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SECURING PENSION PROVISION

The Challenge of Reforming the Age of Entitlement

Catherine Blair

Securing Pension Provision

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To my parents, for their love and support.

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Introduction

Abstract: *Raising the pensionable age is an unpopular and straightforward change that cannot be easily camouflaged. The Introduction asks why some countries have nonetheless been able to increase the age of entitlement for state pensions: we observe some convergence, with an increasing number of countries undertaking these reforms, whilst there is also divergence regarding the extent and content of the reforms. The Introduction defines the research question: How did certain countries increase their state pension age? The aim is to establish whether we can identify cross-country patterns and trends in the formation and content of state pension age (and equivalent) reforms. The Introduction also argues that the answer will only be found in the triggers and factors in play in the policy-making process in each country.*

Keywords: cross-country comparison; pension age; reform process

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When will I be able to retire? This question has been answered differently across time and space. At first, after the initial introduction of state pensions, reductions in pension age were the norm: enabling people to retire earlier was a key aim of the welfare state. Recently, however, in the light of population ageing, policy-makers seek to secure the sustainability of pension systems. Possibilities include raising the age at which one is able to claim a state pension, adjusting benefits to the age of retirement, generally reducing replacement rates, or increasing contribution rates. The option of increasing the pensionable age often seems best as it increases 'the revenues of the government, by adding more years of contributions, while it decreases the longevity risk borne by the state and the total amount it needs to pay to contributors when they eventually retire' (Zaidi and Grech, 2007: 300) and because it maintains a sustainable balance between the number of years spent in work and those spent in retirement.

As increasing the age of entitlement represents a 180-degree turn in pension policy, it is important to examine the factors leading up to these recent reforms. It seems that 'bad news' is now inevitably on the agenda (Brooks and Denham, 2005: 72), but questions as to how and to what extent this bad news is translated into policy remain.

Unsurprisingly, bad news is not always readily accepted by the population:

> *Although it might seem optimal to raise the retirement age to meet financing problems and improvements in longevity, that logic has so far escaped the general public. In Europe and North America, voters and workers routinely reject the idea of a higher retirement age.* (Fenge and Pestieau, 2005: 54)

The pensionable age is a very sensitive topic, easily understandable and with very tangible effects. Throughout the past decade survey results in the EU have shown that working longer to secure the financing of the pension system is not a popular option and is only gradually gaining acceptance: in 2001 23% of Europeans favoured raising the age of retirement (Eurobarometer, 2004: 62) and in 2004, even though three out of four Europeans were concerned about the future of pensions, longer working lives were favoured by less than 20% of respondents (ibid., 2005: 52–53). In 2006 only 22% of the population favoured longer working lives (ibid., 2007: 72) and in 2011 just a third of Europeans thought that the retirement age needed to increase by 2030 (ibid., 2012: 66).

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Raising the pensionable age is a straightforward change and cannot easily be camouflaged, unlike more technical accounting changes. Why then have some countries nonetheless been able to increase the age of entitlement for state pensions?

The two main lines of argument which presume some level of prediction with regard to pension age policy can be summarised as: 'Increasing life expectancy forces us to work longer' on the one hand, and 'Pension entitlements are very difficult to reform' on the other.

I.1 The necessity of reform

People are living longer in developed countries: 'between 1960 and 2010, OECD-average life expectancy at age 65 increased by around 3.9 years for men and 5.4 years for women' (OECD, 2011: 27), with further increases projected. Therefore, if the parameters and conditions of pension systems remain unchanged, these systems will have to bear an ever-growing burden of expenditure.

Meanwhile, this problem is compounded by a longstanding decline in fertility in a number of countries, with smaller cohorts entering the labour market. The result is that, in pay-as-you-go systems in particular, lower numbers of people in employment will be called upon to finance the growing population of pensioners. The effective economic dependency ratio, that is, the ratio between the inactive elderly aged 65 or above and total employment (here 20–64), will rise from 40% in 2010 to 74% in 2060 in the EU (Commission of the European Communities, 2011b: 109).

Furthermore, in a context of financial crisis and austerity, pension systems also feel the economic squeeze. Thus in many countries higher unemployment, as well as the declining quality of many jobs, lead to a reduction of the total contributions flowing into the pension system and cause a financing gap.

Such diverse and cumulative pressures constitute a powerful stimulus for change: reform is seen as unavoidable to ensure the sustainability and future existence of state pensions.

We can also observe that the options available to governments facing certain types of economic and demographic problems are similar across countries: 'The repertoire of retrenchment instruments that has been considered and adopted in other wealthy countries is generally similar'

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(Weaver, 2003: 8). This would suggest that there are certain mechanisms pushing countries into certain reform directions.

Weaver (2003: 1) defines three different types of pension reforms: retrenchment, refinancing and restructuration. Retrenchment refers to reductions in the generosity, coverage or quality of the pension programme (e.g. cuts in benefits or unfavourable indexation). Refinancing involves increasing the contribution rates or devoting the product of other levies to pensions. And restructuration denotes fundamental changes to the pension system (e.g. increased privatisation). All three options present pros and cons in addressing the problem at hand, in terms of political feasibility and in reassuring a worried population – but all three are a break with the status quo.

Pensionable age increases are measures equivalent to benefit cuts (Wise, 2001: 131): over the course of an individual's lifetime fewer years of benefits will be paid out, compared to the status quo, i.e. if the age was not increased (assuming that the individual will always die at age X, regardless of how long he/she has received the pension). Consequently, although it implicitly includes an element of refinancing (through the lengthened period of contributions), it seems natural to view such a reform as part of 'welfare state retrenchment' (Pierson, 1994).

By comparison with alternative reform options, notably higher contributions and reduced pension levels, raising the age of entitlement appears to be the obvious response to what, after all, is a change in the age structure of the population. In that sense, pension age reform is a necessary evil for the positive goal of securing future state pension provision.

I.2 The impracticability of reform

Following Paul Pierson's groundbreaking work on retrenchment politics in 1994, retrenchment in its general usage and 'new politics' are concepts not to be ignored when analysing recent trends in social policy. Earlier explanations of welfare state expansion cannot completely account for the new policies drawn up in a context of 'austerity'. Furthermore, welfare states appear to be more resistant to change than expansion theory would have predicted. This is arguably due to the fact that the strategy is one of 'blame avoidance' (Bonoli, 2000) and no longer of 'credit claiming': in contrast to politics of welfare state expansion, where

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governments could take credit for any successful reforms, when it comes to putting through legislation which cuts back on benefits, the blame must be passed on to third parties so that the political actors do not run the risk of being punished in the next electoral round. This may lead to fewer reforms being undertaken than would be needful: losses for voters generally weigh more heavily against politicians than equivalent gains count in their favour (Weaver, 2003: 25).

In pension policy, the concept of 'path dependence' is crucial: because of the long-term commitments involved, paradigmatic reform is difficult to implement and reform paths are clearly pre-determined by the initial policies: options are limited in number and range (Bonoli, 2000: 41).

Not only do existing institutions 'restrict the menu of feasible options' (Myles, 2002: 136), popular support for the established pension programmes is also deeply embedded and makes radical change difficult (Myles, 2002: 139 and Schludi, 2005: 59–60). Ebbinghaus and Hassel (2000: 57), for instance, established that the consent of social partners is necessary for major pension reforms due to their veto power and their ability to undermine reforms by developing supplementary schemes.

An important preliminary issue is how to classify pensionable age reforms. Hall (1993) describes three types of policy change: changes in the settings, changes in the instruments and changes in the goals. It would thus be possible to observe change in the first two 'orders' of policy, while observing stability in the third order of a policy, namely its goal(s) (Kay, 2005: 557). According to this logic, one could say that pensionable age changes 'only' represent a change in the instrument setting and are therefore part of first-order changes. This would lead Hemerijck and van Kersbergen (1999: 180) to look for the policy process within the existing political elite, whilst third-order changes would be 'accompanied with a significant "shift in the locus of authority over policy"'.

