by taxes.

The newly created occupational pension system is financed by income-dependent contributions. The specific conditions are regulated by local collective bargaining between the employees and the employers. The government supervises the pension-funds and the insurance companies, which administrate the occupational pension schemes. The private pension insurance plays only a minor role in Denmark. Its significance will be increased by the introduction of tax privileges.

### **c) The Netherlands**

The Dutch pension system organised along the providence-principle, but it does not match the criteria of the classical universal model. It is a mixed system, which can be characterized as social-conservative. The level of pension payments is higher the longer contributions to the system have been made. The basic pension is paid

to every inhabitant and does not depend on the amount of contributions but on the length of time these contributions were paid. The model is organised in three pillars:

- The first pillar is the general insurance system, which is financed by contributions from earned income. This system includes a basic pension, which is financed in a pay-as-you-go way, in which every inhabitant up to the age of 65 years, independent from his/her earned income, is obliged to pay contributions, which is momentarily a rate of 20%.
- The level of pensions is connected with the net minimum wage: for individuals the pension is 70% per person, for couples it is 50% per person of the net minimum wage. Benefit recipients with a partner below the age of 65 are entitled to a supplement, if the partner has a low income. The full pension amounts to double the basic pension of a married person. 50 years of insurance are required in order to get a full pension. If the insurance period is shorter, the pension is reduced by 2% for every year that is missing.
- As the second pillar of the system, company pensions play an important role in addition to the general insurance system. This is also reflected by a membership of about 94% of the population (Stillich 1996b). The public basic pension and the company pensions amount to about 70% of the last gross salary.
- The importance of private pension insurances as a third pillar is only less significant due to the importance of the first two.

In the Netherlands the regular pension starts normally at the age of 65. Pensions are fully liable for taxation, but taxation only starts if the fixed minimum income is exceeded.

#### **d) Great Britain**

In Great Britain we find a welfare system á la Beveridge based on a national pension system with a low level of benefits. It is composed of a basic pension rent charge and an income dependent supplementary pension (Supplementary Earnings Related Pension Schemes SERPS). In the past few years employees have had the possibility to take part in an additional pension system instead of SERPS. The importance of the company and private pension insurances has increased during recent years. The pension system has been increasingly privatised and is

therefore increasingly dominated by capital-covering procedures (Kolb 1985) and to a lower degree by allocation procedures.

The public pension system is organised in three parts: the basic pension, the income-dependent supplementary pension and the proportional pension.

- The basic pension covers nearly all employees and self-employed. The level of payments depends on the duration of contributions and is altogether very low. Between 39 and 44 years of payment are needed to be entitled to the full basic pension, otherwise the payments are cut. Periods of time can be counted (up to a certain extent) toward pension when used for childcare or elderly care. This is also the case in temporary disability, illness or unemployment. A partner and children are entitled for financial support through the recipient of benefit who gets supplements in addition to the basic pension.
- A pensioner's benefits in the SERPS depend on his/her former contributions. Contributions are supported on the incomes which lie between a lower and an upper limit. Payments are calculated according to the 20 highest annual incomes and they amount to a maximum of 120 GBP per week.
- The proportional pension is contribution-dependent and only applies to payments made before 1976. Therefore, it has long lost its importance and indeed, the maximum individual payments are very low.

Every pension and retirement payment is seen as an income and is therefore liable for taxation. A progressive taxation of the gross income occurs. With the age of the recipient the tax allowance increases. No social insurance contribution needs to be made for retirement payments. The retirement age for men is normally 65 years, for women it is 60. In the years from 2010 to 2020 the age for the retirement of women will successively be increased to 65.

#### **e) France**

Because of the multitude of occupation-dependent subsystems the French pension system is very complex. It is based on the amount and duration of contributions and is therefore equivalent to the conservative Bismarck model. One has to distinguish between the

general pension insurance and the obligatory supplementary pension insurance (for employees, self-employed, public servants, unemployed, trainees and students). Starting from a certain minimum-level pensions are liable for taxation.

A full basic pension can be received at the age of 60 if contributions have been made for a minimum of 40 years as of 2003. However, in most cases employees have to continue working to reach 40 years of employment. Starting with 60 years of age the employees have the possibility to receive a part-time pension. Special systems of social security exist for the self-employed, farmers and civil servants.