However, Zaidi and Grech (2007: 300) point out that although 'parametric reforms may seem less drastic than systemic ones, in practice their impact on fiscal sustainability and pensioner welfare can be equally impressive, or even more so in some instances'. Indeed it cannot be excluded that the accumulation of comparatively 'small' changes could lead to 'the establishment of a new policy-path' (Bleses and Seeleib-Kaiser, 2004: 10–12).

Furthermore, the public tends to see later retirement as a radical shift, making this 'mere' adjustment of a setting look in practice like a third-

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order change. One could thus postulate that the 'idea' for the reform stems from the political elite (as Hemerijck and van Kersbergen would predict), but that the resulting policy deliberations will go beyond the elites and involve substantial political debate.

It will therefore be important to bear in mind that certain policy options may not exist in some countries with regard to delaying the entry into retirement, that some systems may be more susceptible to such changes than others and that political attitudes may make it very tricky to pass legislation. This section has depicted an environment in which pension policy reform is very difficult to enact, despite the new 'conditions of austerity' (Pierson, 2001).

I.3 Necessary and possible? Looking at state pension age reforms

Nonetheless, changes and reforms to pensions systems, both incremental and more radical, have been taking place: this appears to show that such reforms are not only necessary but also possible. However, when analysing the politics behind the reforms, we may find that apparently similar reforms are not necessarily equivalent. What can begin as an analysis of a measure of apparent retrenchment quickly also involves an analysis of the policy-making process, which is reflected in the reform package as a whole. Furthermore, what at first appears to be retrenchment may, in fact, turn out to be of a different nature.

Some authors have argued against a crude use of retrenchment theory and thus against the simple postulation that pensions are too difficult to reform. For example, Natali and Rhodes (2008) point to the centrality of negotiated bargains or trade-offs in current policy reforms. These bargains are the result of concertation (official or not) between political actors and social partners, especially in continental Europe. The authors identify three different types of goals, pursued by all actors, which can be traded against one another: vote goals, policy goals and office goals. Thus, recent policy reforms can no longer be simply explained through pure blame-avoidance theory, as the losses are not necessarily clear-cut or the same for all involved: credit-seeking remains important when analysing the trade-offs. Retrenchment as such is no longer the key feature: actors act for their own constituencies and are ready to impose losses on others if that means gains for them. Pension reform can therefore

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include modification of distributive consequences, as some actors may well experience an increase in benefits or improved protection.

Another perspective is presented by Jacobs (2008). For him, 'intertemporal trade-offs' are crucial: he identifies reforms involving high short-term costs for long-term gains and considers why the governments chose this option rather than simply 'delay or redistribute the pain'. He points out that policies involving high short-term costs cannot adequately be described as 'retrenchment policies', as the concept does not capture the differences between the short-term and the long-term impacts. The debate is about more than wins and losses at time X; it is about wins and losses across time, with short-term costs potentially being outweighed by long-term gains. This gives policy actors a great variety of policy preferences. Cross-sectional analysis of the reforms makes them appear difficult, if not impossible, but when long-term gains are considered the policy seems justified and can thus fall into the (logically) 'necessary' category.

In the light of the foregoing, the view that pensionable age increases are a form of retrenchment may seem to need some differentiation. For one thing, the benefit cuts generally apply only to a certain portion of the population: the young. Workers near retirement age usually see the promises made to them respected, as it is recognised that they have been planning to retire at a certain age for a long time. The reform thus has different temporal effects on different types of people. We therefore face both temporal effects and redistributive differences. This would mean that retirement age increases cannot simply be described using retrenchment theory: some actors win out against others and thus favour the reform. The policy-making objective is not merely one of avoiding blame (and indeed such a reform is anything but opaque). One could even go as far as to say that there is more credit-claiming involved in the process than blame avoidance. Thus it could be argued that trade unions want to protect the rights of their members (on average, older workers), business representatives want to avoid increases in contribution rates, the government wants to secure the sustainability of pensions, and through doing so could also ensure the adequacy of future pensions. Finally, one could argue that such a measure is not a 'restriction of previous promises, but … the "natural" consequence of a longer lifespan' (Fornero and Sestito, 2005: 3), again suggesting that an increase in the pensionable age is not to be considered a retrenchment measure per se.

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Yet, this is highly counterintuitive. As already highlighted, an increase in the pensionable age is strongly contested; the public is largely against it and considers such a measure to be clear retrenchment. And indeed, retrenchment politics provides us with useful tools to analyse the mechanisms behind the reforms: Natali and Rhodes and Jacobs are not so far removed from retrenchment theory themselves. The games played by the actors in the bargaining process (Natali and Rhodes) and in the preference game (Jacobs) are games based on a refusal to accept retrenchment for their own constituencies. The preferences of actors are determined by the assumption that losses are bad. This puts losses back on the agenda: retrenchment mechanisms are back in play, even if the simple predictions from retrenchment theory are not enough to provide the full explanation.

Political mechanisms and retrenchment politics remain important in understanding how policies came into being. What can differ is the level at which these mechanisms are played out: they could be relevant, first, at the level of the proposed reform outcome and the corresponding public debate (classical retrenchment theory), second, between the actors of the conflict (e.g. trade-offs of multiple goals of the political actors) or, third, beyond the direct conflict between the actors (e.g. temporal preferences of the political actors). In order to fully understand how a policy came into being, it seems that one should ideally consider all three components in the analysis. The tools for analysis will thus be varied, and the various perspectives should be considered to be complementary and not mutually exclusive.

Pierson refined his concept of retrenchment by acknowledging differences between various types of retrenchment reforms and in particular distinguishing between 're-commodification', 'cost-containment' and 'recalibration'. In this way he made the concept more amenable to less radical changes. But his key claim continues to be that 'major policy reform is a political process, dependent on the mobilisation of political resources sufficient to overcome organised opponents and other barriers to change' (Pierson, 2001: 411).

Although he is no doubt right that actor constellations and negotiations are crucial to our understanding of policies 'retrenching' or 'recalibrating' the welfare state, this ignores the extent of the problem that started off the debate in the first place (be it problems from within the pension system itself or exogenous factors, such as demography or the economy). What he does demonstrate is that pensions are a very difficult policy area to reform. Yet what we observe in the field is substantial pension reform, even in areas that are highly transparent, such as the state pension age. We thus need to understand how reform was possible under such circumstances.

At the same time, a particular exogenous factor, demographic development, is cited almost unanimously as the driver of pension reform. Is pension reform thus inevitable, irrespective of the 'politics of retrenchment'? Observing government policies across the OECD leads one to conclude that although a significant number of countries are reforming in the area of state pension ages, the reforms differ in their extent and even in their composition. It seems that the looming demographic developments have not 'forced' countries to make exactly the same policy decisions. We thus need to understand why, when reforms were made, these differed across countries.

This leaves us with two contrasting hypotheses. On the one hand, the fact that reforms are observable in many countries goes against the intuition that reform is not practicable; it seems to support the view that the 'external' phenomenon of demographic change is compelling policymakers to make adjustments in the pension system. On the other hand, the dissimilarity of the reforms observed suggests that demography does not lead to automatic adjustments in the political sphere; it underlines the importance of political mechanisms and institutional and actor veto-points.

Neither approach can fully explain the emergence of eligibility age reforms: the latter cannot fully explain the striking convergence (that retirement age reforms took place) and the former cannot fully explain the divergence (in the content of those reforms).

In the light of this conundrum the obvious *research question* is: *How did certain countries increase their state pension age?* The two theoretical approaches do not resolve this question: we must look at the triggers and factors in play in the policy-making process in more detail and analyse the reforms themselves in order to understand them fully.

We will discover the precise policies to be examined as a result of detailed country analyses, but we can already identify some crucial reforms. Most topical have been the recent reforms (2007) in the UK and Germany, which will gradually increase the state pension age to 68 or 67 years respectively. In the USA this decision was taken as early as 1983. France, whilst long avoiding any increase in the state pension age per se, increased the number of years of contributions required to

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qualify for a full pension for both private and public sector employees and this requirement is set to increase further over the coming decades. In all four countries, despite differences in pension structure, similar measures have been taken to encourage or impose a delay in the take-up of state pensions. But has the rationale been the same in each case? Do the reforms have the same aim? Do they address the same problem? The *research aim* of the present study is thus to *establish whether we can identify cross-country patterns and trends in the formation and content of state pension age (and equivalent) reforms.*

In the first part, the study discusses differences between pension systems as well as recent reform trends. It draws out a potential typology of pension systems across the OECD. In order to refine the research area, Chapter 2 then discusses the types of pensionable age reforms, outlines the reforms in this field undertaken in different countries and discusses the link between pensionable age and effective retirement ages. Chapter 3 concludes Part I by providing the rationale for the choice of case studies.

Part II contains two twinned country-comparisons of the respective entitlement age reforms : one between the USA and France and the other between Germany and the UK. Engaging in direct country comparisons makes it possible to detect similarities and differences through the description of the reform path. The choice of the pairings is explained in Chapter 3.

Part III aims to bring the different stories of the case studies together. First, in Chapter 6, it discusses the link between state/public and private pension provision, analysing the potential impact of state pension age changes on individuals, private provision as a factor of such reforms, and state pension age changes as a signalling factor for society.

The final two chapters draw further lessons from the country studies. Chapter 7 discusses the factors influencing the ability to reform the eligibility age; Chapter 8 re-examines the functionalist and actor-centred logics and the interaction between them and proposes a more diversified overall approach to explaining the reform outcomes.

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Part I

The World of Analysis: Pension Systems and Their Reforms in OECD Countries

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1
Ordering Chaos

Abstract: *This chapter sets out a categorised framework of pension systems for the subsequent analysis of pensionable age reforms. All OECD countries are classified into three types: Bismarckian, Beveridgean and Bismarckian Lite, with additional sub-categories. Although a particular reform may not be explained through the pension type, it provides the reader with a useful framework through which to analyse the pension reforms undertaken.*

Keywords: Beveridgean; Bismarckian; OECD; pension system classification

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In recent years, there have been several attempts at categorising pension systems. This chapter does not aim to create a new typology; rather, it sets out a categorised framework for the subsequent analysis of pension age reforms. Pension systems are extremely diverse across the world, but can we identify relevant types of systems which define the subsequent path of reforms? Or can reforms only be explained by causes specific to each country?

It will be argued that, although we might be witnessing some convergence of pension reforms and systems, explaining a particular reform may not be possible by merely alluding to a worldwide problem or phenomenon. It may not even be possible to find the explanation in the alleged type of pension system. Typologies, whilst giving a useful framework, do not provide us with the ultimate explanation, and establishing apparent convergence does not by itself give us the reasons for a particular development.

1.1 Pension reform trends – some convergence

Scherer (2004: 167) analysed nine developed countries and was struck by the similarity of the outcomes of their pension systems: 'in systems with a great variety of family and institutional arrangements, the incomes of those in retirement are comparable with those in the working age population'. We can see that where the public system does not provide generous income-replacing pensions, the private sector offers this service: 'the net effect is a similarity in the average income of older people across the countries' (OECD, 2001: 29).

Furthermore, in many of the recent reforms of pension systems in OECD countries, we can observe a shift towards less intergenerational redistribution, increased privatisation, reduced state pensions and more defined-contribution schemes. Pestieau (2006: 114) suggests that in the future all 'governments will move towards a flat rate benefit system publicly financed by PAYG [pay-as-you-go], as well as a private fully funded and actuarially fair scheme'. His opinion is shared by Bode (2007: 713), and Weaver also described the move to a mixture and convergence of systems (Weaver, 2003).

There are two general types of reforms: an increase in the funded part of pension provision and notably of private pension provision for future generations, and a tightening of the rules for receiving benefits: raising

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the retirement age, increasing the number of contribution years required, reducing the benefits, increasing the link between contributions and benefits (Dudek and Omtzigt, 2001: 6). Half of the OECD countries are encouraging people to work longer (OECD, 2011: 63), for example through tightening the rules for early retirement or reducing tax incentives for early retirement schemes, through pension benefit increases for those retiring later, or through introducing the possibility to combine pension income and work income:

> All these 're-commodification' measures imply lower pension benefits for those with a less than 'full' employment record and/or whose earnings rise with age and, thus provide an incentive to work longer, if possible, in order to attain a pension level that approximates to one's needs or desire. (Hinrichs and Aleksandrowicz, 2006: 7)

Thus increase in life expectancy is prompting policymakers to consider how to make the systems sustainable for the future. The expansion of private, defined-contribution pension schemes shifts the burden of adjusting to longer time spent in retirement to private providers. Furthermore, shifts from defined benefit to defined-contribution schemes also strengthen the link between life expectancy changes and pension benefit levels, as the pension drawn from such a scheme is either annuitised (with a lower annuity rate for a longer expected time in retirement) or drawn-down over a longer period, therefore yielding less income per annum of retirement.

We observe similar pension outcomes – what is not performed by the state tends to be performed by the private sector – and an increasing multidimensionality of systems. Nonetheless, existing differences remain potentially important for public policy analysis: state pensions are directly affected by policy, whereas private pensions are often affected by proxy, that is, framework regulation or tax incentives. It could thus still be useful to differentiate pension systems according to their degree of emphasis on public provision in order to gain a better understanding of policy rationales.

1.2 Pension typologies

Typologies of any kind pose problems, but typologies of pension systems are particularly difficult. On what normative basis should one differentiate systems? Goals or outcomes? Redistribution or maintenance of income?

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Contribution or benefit levels? Pestieau (2006: 113) identifies ten different characteristics of social security systems: financing principle (pay-as-you-go or funding), financing sources (contributions or taxes), intergenerational redistribution, intra-generational redistribution, organisation (public or private), accounting (collective or individualised), efficiency, defined benefits versus defined contribution, annuitisation and levels of trust. Each country could be defined according to these characteristics, but this would yield a very diverse and unstructured picture, as no pension systems are truly alike on more than a few characteristics. One thus has to make a choice of the most crucial criteria for classification. The World Bank (1994) established a mode of analysis that was widely accepted for a long time:[1] it distinguished three 'pillars' of pension systems (state pensions, occupational pensions and private pensions). The weight accorded to each pillar differs in each country and thus categories of countries could be formed on that basis. However, distinguishing between the pillars was not always easy: 'second-pillar supplementary schemes may be operated by the public sector and be compulsory, thereby containing elements of first-pillar pensions, or be operated completely within the private sector' (Pestieau, 2006: 103). Aware of this problem, the OECD (starting in 2006 and 2007: 21) emphasised not so much formal pillars, but rather the underlying goal of public and mandatory pensions. It thus distinguishes now between three tiers (close, but not identical to the World Bank's pillars): the first tier represents redistributive state pensions, aimed at the subsistence of pensioners, at securing a minimum standard of living. They can take the form of a basic, flat-rate pension, minimum pension guarantees or resource-tested old-age income, all, however, administered by the state. The second tier corresponds to a mandatory insurance system: its aim is to preserve the working-life living standard in old age. Here, the scheme can be managed publicly or privately. The key characteristic is, however, that these schemes are mandatory and earnings-related. The third tier corresponds to voluntary and private pension provision. Nyce and Schieber (2005: 81–82) name the first two tiers 'the government pillar': this is where state regulation is strongest and most relevant to our present research interest.

1.3 Bismarck vs Beveridge

It is this distinction, the distinction between two different types of tiers within state pension provision, which underlies the key existing pension

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typology. Bode (2007: 698) sees retirement provision as a reflection of an 'official culture'. Indeed, as Daykin points out, state pensions can be perceived 'as being the main backbone of retirement provision or simply as a safety net or guarantee of minimum income' (2002: 5).

Pension systems are thus typically classified into two clusters (see, for instance, Mau, 2003: 59 or Myles, 2002: 2): those based on the *Bismarckian* tradition of social insurance (with the aim of maintaining the living standard in old age) and those based on the *Beveridgean* tradition of providing a minimum flat-rate state pension (i.e. a basic level of support), to be topped up with occupational/private provision.