In the compulsory insurance the pension level depends on the amount of insurance-years and is calculated on the basis of the 15 best annual incomes (from 2008 on the best 25 annual incomes). If the highest rate is reached, the retirement payments cover 50% of an individual reference income, which is calculated from the average annual gross income up to a certain upper limit. The system is financed by contributions made by employers and employees and by governmental subsidies. Very family-friendly is a regulation by which payments are raised by 10% if three or more children were present in the family. Here, a strong horizontal redistribution takes place.

The company pension schemes can be divided into a system for executives and a system for other employees. They are based on operational and regional regulations between trade unions and employers associations.

#### **f) Germany**

The German pension system represents the classic social security system in accordance with the Bismarck principle. Its aim is the security of the working population and an equivalence of benefits and payments (equivalence principle). The advantage of such a system is the maintenance of a certain standard of living for the pensioners. The disadvantage is likewise obvious: the great dependency on employment and the danger of poverty during retirement for persons with an irregular and a short history of employment during their working-life. By this redistribution does not take place, alone the temporarily shifted financing allows a slight balance. According to the "generation contract" the working population finances the pensions of

the older generation (Kolb 1985). Civil servants, self-employed, craftsmen and farmers, as well as other smaller professions are not included in the regular pension insurance but have a special system of social security.

In the regular pension insurance the level of pensions equal the level of previously made contributions; early retirements are possible but only with losses in the pension. The pension equals about 50% of the net wage and is regularly paid from the age of 65 and onwards. The system is financed by equal contributions of employers and employees. Due to demographic changes the contributions do not cover the pension demands of the older generation any longer. The evolving deficit is covered by tax-revenue and by a reduction of payments.

Company pension plans are, like private pension insurances, voluntary. However, there are a number of (tax) benefits for private insurance measures, in particular for the real estate sector. The company or private insurance systems are organised and financed privately and are not or only in some parts restricted by legal guidelines, like the transfer of claims after a change of the jobs.

### **2.3 The comparative dimension of the statutory pension insurance systems**

The following criteria can be derived from the typology of Esping-Andersen and can be adopted to the pension systems in the examined countries:

- mode of financing
- restriction of the recipients of benefits
- the level of the benefits
- means-testing for the minimum pension
- requirements for the receipt of benefits
- redistributive impact of the systems

#### **Modes of Financing**

Most countries with a social-democratic welfare system finance their basic pension by taxes. Additional pension systems are financed by contributions; but as there are no individually acquired rights and as

the contributions have no upper limit, they have the effect of additional taxes. This is true for Sweden, Denmark and partly also the Netherlands, but the latter is an exception because financing of the basic pension and additional retirement payments is carried out by the employees. On the other hand, a universal minimum benefit is guaranteed for all and the contributions have to be paid in a similar fashion as would taxes. The liberal system shows characteristics of private precaution measures and stand in the tradition of pittance-distributors. The state only steps in if the private precautions are insufficient and it so guarantees a minimum level of security. The financing by taxes reflects the universal principle of this system. Conservative Bismarck-systems are marked by their own kind of financing. The contributions are partly made by the employees and partly by the employers. The individual entitlement for the later benefits arises from the amount of individual contributions. A basic retirement payment is not guaranteed within the system; thus requirements have to be covered from outside. If the contributions do not equal the claims of a generation of pensioners, the state has to pay tax-financed subsidies. This is true for the classical model of the German pension system, but with modifications also for France.

#### **Level of benefits: Minimum pension or a protection of the living standard**

Indicators for the level of benefits are both the minimum pension standard and the (average) wages substitute rate. In the basic social safeguard systems all citizens are entitled to benefits, whereas the level of the benefits can vary. Sweden and the Netherlands provide a high level, which secures a high living standard, but which also needs additional insurance to provide a real wage replacement. Denmark is also aiming to secure a maintenance of the living standard by a basic social security. This is why Denmark provides the highest level of the guaranteed benefits. As a counter-example Great Britain provides the lowest level of social security benefits; here the benefits are rudimentary (see Kohl 1988). France provides a basic social security for every insurance member, which secures a medium level of existence. Germany shows only a low level of security, if general social benefit payments are taken into account. Apart from that, there is no system to prevent old-age poverty. In auxiliary-pension systems and pension insurance systems the claims are connected to an occupation, which can create problems with respect to a sufficient pension-level. The major

aim is not the prevention of old-age poverty, but the protection of the living standard of the employed once they have become pensioners. The level can be balanced as in Sweden, where uniform contributions are made and a lump sum is paid, or an auxiliary-pension is paid efficiency-oriented, which means the claims are closely connected to the contributions made.

### **Means-testing for the minimum pension**

From the logic of the model in social-democratic countries there should be no means-testing that is also the case for those countries which have a Beveridge system. Their aim is a minimum guarantee for the majority of the population, at least in terms of the existence-minimum. Sweden and Denmark show some exemptions: Here means-testing exists in some cases. In conservative systems, organised like a social-state, there is also an examination of income, especially if the person was not employed and is therefore not a member of the system of the pension insurance.

### **Requirements for the receipt of benefits**

The requirements for the acquisition of benefits vary in the different countries. In this area the social and systemic differences become very obvious. Yet they have some features in common. In the social-democratic countries the place of residence is very important, in conservative countries it is occupation (France) or the employee-status (Germany). The payments normally start between the age of 60 in France and 67 in Denmark. However, in nearly all countries the employees have the chance for early retirement and part-time pensions. However, the later the pension payments start, the higher is the level of benefits. Conversely, the pensions are cut partly if the retirement starts early.

### **Redistributional impact of the systems**

All countries show both a vertical and horizontal redistribution. A horizontal redistribution takes place between individuals and couples, employed and unemployed or between generations, the vertical distribution is related to income-differences. However, in Sweden, the Netherlands and France the horizontal redistribution takes mostly place between individuals and couples (with children), while in Great Britain and Denmark the reallocation exists more between employed and unemployed. In Germany there is a strong horizontal redistribution among the generations, but hardly any in a vertical dimension. The Netherlands, France and Germany show a medium level of redistribution, because the entitlements to pension payments are individual; the other examined countries show a high level of redistribution, both in a vertical and horizontal dimension. This is also true for Great Britain, where the basic pension system promote a strong reallocation, but only on a low level.

### **2.4 Private insurances and company pensions in comparison- a necessary appendix**

The private insurance systems can be divided into two types: the classic private insurance under the terms of the capital-covering system (Neumann 1986) and company pensions. In this section only the latter shall be examined. These company pension systems can be divided into obligatory and private systems (see Behrendt 2000). With a closer look at the importance of the private insurance in the public pension system respectively with respect to their share in pension benefits, two facts can be observed:

1. The relative importance of private insurance is especially high in countries with basic pension systems, as here private insurance secures the living standard. In those countries (Denmark, Sweden and Great Britain) private insurance is obligatory. In addition to other retirement payments, they (often company pensions) will secure the living standard. However, considerable deviations can be seen in the rate of the private insurance from gross income. In Sweden, the Netherlands and Great Britain about 70-80% of the population are insured privately, but individual rates are very different. Sweden has the lowest proportional rate with about 20%,

Great Britain has about 35% and in the Netherlands a proportional part within the retirement payments is about 40%.

2. Secondly, the following has to be taken into account: In all countries, with the exception of Sweden, we can see a strong connection between private insurance and a generally high income. Here the differences in old-age income become very obvious, especially if the redistribution is totally dependent on capital-coverage. This connection, however, is not obligatory. Some examples (like Finland, or in some respects also Sweden, see Behrendt 2000) show that an effective control and the use of institutional distribution-factors can work quite well. Private capital-covered insurances do therefore not necessarily mean the continuation of an inequality created during the working-life, but can be combined with elements of solidarity.

### Some gender-specific remarks

Problems of capital-covered additional insurances become obvious, if one looks at the pension system from a gender perspective. In this context the close connection to employment becomes clear. The average contributions to the private insurance until the retirement age are about 50% higher from men than from women. This is true for all examined countries. Only in Germany we can find a difference, but this can be put down to generous regulations concerning widows' pensions (especially in Germany the percentage of women with employment is low and most women work only part-time). This also means that in countries in which more women are employed like in the Netherlands or in Sweden, the inequality in the received pension payments, like inequality in wages, is not counter-balanced (see Fuhrmann in this volume; for the characteristics of the French system see Veil 2000).