It comes as no surprise that Germany represents the ideal type of a Bismarckian system. It is named after its 19th-century creator, the German Chancellor Bismarck, whose aim was to maintain workers' income in old age by means of pensions which 'were financed on a virtual pay-as-you-go basis by income-related insurance contributions from workers and employers, with a small subsidy from public funding' (Harris, 2006: 28; see also Haverland, 2001: 315). It is therefore a system of compulsory social insurance whereby not only contributions but also the subsequent pensions depend on earnings during working life (Pemberton, Thane and Whiteside, 2006: 17).

The Beveridgean approach, derived from the ground-breaking report of 1942 by the British economist Lord Beveridge, was fundamentally different. The resulting national insurance scheme was based on flat-rate contributions, which provided flat-rate pensions to ensure a minimum standard of living. Aimed at 'provision for subsistence in old age' (ibid.: 3), it effects genuine redistribution from the wealthier to the poorer. This system is intended to be supplemented by occupational or private pension provision. However, in the UK, it has not prevented many from having to fall back on means-tested benefits (Harris, 2006: 37 and Naegele and Walker, 2002: 21).

Despite the substantial reforms that have taken place in recent years (notably a reform in Germany fiscally encouraging the take-up of additional, private pensions, and the introduction of earnings-related state pensions in the UK), the key elements of the pension systems have not been changed (Hinrichs, 2005: 65), thus still justifying the rhetoric of a bipolar pension typology today. As mentioned at the outset, although pension contributions and benefits are remarkably similar across developed countries when one considers both *public* and *private* provision

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(Börsch-Supan, 2001a: 7), the system differences remain important in the analysis of particular *state* pension reforms.

1.4 Classifying countries

From these two ideal types it is possible to categorise the pension systems of other developed countries.

The OECD (2011: 143) sets out the relative importance of various mandatory components of pensions in 34 countries. Their table on the structure of the retirement-income package represents all pension income resulting from state and mandatory contributions or insurance. This two-tiered 'government pillar' (as described above) is most representative of pension provision in a particular country, most relevant to pension policy and presents us with the clearest data. Moreover, with voluntary saving it can be difficult to distinguish between retirement saving and other saving (Gern, 2002: 445). Focusing on mandatory schemes thus seems most pertinent for our present research purposes.

Like the UK, **Chile, Denmark, Ireland, Israel** and **the Netherlands** place a high degree of importance on securing a basic and flat-rate level of income for retirement and thus fall into the ***Beveridgean*** category. Private supplementary (often occupational) pensions are crucial to secure the living standard (Pestieau, 2006: 103–104) and are quasi-mandatory. The flat-rate pension is often paid out subject to the number of years of contributions (United Kingdom) or the length of residence in the country (Nordic countries and Netherlands) (Math, 2004: 107). In **New Zealand** and **Iceland** the state pension is entirely flat rate and based on citizenship. We can observe divergence in this group with regard to the level of the benefit and subsequently in the corresponding importance of supplementary funded pensions. In general, however, there are strong incentives to invest in additional sources of retirement income for higher earners (Gern, 2002: 444–445). In the past, most countries have added an earnings-related component to their state pension scheme to respond to increasing demand (this was especially important in the Netherlands, see Haverland, 2001: 314): this has 'reduced the actual difference between the two approaches to some extent' (Gern, 2002: 444). However, the difference in pension design can still be observed.

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France and **Italy** are two obvious members of the ***Bismarckian*** group: they both have pay-as-you-go schemes with high working income replacement rates and an underdeveloped supplementary funded sector (Math, 2004: 106 and Brugiavini, Peracchi and Wise, 2003: 6). **Austria, Belgium, Greece, Portugal, Slovenia, Spain and Turkey** also fall into the Bismarckian category: contributions from employment income are the basis for pension benefits (Daykin, 2002; Pestieau, 2006: 104; and OECD, 2007), even if there are also some flat, redistributive, benefits in Belgium, Portugal and Turkey.

Similarly, **Luxembourg**, **Finland** and the **Czech Republic** have mixed systems with a flat-rate and earnings-related scheme (Daykin, 2002: 8, 31–32), yet as can be seen in Table 1.1, the flat-rate component is small and the main retirement income stems from the earnings-related scheme, thus putting these three countries into the Bismarckian tradition. **Sweden's** reformed system remains in the Bismarckian type (Weaver, 2003: 1), providing pension benefits in the second, earnings-related tier, although it also secures a minimum income in the first tier (Rein and Schmähl, 2004). The same applies to **Norway**.

Hungary is another country in the Bismarckian tradition: its system has an earnings-related state pension component and a (new) mandatory private defined-contribution scheme (Daykin, 2002: 46 and OECD, 2007: 133). Its pension system belongs therefore entirely to the second tier.

Thus contrary to Soede et al.'s argumentation (2004: 6–7), this pension typology stands in contrast to Esping-Andersen's welfare state regimes (1990). Although some parallels can be drawn (such as Germany representing a corporatist social insurance model and the UK a liberal, basic provision model), the distinction between types is not one of the level of decommodification or social stratification, but rather one relating to the core goals of state pensions: public flat or earnings-related benefits. This brings certain Nordic countries closer to the British model than Esping-Andersen's typology might suggest. Thus, pension policy, although belonging within a welfare state context, must be treated and analysed as a distinct phenomenon from general welfare state legislation.

We have thus far identified two main clusters of pension systems. However, not all countries fit well into this dichotomy. **Japan**, for example, represents a complex system (Disney and Johnson, 2001: 3; Rein and Turner, 2004: 289; Katsumata, 2004). A different kind of exceptional case can be found in **Australia**, which Weaver (2003: 5) refers to as a 'residual' system, because it consists purely of income-tested pensions and private second-tier pensions ('Superannuation'). Whiteford (2004: 96) disagrees with the term 'residual' and points out that state pensions are paid out to all citizens, albeit in a highly progressive manner, and that, crucially, high income earners are not entirely excluded. This is an extreme case of Beveridgean tradition. Australia is joined by **Mexico**, which provides its citizens with low levels of basic provision and requires private pension insurance.

The **USA** and **Canada** can both arguably be placed in the Bismarckian category: they have universal mandatory earnings-related pensions. However, much like Beveridgean schemes, 'these are explicitly redistributive and provide much lower replacement rates to high earners than to low earners' (Disney and Johnson, 2001: 3). Canada even has a first-tier basic pension (Bode, 2007: 702). There is an implicit expectation that occupational and personal pensions will secure living standards for higher earners (Hungerford, 2003: 437): the purpose of the first pillar 'is to help people avoid destitution rather than to support a particular lifestyle in retirement' (Nyce and Schieber, 2005: 84). This leads Hinrichs (2000) and Weaver (2003 and 2005) to describe the American and Canadian systems as a special sub-category: 'Bismarckian Lite'. This sub-category can also be found in Alber's (2010: 110) comparison of the US model with its German counterpart: when measured in purchasing power parities, 'the average pension in the US is 13% higher than the average pension (per person) in Germany' and the US system is 'more universal in coverage, more redistributive in its benefit formula'.

Five other countries may be put into this special Bismarckian Lite category: **South Korea**, **Switzerland**, **Estonia, Poland** and **Slovakia**. The South Korean and Swiss pension systems are earnings-related but have a progressive formula which means that they effectively also pay out a basic pension, much as the USA and Canada. Estonia, Poland and Slovakia are Bismarckian in that the state pension scheme resembles a social insurance scheme and is entirely situated in the second tier. However, approximately half of pension wealth is mandated to be accumulated in private schemes, thus making the systems more reminiscent of the Bismarckian Lite type.

We have thus been able to classify the OECD countries into various pension types. Three main types have emerged: Bismarckian, Beveridgean and Bismarckian Lite. As pension systems differ considerably from one country to the next, it comes as no surprise that some sub-categories had to be introduced, as can be seen in Table 1.1.