**Table 1: Overview over the characteristics of six European pension systems**

	<b>Sweden</b>	<b>Denmark</b>	<b>Netherlands</b>	<b>Great Britain</b>	<b>France</b>	<b>Germany</b>
<b>Public pension system</b>	Public welfare principle	Public welfare principle	Public welfare principle	Insurance principle	Insurance principle	Insurance principle

	Rent charge + Auxiliary insurance (ATP)	Rent charge + Additional insurance (ATP)	Rent charge		Retirement-insurance (CNAV) Minimum security	Individual entitlement/ contribution
<b>Bismarck vs. Beveridge</b>	Beveridge	Beveridge	Beveridge / Bismarck	Beveridge	Bismarck	Bismarck
<b>Type according to Esping-Andersen</b>	Social-democratic	Social-democratic	Social-conservative	Liberal	Conservative	Conservative
<b>Financing</b>	Contributions + taxes	Tax + contributions (C, L)*	Contributions (L)	Contributions (C, L) Governmental grants + Contributions	Contributions (C,L) Governmental grant (early retirement + gliding time)	Contributions (C,L) Governmental grants
<b>Receivers of the benefits</b>	Every inhabitant + every employed person	Every inhabitant+ every employed person	Every inhabitant	Every employed person	Every employed person	Every employee
<b>Basic pension/wage replacement rate</b>	Medium/ High	High/ High	High /Medium	Low/ Medium	Medium/ High	Low (social benefit)/ High
<b>Examination of neediness (basic pension)</b>	Yes (but only for supplements)	Yes (but only for supplements)	No	No	Yes	Yes
<b>Requirements to receive the benefits</b>	Unitary pension payments starting with 65 (at 60 early retirement) Resident for at least 3 years, full entitlement after 40 years or 30 years of contributions	Unitary pension payments and ATP starting with 67 (part-time with 60) Resident (min. 3 years, full entitlement after 40 years + Full payments from payments starting 1964)	Unitary pension payments starting with 65 Insurance time (full payment starting with 50 years) Marital status	Unitary pension payments starting with 60 (women) or 65 (men), pension-delay for max. 5 years possible, Insurance time (min. 10 years, full payment after 40 or 44 years of contribution) + contributions	Pension starting with 60 Insurance duration (min. ¼ year, full payment with 38,75 insurance years- 40 from 2003 on)	Pension from 65 years on (in some cases 60) Payment is dependent on made contributions
<b>Redistribution impact</b>	High Vertical / Horizontal	High Vertical / Horizontal	Medium-high Vertical / Horizontal	High Vertical/ Horizontal	Medium Vertical/ Horizontal	Low/Medium Vertical/ Horizontal
<b>Private insurance</b>	Obligatory	Obligatory	Obligatory	Mandatory	Mandatory	Voluntary

\* C=Capital (Employer), L=Labour (Employee)

### 3. Current reforms in the selected EU-countries

In this section reforms in the pension systems of the countries described above shall be examined and analysed further. It is not a description of the current “popular” discussion. Rather we choose a wider perspective to gain new insights into the reform-activities of the

selected countries and to describe their chosen paths in more detail (Tamburi 1999 and Friedrich-Ebert-Stiftung 2000).

#### **a) Sweden**

The Swedish reform-activity is based on a broad discussion, which started in the 1980s, as the current system was checked for reform-requirements and reform-possibilities. After a general approval of the parliament, detailed elaborations of the reform were started in 1994. In 1998, ten years after the beginning of the public discussion, the parliament passed the respective law for these reforms. In 2002 the first payments according to the new system will be made (For a more detailed description of the Swedish reforms see <http://www.pension.gov.se>).

An important impulse for the reform process was the expected funding-problems caused by growing economic problems, an increased life expectancy, and as a result a worsening ratio between payers and receivers of contributions. This would get even more dramatic as the unemployment-rate grew and the economic growth stagnated. Also new ideas and demands played a crucial role in the reform process, such as the increasing complaints about the missing correlation between the income (and the paid contributions) and the resulting level of pension payments.

The new Swedish pension system can be described as follows:

- need-orientated basic retirement payments
- individualisation of pension entitlements
- higher flexibility for the retirement age
- a priority shift from the predictability of the level of the payments to finance-security
- gradual introduction of the new system

Everyone is entitled to a guaranteed minimum-pension; further possible supplements include means-tested housing benefits. The basis for the calculation of the minimum-pension is a fixed point of reference. The emerging costs are financed by the national budget, and the pension fund is not burdened. The responsibility is now more on the side of the individual; only those in need receive a basic pension.

The new pension system tries to create more transparency. Especially the connection between income, contributions and the level of pension payments will be more visible. Out of the 18,5% of the contributions from income, 16% go directly into the pension fund whereas 2,5% go onto a different account. The 16% are used directly for the pensions of the older generation. So contributions are directly redistributed, and governmental subsidies are excluded. This makes it nearly impossible to predict the future level of the benefits. In general one expects that the level will decrease as the number of beneficiaries in the system grows. One's own pension is the result of the paid contributions compared to the contributions of the other pensioners. The contributions, which are collected on a special account, go directly into the pension-income of the individual; all received interest are later added to the pension payments. So, it is a capital-covered component in an allocation-financed system. Simultaneously, the possibility to have a decision-right about the investment of the money, might improve the yield.

There is no fixed retirement age within the new system. A lower limit was defined but not an upper one. 61 is the earliest age to receive a pension. However, everyone has the possibility to work for a longer time and thereby increase the entitlement for the retirement payments. Also, it is now possible to receive a part-pension in varying amounts. The new system is relatively immune against a further increase in life-expectancy, as this was taken into account right from the beginning. If life-expectancy grows, pensions will decrease; also the demographic change is excluded as an critical factor. The economic growth, respectively the development of incomes, is taken into account for the calculation of the annuity rate. (for a very complicated calculation of the annuity rate, see Scherman 1998: 421)

Because the introduction of the new pension system has been implemented step by step, a very smooth transition from the old to the new system will be assured. For every one-year age-group between 1938 and 1953 the elements of the old and the new systems are combined with a different emphasis. People born in 1954 will be the first to receive a pension fully in accordance with the new system starting in the year 2015 and henceforth.

## **b) Denmark**

Recent reforms in the Danish pension system took place with respect to nearly all areas and the reforms continue. These trends are as follows:

- Introduction of a capital covered additional pension with reallocation-elements
- Reduction of the retirement age with a simultaneous reduction of the number of receivers of special retirement payments
- Strengthening of occupational pension and private pension insurance

With these reforms the future level of pensions will increasingly differ, as the benefits from occupational pensions and the private insurances are closely connected to the level of income during the working life. Thus, the principle of income maintenance has gained importance compared to basic safeguards.

This can also be seen in the permanent introduction of a third public pillar. By the special payments of 1% of the gross income every insured person and also the unemployed and the social welfare recipients build up an account. From the age of 65 on every person receives a monthly payment in proportion to the made contributions. The allocation-thought is thereby not neglected as the received benefits are not to exceed the average sum of the paid contributions. This new element of the Danish pension system was first introduced in 1997 and is now a permanent element of the system.

For all pensioners born in 1938 and later, the retirement age was reduced from 67 to 65 years; at the same time early retirement was made unattractive in order to keep more elderly people in the labour market. Some other new regulations reduce the payments when an income is earned simultaneously to a pension; and this should be viewed in a similar context that promotes a longer life-working-time on a voluntary basis.

In order to introduce an occupational pension and to increase its acceptance, two methods were used. First, a governmental supervision was created which manages the funds and which guarantees a greater security for the contributions. Secondly, the occupational pension is mostly not charged as an income on the basic pension (especially the supplements). With the opportunity to keep the pension-entitlement

after a change of jobs, the mobility in the job-market was increased. As for occupational pensions, private retirement insurance benefits are not seen as an income. The attractiveness of the private pension-funds was even increased when flexible contribution-payments and tax-privileges were introduced.

One further trend of the reforms is to reduce the number of people who receive an additional income. With changes in the social-pension law, the financial incentive to (re)enter the job-market reduces the number of recipients of early retirement payments. These changes also include a reduction of benefits if one retires at an early age.

### **c) The Netherlands**

Since the 1990s the Netherlands have undertaken several reforms of the pension system, which are aiming to reduce both legal claims and benefits. This fact follows the idea of a general insurance-systems that shall only secure basic needs. The following trends can be observed:

- the basic principles of the systems were only slightly changed
- the occupational pension could keep its freedom of investment, although a limited number of governmental interference took place
- the survivorship annuity was newly regulated and strongly restricted
- the unemployment insurance was reduced in its benefits and partly privatised

The Netherlands do not try to solve the expected financing-problem by drastic changes within the system. Rather it has introduced a number of small reforms to cover the costs of an ageing population. The government uses three strategies: one strategy is to enlarge the working population, a second strategy is to reduce the national debt and a third strategy helps the financing of the system by a slight increase of the contributions, via taxes and via a fund that is financed through the national budget which should cover the expected deficit from the year 2020 on.

The payments for pensioners with a partner below 65 years of age were slightly reduced. The basic payments were cut, but with a low income of a partner it is now possible to receive higher extra payments.

The occupational pension is financed by occupational and sector-specific funds. As there are nearly no governmental restrictions for the investment, most investments with an expected high yield like shares are chosen. In some respects the state intervenes: it is now possible to keep pension-claims after a change of job, also the regulation for men and women, full-time and part-time workers have been harmonised (Twaalhoven 1998: 394).