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TABLE 1.1 *Classification of pension systems across OECD countries*

Pension system type		Countries
Bismarckian	*Traditional*	Austria Belgium Czech Republic Finland France Germany Greece Hungary Italy Luxembourg Norway Portugal Slovenia Spain Sweden Turkey Japan (with substantial flat-rate component)
	Bismarckian Lite	Canada Estonia Korea Poland Slovakia Switzerland USA
Beveridgean	*Traditional*	Chile Denmark Ireland Israel Netherlands UK
	Extreme 1: universal provision	Iceland New Zealand
	Extreme 2: private provision	Australia Mexico

It is undeniable that the lines drawn between types of pension systems are somewhat arbitrary and, by applying different rules and definitions, could be drawn elsewhere. Thus Whiteside (2006: 44) argues that the delimitation drawn between public and private schemes is conjured: 'it ignores substantial public subsidies (through tax concessions) to ostensibly private schemes.' Some authors maintain that there are no real types: 'What emerges is hybrid forms rather than pure types' (Rein

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and Schmähl, 2004: 2). This suggests that, in an attempt to explain a particular policy reform, it would be futile to refer to a country's pension regime type, as this would be a mere fictitious construct. Whilst we may find this to be so in the subsequent analysis, it seems wise to choose countries with different systems for this analysis. Thus we will refer back to the system typology in our case selection. Why do countries with different state pensions systems, that is, different starting points, implement similar reforms? And why do countries with apparently similar systems and concerns not implement the same policy change? To what extent does the nature of the state pension system determine the reforms undertaken? The present study will examine these questions with regard to statutory pension age increases.

Note

1 For example, the classification was used by the European Commission in its 2003 guidelines (Commission of the European Communities, 2003b).

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2
Changing Ages

Abstract: *With population ageing, both pay-as-you-go pensions and funded pension schemes need to undertake reforms: the lever of raising the age of entitlement is high on the political agenda. This chapter sets out what is meant by the 'entitlement age' and outlines the different reform options available to affect the timing of the retirement decision. It discusses the state of play in OECD countries and whether patterns and trends can be found between the official age of entitlement, the effective age of retirement and the pension system type.*

Keywords: effective retirement age; pension age; reform

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Observers of pension systems that had been created in the midst of high fertility, high immigration and high GDP growth, would not have thought that a time could come when the population would be ageing, the working population shrinking and the old-age dependency ratio increasing. However this is exactly where we presently are. Pay-as-you-go pension systems have to face severe challenges as the current contributions from workers will not be enough to fund the pension promises made to the elderly, but funded schemes will also suffer in circumstances of potentially reduced economic output. Pension reforms, and in particular the lever of raising the age of entitlement, are thus high on the agenda.

2.1 Instruments to change entitlement and retirement ages

There are numerous ways in which the state can affect the timing of the retirement decision. The most obvious means is to **raise the age at which one is entitled to receive a state pension**. Thus Denmark's public pension scheme will see its normal pension age increase from 65 to 67 between 2024 and 2027. Australia's 'Age Pension', a means-tested and non-contributory benefit, will see the age of entitlement rise from 65 to 67 between 2017 and 2023 (OECD, 2011: 193, 216).

Defining what constitutes the 'entitlement age' can be difficult, as countries have very different and specific rules that can affect this age. The need to account for differences between individuals' careers leads the OECD (2009b: 4) to define 'pensionable age' as 'the age at which an individual with a full career can first receive full pension benefits in the main pension scheme'. The full career is defined as applying to someone who starts to work at 20 and contributes to the pension scheme every year.

As well as defining the normal pension age, the state pension system can also determine **how many contribution years are necessary** to be able to claim a full pension. For some people it might be difficult to reach the required number of years of contribution before the normal pension age, which potentially would delay their 'pensionable age' according to the OECD definition. In Italy, for instance, the number of contribution years required to be eligible for a 'seniority pension' has been changed a number of times in recent decades: originally set at 25 years (35 for private-sector workers), it was reduced to 20 in 1973 and then increased to 35 in 1992 and to 40 from 2008 onwards (Franco, 2002: 214, 219).

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In the UK, after the 2007 reform, only 30 years of contributions are needed. However, at the same time, the age at which one can claim the pension has been raised. Thus, depending on the system, both reforms of the pensionable age and of the number of years of contributions required will have an impact on an individual's decision regarding the timing of their retirement; to that extent they can be considered equivalent.

Another factor impacting the retirement decision is the possibility to **retire before the pensionable age** whilst accepting **reductions in the entitlement** (i.e. a 'penalty' or 'malus' for retiring early). Generally countries also fix the **minimum age** at which one is entitled to claim a reduced pension: increasing this age or the penalty rate for retiring early can lead to increased average labour market exit ages.

If an increase in the normal pension age is not accompanied by an increase in the minimum pension age, some workers may choose not to delay their retirement, but instead accept the increased penalty for retiring early, whilst others will retire later in order to reduce the impact of the 'penalty'. Indeed, if the penalty rate is not changed, then retiring at age X will be more costly if the normal pension age were to be increased. Therefore **changing the normal pension age can also impact early retirement patterns**.

The counterpart to penalties are '**bonuses**': the state can also attempt to 'persuade' people to stay in work beyond the normal pension age by creating incentives in the form of 'bonuses' which will increase the pension to be paid out when an individual eventually retires. This is qualitatively different from increasing the state pension age or the number of contribution years required: it simply gives the individual the choice between retirement/leisure and more future income, rather than actively making him/her retire later. However, if the state pension replacement rate were particularly low, the incentive to delay retirement would be higher.

Where bonuses and maluses are used, the 'neutral' age – the age where there is no malus or bonus – also clearly indicates the normal pension age.

Beyond this, there are **other potential policy measures** to promote later retirement and the OECD (2007: 56) already gives us certain hints:

> In Australia, a new lump-sum bonus was introduced as an incentive for older workers to remain in the labour force for a longer time. In Finland, older workers are given higher accrual rates while in Hungary the previously higher accrual rates for younger workers were reduced to a uniform level for all workers. ... In the United Kingdom, the public pension now offers a larger increase for workers who stay in work beyond the standard retirement age.

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Creating **automatic links between pension benefit values and life expectancy** can lead to an increase in the retirement age. A special chapter is devoted to this in *Pensions at a Glance 2011* (OECD, 2011: 81ff): reforms substituting defined contribution schemes for public provision, transforming schemes into notional-account schemes and linking benefit levels to life expectancy imply lower benefits for a given age, therefore potentially encouraging people to retire later.

Finally, a brief note on the OECD definition of 'pensionable age': the OECD accepts that its definition is complex. Indeed, the German increase in the statutory pension age from 65 to 67 yields no change to its calculation of Germany's 'pensionable age': a German worker who, in accordance with the OECD's definition, started to work at 20 and has no years of contributions missing from then on, will be able to retire at 65 as it is possible to claim a full pension after 45 years of contribution, regardless of age (OECD, 2009b: 5). Furthermore, the OECD does not use the concept of 'pensionable age' consistently between and within its publications. For example, when comparing countries on the basis of early retirement ages and normal pension ages, it does not take into account the impact of a 'full career' and reverts to another definition which sees Germany's 'long-term normal pension age' at 67 (OECD, 2011: 113). Depicting the 'age of entitlement' is clearly no easy task.

2.2 What is happening in different countries?

As can be seen in Table 2.1, the current 'normal' official retirement age for men across OECD countries is generally 65 (22 countries out of 34). This corresponds to what Turner (2007: 98) found in his analysis; it is also what leads the European Foundation for the Improvement of Living and Working Conditions (Eurofound) to equate those aged 65 and above with the 'retired' (Eurofound, 2012)[1] and European statistics to define the working age population as either 15–64 or 20–64 (Eurostat, Labour Force Survey).

It should be noted that women are sometimes entitled to a full pension at a lower age than men. However, in most countries this is in the process of changing and therefore, for the sake of simplicity, the data for women has been disregarded.

When considering Table 2.1, it should also be borne in mind that it does not reflect all potential changes affecting general 'eligibility' ages, as

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TABLE 2.1 *Male pension entitlement ages, now and in the long term, across OECD countries*

	Official entitlement age in 2010	Long-term entitlement age	Long-term increase
Australia	65	67	+2
Austria	65	65	0
Belgium	65	65	0
Canada	65	65	0
Chile	65	65	0
Czech Republic	62	65	+3
Denmark	65	67	+2
Estonia	63	63	0
Finland	65	65	0
France*	60	60	0
Germany	65	67	+2
Greece	65	65	0
Hungary	62	65	+3
Iceland	67	67	0
Ireland	65	66	+1
Israel	67	67	0
Italy	65	65	0
Japan	65	65	0
Korea	60	65	+5
Luxembourg	65	65	0
Mexico	65	65	0
Netherlands	65	65	0
New Zealand	65	65	0
Norway	67	67	0
Poland	65	65	0
Portugal	65	65	0
Slovak Republic	62	62	0
Slovenia	63	63	0
Spain	65	65	0
Sweden	65	65	0
Switzerland	65	65	0
Turkey	60	65	+5
United Kingdom	65	68	+3
United States	66	67	+1

Note: *For France the OECD lists the earliest age of eligibility with a full contribution record as the 'official age'. This stands in contrast with the 'legal age' of retirement at which one is entitled to a full pension, regardless of the years of contribution. In 2010, the legal age of retirement in France was set at 65, whilst the earliest eligibility with a minimum number of contribution years was 60. Note also that the long-term pensionable age column does not reflect the increased number of contribution years required for a full pension (in contrast to the 'other' OECD definition of pensionable age according to the average worker, described in Section 2.1). It also does not reflect the impact of the French reform of 2010, which increases the earliest eligibility age to 62 (and the 'legal age' to 67), except for those having started to work before the age of 18, extended in 2012 to those having started before the age of 20.

Source: OECD 2011: 43 for the pension entitlement age in 2010; OECD 2011: 113 for long-term entitlement age (this includes any legislated changes that are not yet in effect).

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described in the previous section. Thus, most prominently, the reform of the number of contribution years required in France is not depicted, whereas Germany's age of retirement is described as increasing in the long run.

Some exceptions to the 'normal' age of 65 remain, nonetheless. Thus, three countries, Iceland, Israel and Norway, had official retirement ages set at 67 in 2010 and the United States at 66. The three countries at 67 all fall within the Beveridgean pension system category. The UK, Denmark and the Netherlands, also Beveridgean, will increase their state pension age to 67 or beyond.

Other countries have their official retirement age set below 65: the Czech Republic, Estonia, Hungary, Korea, Slovakia, Slovenia and Turkey. They are all in the Bismarckian or Bismarckian Lite categories. Could we therefore say that Beveridgean systems generally make their citizens work longer than Bismarckian systems? This is the picture painted by Turner: he states that countries with flat-rate state pensions have on average a pension age three years higher than the OECD (2007: 102) average in 2002.

But we need to consider further reforms that are in progress: by 2013 the Czech Republic's eligibility age reached 63 years and further increases to 65 are planned. South Korea will be reaching 65 years as the official retirement age by 2033 (Katsumata, 2004: 61). Turkey will reach 65 by 2043. Apart from Estonia, Slovenia and Slovakia, all countries seem to be heading towards increasing the age of retirement up to at least 65 years.

Moreover, some Bismarckian countries are also going beyond this level. Sweden has introduced flexible retirement: it is possible to retire between the ages 61 and 67 (CeRP, 2006: 4). Germany has decided to increase the retirement age to 67 by 2029 and France will increase the number of contribution years necessary to receive a full pension to 42 years by 2020, thus de facto increasing the retirement age for those who have late or interrupted career paths. And the USA, which belongs to the Bismarckian Lite category, decided as long ago as 1983 to increase its retirement age to 67 by 2027 (Brugiavini, Peracchi and Wise, 2003: 8).

The OECD has clustered countries according to their trends in pensionable ages over the past century (OECD, 2011: 23ff): countries experiencing pension age increases over time, those with constant pension ages, those which have seen pension ages reduced and those where earlier declines have been reversed. What is striking in this clustering is that no link to the pension system typology can be established.

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It is therefore necessary to undertake a qualitative analysis at country level to identify what has driven particular pension age changes.

Whilst a number of countries, as just described, are increasing their eligibility ages, many are not: Table 2.1 shows that less than a dozen of the 34 countries will see long-term pensionable ages higher than the 2010 ages. As already indicated pensionable age reforms are difficult to achieve.

2.3 Effective retirement ages

Clearly, pension age policies cannot be pursued in a vacuum: the potential for older workers to remain longer on the labour market is vital to ensure the success of increasing entitlement ages.

Some argue that increasing older workers' participation on the labour market may lead to lower employment rates for younger workers. However, a growing amount of literature is showing that this is a 'fallacy': 'as additional workers enter the labour force, they exert downward pressure on wages and make it easier for employers to find suitable workers, thus encouraging job creation; the number of jobs is variable and influenced by the number of workers' (Barr and Diamond, 2009: 19).

If eligibility ages are increased but older workers' employability is not ensured, they risk falling back on unemployment or disability benefits, and therefore not yielding any expenditure savings or contribution income. Ensuring older workers' employability is one component of active ageing policies, and labour market policies to this end are needed to supplement pension policy implementation.

The projected increase in effective retirement ages can be important in the pre-reform calculations. New Zealand could serve as a valuable positive example in government argumentation: following the increase in eligibility age from 60 to 65 between 1992 and 2001, 'labour force participation rates aged 60–64 rose sharply – from 33% to 69% for males and from 16% to 46% for females between 1991 and 2004' (OECD, 2006: 90–91).

Table 2.2 maps current effective retirement ages against current ages of entitlement. Stark differences between the countries can be observed. The shading scheme indicates countries where the effective retirement age is significantly lower than the official age of retirement (by more than one year) in dark grey, those where the effective age is near the

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TABLE 2.2 *Male effective age of retirement versus official age of retirement in 30 OECD countries*

	Official pension entitlement age in 2010	Effective age of retirement (2006–2009)	Gap
Australia	65	64.8	−0.2
Austria	65	58.9	−6.1
Belgium	65	59.1	−5.9
Canada	65	63.4	−1.6
Czech Republic	62	62	0.0
Denmark	65	64.4	−0.6
Finland	65	61.8	−3.2
France	60	59.1	−0.9
Germany	65	61.8	−3.2
Greece	65	61.9	−3.1
Hungary	62	60.0	−2.0
Iceland	67	69.7	+2.7
Ireland	65	63.3	−1.7
Italy	65	61.1	−3.9
Japan	65	69.7	+4.7
Korea	60	70.3	+10.3
Luxembourg	65	57.3	−7.7
Mexico	65	72.2	+7.2
Netherlands	65	62.1	−2.9
New Zealand	65	67.1	+2.1
Norway	67	64.7	−2.3
Poland	65	61.7	−3.3
Portugal	65	67.0	+2.0
Slovak Republic	62	59.9	−2.1
Spain	65	61.8	−3.2
Sweden	65	66.0	+1.0
Switzerland	65	65.7	+0.7
Turkey	60	62.8	+2.8
United Kingdom	65	64.3	−0.7
United States	66	65.5	−0.5

Note: See http://www.oecd.org/els/pensionsystems/ageingandemploymentpolicies-statisticsonaverageeffectiveageofretirement.htm for the detailed data series. The colour scheme is described in the text.

Source: OECD, 2011: 43.

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official age (between one year below and one year above) in medium grey and those where the effective age is significantly above (over one year) in light grey. Out of 30 countries, only seven fall into the light grey category. These cases could, for example, be due to either inadequate pension entitlements at the 'official' age or significant financial inducements to delay retirement. A further eight countries are in the medium grey category, whilst the vast majority of countries face a situation where people retire on average significantly before the official age.

The margin between the 'best' and the 'worst' performing countries in terms of this age differential is remarkable: +10.3 in Korea versus −7.7 in Luxembourg. We could ask whether there is a link between the sign (positive or negative), the size of the gap and the type of pension system. Table 2.3 shows that the majority of Beveridgean countries are to be found in the light grey and medium grey categories, whilst the dark grey category is mainly populated by Bismarckian pension systems. The fact that such an (admittedly tenuous) link can be established is somewhat surprising: if a pension system creates pension outcomes closely linked to earnings, one might expect people to retire closer to the eligibility age in order to make full use of the system. Conversely, if a system only provides a flat-rate benefit, the decision about when to retire may well be determined by other factors than the eligibility age for the state pension. This intuitive hypothesis is not verified by the data.