In 1996 the survivorship annuity was newly regulated, the partner- no matter if a spouse or living-in partner or even a sibling- has a right to a survivorship annuity, if he or she has a child below 18 years of age, is up to 45% unemployable or has been born before 1950. In fact, this was an abolishment of the survivorship annuity for almost every person born after 1950.

One emphasis of the reforms was the conversion of the disability pension (see Stillich 1999b). The benefits were restricted during the last years and disability was newly defined. Self-employed and civil servants were integrated into the system. The employers have now to pay all the contributions, but they can reduce the level of payments if they assume parts of the unemployment-risk and pay for a private insurance. This counts for a partial privatisation of the system. At the same time the self-responsibility of employees was enhanced and the system was put on a wider base. Altogether the Netherlands have shown a decisive will to reduce the enormous level of disability-payments and to enlarge the working-population, especially among the generation of 50-65 year olds.

#### **d) Great Britain**

The reforms in Great Britain were mainly undertaken in the following three sectors:

- construction of a new second official pension
- slight corrections of the existing system
- better regulation of the occupational and the private retirement payments

At the end of 1999 as a part of a broader reform some aspects of the existing pension-system were changed. The aim was to change the precarious situation of a lot of poor pensioners, as the retirement payments had been hardly adapted to inflation for at least the past 15 years. Also, there had to be reforms because of the decreasing importance of SERPS as a lot of employees had already left this system.

The new system includes requirement-independent minimum pensions. The previous second column of SERPS has been replaced by the so-called State Second Pension (SSP). The aim of this new pension is to improve the financial situation of low-income workers at an old age. It is aiming mainly at people with an annual income below GBP 21.600. Additionally, new pensions for interest groups has been created. Here persons with a low income can build up pension-claims, which are grant-aided and are covered by accumulated capital.

Minor reforms are advanced information via annual retirement-payments accounts, additional benefits for the television licence fees or visual tests, or newly regulated pension payments after a divorce, as the pension-claims are now treated like other property and are shared, for example after a divorce. The retirement age for women will be adjusted to 65 in the years from 2010 to 2020.

Reforms of the occupational and private insurance have only had a regulating character. Because of the Maxwell-scandal, the controls of the occupational pension funds have been intensified. Additionally, employees are included in the control mechanisms. The private insurance is now controlled more strictly. In the past the proceeds were very low because of mismanagement (Wittrock 1998: 387). Aside from this, new regulations for the level of fees and for tax incentives have also been made.

Like in other European countries, there were reforms of special retirement payments like those for surviving dependants. In Great Britain the growing equal treatment of men and women and the slowly growing level of benefits will improve the present situation.

#### **e) France**

According to the complexity of the system it is not surprising that the reforms of the last years did not really change the existing system. The basic problems of the system, like the problematic financial situation and the worsening proportion between employees and pensioners were not solved. Slight reforms were undertaken in the following fields:

- reduction of the benefits by a spread of the basis for assessment
- fortification of the private insurance following the capital-covering principle

The major aim has been to freeze the amount of retirement-payments at a certain level. Thereby the structure of the system was not changed, but the claiming of benefits was restricted. So, the required number for a full pension was increased to a total number of 160 insurance-quarters (40 years). Also, the number of years for the calculation of the average annual income has been increased from 10 to 25 years till the year 2008. Normally, a result of this new procedure would be a lower pension-payment. For the consolidation of the system a new fund was created, financed by general social contributions.

Since 1998 every employee has the possibility to take part in a pension-saving-plan. Thereby the employer and the employee make a contract for the saving-plan on a voluntary basis. Employer and employee share the contributions. The management is done by an insurance, by an insurance-union or a co-operative organisation. A pension is paid out of the accumulated capital. Therefore, the system has extended an additional possibility to receive a pension, in which the state is not directly involved but works according to the capital-covering principle. This new system is, however, under a substantial pressure for reform because financing will not suffice in the wake of all the claims (Financial Times Deutschland 14.2.2001, S.12).

For example, the still existing low retirement-age for civil servants can be seen as an example for the needs of reform. An important factor why the reform-needs still exist is the high conflict-readiness of the French trade unions and the structure of the political system.

#### **f) Germany**

After the change of ruling parties in the government, modifications in the pension-systems were cancelled. The main focus was still the financial consolidation of the system with a simultaneous constant level of contributions and pension-payments. The main focus of the reforms are or were:

- financial consolidation of the system
- introduction of a need-orientated basic security
- introduction of a partly state-financed private insurance
- strengthening of the occupational pension

To guarantee stable contribution-payments and a stable pension-level, the number of contribution-payers has to be increased. Therefore, also people with low income and the pseudo-self-employed have to be included in the statutory pension insurance. By this and by higher tax-grants, the contributions could be stabilised at maximally 19,1%. By a changed modulation of the pension-income, the contributions and the level of the retirement-payments should be stabilised. The future will show if the existing calculations were reliable and if this is really possible.

To guarantee a basic security for pensioners (apart from the social welfare) a need-orientated basic pension is planned. This basic pension will be financed by taxes and shall be carried out by districts (Kreise).

An important part of the reforms is the introduction of a governmental encouraged private insurance. This was planned as an obligatory insurance for everyone, but because of great resistance it was changed into a voluntarily one. A private insurance with an annual rate of up to 4% of the gross income is forthcoming and shall be financed by governmental grants and state allowances; both private and occupational funds will be eligible. Which fund-forms will receive grants is still in the future. State allowance is dependent on the marital status and on the number of children. In special cases the allowance can be up to 80%.

The occupational pension was also strengthened. Every employee is now entitled to an occupational pension via reward-conversion. In the future claims are not lost after a change of job and time limits for the expiration-date have been extended.

Finally, some smaller reforms in the social sector were introduced. In future will be easier to have parental leave acknowledged both in the pension insurance and the surviving dependent-insurance. Via financial incentives the re-uptake of an employment (especially part-time) is encouraged.

**Table 2a: Recent reforms in six European pension systems**

Reforms/ country	Changes in the public pension system	Changes of occupational pensions	Changes in the private insurance	National characte- ristics	General tendencies
<b>Sweden</b>	Conversion of public retirement payments into need-dependent basic pensions and introduction of capital covered bonus-pensions Calculation of payments based on contributions made; life expectancy taken into account	No broad changes, but occupational pensions are still not balanced with the basic pension			Complete reconstruction and renewal of the public pension system Introduction of a so-called NDC (National Defined Contributions) System Level of pension payments is closely connected to a lifelong earned income
<b>Denmark</b>	Permanent introduction of an additional public pillar Reduction of the retirement age to 65 years	Introduction of a local occupational pension coupled with collective bargaining Warranty of flexibility and control	Tax reductions and better rule for balancing with the basic pension	Reduction of benefits at early retirement	Reconstruction of the existing public system to a three-pillar-model Strengthening of the occupational pension and private insurance Partial reduction of benefits to increase stimulus to take up work
<b>The Netherlands</b>	Only slight changes Increase in the level of contributions Coverage of the deficit by taxes and a special fund	Governmental rules with regard to retaining the pension possibility after job-changes, more equal treatment for men and women in full- or part-time employment	Strengthening of private provision by tax benefits	Changes in the regulations for surviving dependants and unemployed	Retention of the basic system Only slight reforms Reconstruction of public partial systems Strengthening of governmental regulation of the non-public sector
<b>Great Britain</b>	Liquidation of SERPS and creation of a new second pillar Equal treatment of men and women (equal retirement age and a split of retirement claims after divorce)	Strengthening of financial incentives Greater control mechanisms for funds of occupational pensions	Strengthening by financial incentives More security precautions		Reconstruction of the public system through the creation of a new, second pension Greater focus on equal treatment Greater control of non-governmental sector
<b>France</b>	Only slight changes to bring financial relief for the system	Implementation of a new form of occupational pension with a more individual character		Special reform-obstacles, discussion about pensions is highly	Incremental reforms of the PAYG-system Implementation of an individual occupational pension security

				politicised	
<b>Germany</b>	Lowering of the contributions via an increase in the number of contribution payers Formation of a need-orientated basic social security	Strengthening of the occupational pension and possibility to keep entitlements after job change	Huge governmental support for construction of such a system	Emphasis on the importance of stable contributions	Spreading of the system on more pillars Emphasis on individual responsibility

#### 4. Summary and conclusions

In spite of some functional similarities of pension systems and common problems (demographic change, unemployment), the above-examined six countries have developed different reforms in the pension-systems. In addition, none of these current systems represent an ideal case of the “three worlds of welfare capitalism” (social-democratic, liberal or conservative) or the Bismarck versus Beveridge typology, but all show mixed characteristics. This complexity has been reinforced over the last years as more reforms have contributed to further diversification of the existing systems; one system dominance (or a “one pillar type” system) has lost its dominance. In general, there has been a trend towards pension-systems that consists of more than one pillar.