Finally, we can ask whether the difference between the official and effective ages is related to the level of the official age. Table 2.4 maps the gap to the official age. What can be observed is that where the official age is particularly low (60 or 62), the gap does not fall under −2.1. The fact that gaps of −2 do exist is, however, of potential concern for these countries. Interestingly though, overall there is no evidence from Table 2.4 that a higher or lower age would in fact yield a greater likelihood for the effective retirement age to be closer to or further away from the official age.

It is therefore not possible, on the basis of the type of pension system, to make any clear predictions concerning the relationship between the exit age and the official age. The causes of higher or lower exit ages do not form part of the research interest of this study and have been extensively analysed elsewhere.[2] What is relevant for this study is that although the level of the average exit age will clearly form part of the discourse when a government proposes to increase the official pensionable age, it does not on its own provide an explanation for a country's higher or lower pensionable age.

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TABLE 2.3 *Gap between the male effective age of retirement and the official pension entitlement age, mapped against the type of pension system, in order of magnitude of the gap*

	Gap	Type
Korea	+10.3	Bismarckian (lite)
Mexico	+7.2	Beveridgean (private)
Japan	+4.7	Bismarckian (traditional)
Turkey	+2.8	Bismarckian (traditional)
Iceland	+2.7	Beveridgean (universal)
New Zealand	+2.1	Beveridgean (universal)
Portugal	+2.0	Bismarckian (traditional)
Sweden	+1.0	Bismarckian (traditional)
Switzerland	+0.7	Beverigean (traditional)
Czech Republic	0.0	Bismarckian (traditional)
Australia	−0.2	Beveridgean (private)
United States	−0.5	Bismarckian (lite)
Denmark	−0.6	Beveridgean (traditional)
United Kingdom	−0.7	Beveridgean (traditional)
France	−0.9	Bismarckian (traditional)
Canada	−1.6	Bismarckian (lite)
Ireland	−1.7	Beveridgean (traditional)
Hungary	−2.0	Bismarckian (traditional)
Slovak Republic	−2.1	Bismarckian (lite)
Norway	−2.3	Bismarckian (traditional)
Netherlands	−2.9	Beveridgean (traditional)
Greece	−3.1	Bismarckian (traditional)
Finland	−3.2	Bismarckian (traditional)
Germany	−3.2	Bismarckian (traditional)
Spain	−3.2	Bismarckian (traditional)
Poland	−3.3	Bismarckian (lite)
Italy	−3.9	Bismarckian (traditional)
Belgium	−5.9	Bismarckian (traditional)
Austria	−6.1	Bismarckian (traditional)
Luxembourg	−7.7	Bismarckian (traditional)

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TABLE 2.4 *Gap between the male effective age of retirement and the official age of retirement, mapped against the official pension entitlement age, in order of magnitude of the gap*

	Gap	Official age
Korea	+10.3	60
Mexico	+7.2	65
Japan	+4.7	65
Turkey	+2.8	60
Iceland	+2.7	67
New Zealand	+2.1	65
Portugal	+2.0	65
Sweden	+1.0	65
Switzerland	+0.7	65
Czech Republic	0.0	62
Australia	−0.2	65
United States	−0.5	66
Denmark	−0.6	65
United Kingdom	−0.7	65
France	−0.9	60
Canada	−1.6	65
Ireland	−1.7	65
Hungary	−2.0	62
Slovak Republic	−2.1	62
Norway	−2.3	67
Netherlands	−2.9	65
Greece	−3.1	65
Finland	−3.2	65
Germany	−3.2	65
Spain	−3.2	65
Poland	−3.3	65
Italy	−3.9	65
Belgium	−5.9	65
Austria	−6.1	65
Luxembourg	−7.7	65

Notes

1 Though the report also discusses the drawbacks of this methodology (Eurofound, 2012: 10).

2 See, for example, chapter 5 of Commission of the European Communities, 2012a.

3
Beyond Convergence and Divergence: Choosing the Cases

Abstract: *This chapter explains the country case studies (UK, Germany, France and the United States) chosen for this study on the basis of variety in pension regime typology and selection of cases that are qualitatively different, including with some variation in the independent variable through the French case. The chapter also outlines the rationale for the paired comparisons presented in Chapters 4 and 5, comparing France and the USA and Germany and the UK respectively.*

Keywords: case selection; pension age; typology

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We can observe some convergence across pension systems in OECD countries: for example, an increasing reliance on mixed provision and efforts to increase effective retirement ages. Another pronounced reform trend has been a greater focus on supplementary pension saving. But merely establishing convergence does not enable us to draw more generalisable conclusions as to how such reforms come about.

Reasons for policy change could potentially be found in the inherent goal of a pension system. In our analysis of pension age reforms, however, no clear-cut answer could be deduced from the typology alone. We must therefore consider individual countries and their individual paths to a particular policy reform. Case studies are indeed crucial when trying to trace back the rationales behind reforms: 'to ignore the context within which new developments are located is to ignore important influences and to neglect the multiple agendas pension policy was designed to serve' (Whiteside, 2006: 44–45).

However, our efforts in this first part were not in vain. The typology of pension systems enables us to ensure that we choose examples from diverse countries for the detailed analysis and thus cover a wide range of cases. Bonoli (2000: 170) stresses the importance of the differentiation between systems in explaining reforms: 'it might bear some relevance with regard to what sort of quid pro quos are likely to be demanded by the trade unions, or by other relevant pressure groups, and conceded by government.' Furthermore, as Turner (2007: 106) points out, the importance of a change in state pension age can depend on the importance of state pensions in the overall retirement provision.

This study must therefore incorporate countries from **all main types of pension systems** ('most different cases' design): Bismarckian, Beveridgean and the arguably in-between Bismarckian Lite type.

For the Bismarckian category the choice has fallen on Germany and France: Germany aims to provide income security in old age, while France's system is very heavily state-based and private schemes are heavily regulated by the state. The UK falls into the Beveridgean category, with the state pension covering basic needs only, and the USA represents the Bismarckian Lite category.

At the same time, the reforms we are interested in are topical and relevant in each country, as each system has a public component where the age of entitlement can be changed. Thus, Bonoli and Shinkawa (2005: 12) point out that the politics in the different systems are 'unlikely to differ ... except in the magnitude of controversy', due to the different extent of state provision. This makes the different systems comparable for our purpose. The comparability is further ensured by the fact that there is already some **convergence**. Although convergence of systems cannot explain particular policies, it provides a framework for useful comparisons. Substantial reforms appear possible: Germany's paradigmatic change towards encouraging private pension provision (Bode, 2007: 697) is indicative of such possibilities. The UK, with a comparatively small state pension sector in comparison with its continental neighbours, has put in place measures to increase the value of the state pension. It would thus seem that the two supposedly antagonistic pension systems in Europe are moving towards each other and this counters some of the difficulties presented by the 'most different cases' design.

The initial discussion of possible theoretical accounts of recent pension reforms has led us to observe, on the one hand, that entitlement age reforms are similar across countries but, on the other hand, that they can be **qualitatively different,** for example in the extent of the reform or in its characteristics. This observation also informs our selection of cases for study.

The French case introduces some variance in the dependent variable. France is a key representative of the Bismarckian type and can thus easily be compared with Germany. But equally, France has a very different reform path from both Germany and the other countries with respect to timing: whereas the USA passed a reform act increasing the standard retirement age as long ago as 1983, France, in 1982, *reduced* its minimum pension age from 65 to 60. Only in the 1990s did France start to discuss the necessity of encouraging later retirement and the next 20 years saw a succession of different, successful and unsuccessful, reform attempts, with a partial reversal of the reform of the entitlement age as recently as 2012. The USA can thus be described as an early mover and France as a reluctant latecomer. This provides interesting grounds for a paired comparison of the US and France in the country comparison section of the chapter: why did one country move towards an increased state pension age while the other did not?

The second interesting pair is Germany and the UK: representing two different worlds of pension design, they passed similar legislation with regard to state pension age in 2007, whereby both made similar gradual increases to their pensionable age over an extended period. These two countries will form the other paired comparison: different systems enacting apparently similar simultaneous reforms.