All systems, to different extents, strengthened their occupational pensions and private insurance. Individuals have been made more responsible for their pensions and likewise, the government has reduced its own responsibility. Problems for the allocation-financed systems like growing life-expectancy can explain the trend toward capital-covered systems. Indeed, new pension-systems have been created which show elements of allocation and of capital-covered procedures.

When viewing these overall trends towards more than one pillar-systems and the strengthening of occupational pensions and private insurance, one is lead to believe that the European pension-systems are converging. This, however, is not correct: All examined countries held a mix in the character of the chosen pension-system, but there was a great variety in the chosen mixture. Some of the examined countries had just started to add new elements to their pension system that had until recently been dominated by public or other forms of retirement payments. In Great Britain, on the other hand, the pension system was

already mostly privatized and relied heavily on the occupational pension (For the specific problems of the different pension systems like PAYG-systems or privatised systems see Holzmann, Robert 2000). The basic pension in Great Britain plays only a minor role in all pensions, while private and occupational pension schemes are dominate. This mixture could hardly be imaginable in Sweden, Denmark or the Netherlands. Also in Germany such a plan would meet with broad resistance if there were a shift away from the principle of social insurance or even a small new addition to the system.

The following is a synopsis of the different paths or reform strategies each country chose in their pension systems:

- France, partly Germany, the Netherlands, Denmark have an incremental strategy. Here benefits are sporadically cut or countries change the basis for their assessment of pensions. This path is consistent with the literature that underscores small corridor of reforms in these countries and illustrates the tactics of blame avoidance.
- Many reform-measures in countries are representative of the path-dependency of the pension-systems. For example, in Scandinavia new governmental provisions were introduced for private and occupational pensions. The same is true for the privatising of pensions in Great Britain; the near-liquidation of SERPS is consistent with a liberal model. Klammer (1998) calls this reform „back to the roots.”
- In some systems, however, a fundamental change can be seen, e.g. Sweden. Here the public pension was changed into a basic pension and the whole pension-system was arranged in a new way. Yet neither typologies nor theories fit very well together in this case. It seems that a combination of problem awareness and willingness to act has played an important role in overcoming policy traditions and institutional restrictions.

Another important point, especially from a German point of view, is the different weight that is given to the economy, especially the labor-market. The connection between contributions, additional wage-costs, and effects on the labor-market is in no other country more significant than in Germany. In other countries the discussion on the

demographic change and the resulting problems for the financing of the retirement payments are more important.

These conclusions make it obvious that although the trends of the compared reforms are similar, no two reforms are really the same. In every case the national background has to be taken into account; especially the existing pension-system as a starting point of the reforms is very important. Indeed, the categorization of the different systems according to Esping-Andersen gets increasingly difficult. For example, the social-democratic systems have adjusted their pension-system to the other existing types and decided on profound reforms. Indeed, other elements of the welfare-states, like labor-market politics, the health system, social services or education need to be taken into account in order to gain a full picture of these trends.

Conservative models show a lower readiness or ability for reform, which may be partly due to the autonomous insurance-systems. The structure of the political systems is important: in countries like France or Germany, where we find party coalitions in government and a federal state architecture, reforms are more difficult. Therefore, pension-system reforms and other such elements of the welfare-state are possible but not likely (see Cox in this volume).

Having examined the reform activities of other countries, which lessons can be drawn for Germany? Reform-policies can be easily adapted if the political systems are very similar. For Germany that means primarily a comparison with other conservative welfare-states. Here the structures are so similar that positive experiences can be implemented more easily. This is true for the strengthening of minimum-securing elements like in the Netherlands or the enhancement of family-policy aspects as in France.

The aims of the reforms but not the specific measures are important in evaluating the systems, as we have found in examining other countries. Especially Sweden, the "Mecca" of welfare-states (and welfare-state research), has significantly changed its "instruments", but it has never changed the aim of a far-reaching universal security for all. This is also true for some aspects of the private pension-insurance, where concrete characteristics are important.

Our comparison of pension reforms and the resulting variance in welfare-state systems shows that there are different ways of reforming the welfare-state and such systems can adapt to new social circumstances with a variety of reforms. New policies take into consideration the legacy of the evolved pension-system and current socio-economic problems but they are not totally restricted by their systems.

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