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Countries from different pension types have been chosen (i.e. selected on potential independent variables, keeping the dependent variables constant) in order to analyse the hypothesis that similar political constellations and processes lead to the same outcome. But it was also important to incorporate some variation in order to analyse the claims made by more 'fatalistic' approaches to the effect that certain conditions will always lead to similar results. France brings both research approaches together: it easily fits into a pension type, it certainly undertook certain pension age reforms, yet these are of a very different nature and timing from the other countries studied.

The observed convergence in OECD countries may not provide any clues as to the reasons for the entitlement age policy reforms. But, nonetheless, the findings in this first part have helped us form the background knowledge to our analysis. And, most crucially, they have helped identify the cases we are about to study. That in itself has given the observed convergence and divergence a valuable function.

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Part II

Analysing Pensionable Age Changes in Four Countries

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4

Early Birds and Laggards? A Comparison of the USA and France

Abstract: *First the cases of the USA and France are examined. In terms of reforming the state pension age, these two countries present substantially different reform paths and could be respectively described as 'early bird' and 'laggard' in terms of the timing and order of their reforms. This chapter, however, shows that their story is not as clear-cut as may seem at first. It investigates the factors leading up to the various reforms and draws comparative conclusions: in both countries the institutional lock-ins were not strong enough to prevent reforms, and indeed they do not enable us to predict any future reforms. Instead, what appears to have been crucial are the mechanisms by which policymakers were able to get round the institutional hindrances.*

Keywords: France; pension age; reform; USA

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Why do some countries undertake painful reforms earlier than others? This chapter will examine the cases of the USA and France. In terms of reforming the state pension age, these two countries present substantially different reform paths and could be respectively described as 'early bird' and 'laggard' in terms of the timing and order of their reforms. In 1983 the USA decided to gradually increase the normal retirement age (NRA), whereas France, at the same time, *reduced* the earliest eligibility age. Until the 2010 reform which raised both the minimum and the legal pensionable ages, France increased the number of contribution years required, but not the official ages of retirement. This chapter will, however, show that the story of early movers and laggards is not as clear-cut as it may seem at first. It will investigate the factors leading up to the various reforms and will draw comparative conclusions: are the arguments presented and the conditions faced the same? Do they lead to different or equivalent outcomes?

4.1 The systems

4.1.1 The overall structures

Social Security is the single greatest expense in the federal budget of the United States, providing income for retired persons, medical insurance for the elderly (Medicare) and disability payments. An attempt to describe the United States' entire welfare regime in comparison with that of other countries can make it appear rather sparse and disjointed (Weir, Orloff and Skocpol, 1988), which leads some commentators to describe it as 'liberal'. Nonetheless, when looking at the *individual* programme of the retirement income provision, two clear principles appear. First, that of *equity*: 'the eventual pensions would reflect differences in preretirement wages and have a minimal impact on the distribution of income' (Williamson and Pampel, 1993: 95). This means that income inequalities are not erased with the state pension provided by Social Security: it is not a flat-rate pension. The second principle is that of *adequacy*, that is providing a pension on which people with lower incomes can retire and not fall into poverty or reliance on Supplemental Security Income: 'low-wage workers [receive] a higher return on their contributions than high-wage workers' (Weaver, 2005: 232).

Social Security coverage is mandatory and nearly universal. The benefits are based on lifetime earnings and age, with a replacement rate

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of 53% for a worker with average lifetime earnings (Hungerford, 2003: 439). They are funded by payroll tax contributions and the interest earned on the Social Security Trust Fund surpluses. No general government revenues supplement Social Security. The minimum age for the receipt of a retired worker's benefit and spouse's benefit is 62 years, and the 'normal retirement age' is currently increasing from 65 to 67.

Social Security represents only one pillar of retirement income for pensioners: there are tax incentives in place to encourage employer-sponsored pension plans and individual savings are also tax-advantaged (with tax-deductible contributions or tax-free benefit withdrawals). Social Security corresponds, on average, to 46% of old-age income: 39% comes from personal savings and 14% from occupational pensions (Montalto, 2001: 1). However, for the bottom 40% of the population in terms of income, Social Security provides over 80% of retirement cash income (Burtless and Quinn, 2002: 4). One-third of the newly retired households do not have some type of supplementary pension coverage (Munnell and Soto, 2005: 4). Social Security is certainly not a residual programme.

As seen in Chapter 1, Weaver (2005) describes US Social Security as a 'Bismarckian Lite' system. Whether or not one accepts this as a category on its own, this expression helps us understand the system better. It is a basic pension scheme with earnings-related contributory benefits, but these are at a relatively low level (Hungerford, 2003: 437), justifying the slight distinction in relation to other, 'purer', Bismarckian systems, which do not require personal savings to maintain living standards to the same extent. However, for people up to average income, the replacement rates are very close to those in Bismarckian systems. In contrast to Beveridgean systems, supplementary employer pensions are not compulsory, and only 50% of the population is covered by one (Bonoli and Shinkawa, 2005: 14).

France has a very varied pension landscape, and describing what potentially constitutes a 'state pension' is not as straightforward as in the USA, although its different schemes can all be assigned more easily to the Bismarckian type. The '*régime général*', applicable to most private sector employees, comes closest to this definition. 'For public sector employees (20%) and the self-employed (12%), a number of separate schemes exist side by side and are organized by employer and profession' (Schludi, 2005: 191). Thus, the 'special' schemes are not to be neglected in our present analysis of the age of entitlement, as they cover a significant

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proportion of the population and have also been the source of most reform tensions.

The existence of the '*régimes spéciaux*' is due to the fact that these professions were strongly opposed to the institution of Social Security and were consequently appeased by the guarantee of being able to continue to manage their own pension schemes (Bichot, 1999: 55).

The *régime général* is based on a pay-as-you-go system where current contributions pay for current pensions. Whereas the special regimes are one-pillar pensions, the general regime, providing at most 50% of the reference salary, with a ceiling too low for many employees, requires a second, compulsory pillar from its contributors: the supplementary pensions provided by the AGIRC[1] and the ARRCO,[2] also on a pay-as-you-go basis (Dupont and Sterdyniak, 2000: 26).

General regime pensions are proportional to the reference salary, which corresponds, since 1993, to the average of the 25 best years. Although there is a pension ceiling as well as a minimum pension guarantee, there can be up to 500% difference between the pensions of two people who have both completed the 40 years necessary for a full pension (Bichot, 1999: 52). The French system thus reproduces income inequalities in its 'basic' system for nine-tenths of its pensioners (ibid.: 53).

With both France and the USA belonging more or less to the Bismarckian pension regime type, it could be considered even more surprising that their reform paths differed so much. What then led to the different development in pensionable age reforms? To be able to analyse this, one must look more precisely at the entitlement age regulation and the ways in which benefits are calculated in both countries.

4.1.2 Retirement age and benefit calculations

In the USA, benefits are calculated in four separate steps. The first step is to calculate the worker's Averaged Indexed Monthly Earnings (AIME): 1/12th of the average yearly income of the 35 years of highest earnings. In France, currently only the 25 highest earning years are used for this calculation (and up to 1993 it was only the best ten years). Thus, although France effectively reduced the generosity of its pension in 1993, its calculation method is still significantly more advantageous to most pensioners than in the USA (Table 4.1).

The second step involves converting the AIME into the Primary Insurance Amount (PIA) in such a way that as lifetime earnings increase,

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TABLE 4.1 *Simplified summary of current pension benefits and retirement ages in the USA and France*

Benefit calculations	USA	France (general regime)
Minimum contribution period	10 years	N/A
Earnings taken into consideration	35 highest years	25 highest years
Calculation of benefits on the basis of earnings	Partially progressive	Not progressive: 50% of average earnings if 150 quarters of contributions
Entitlement to full pension	Increasing from 65 to 67	Increasing from 65 to 67
Earlier retirement	Possible from 62 with actuarial reductions in benefits	Full benefits available at 60 (increasing to 62) if 41.5–43 years of contributions (gradual increase until 2035)

the replacement rate of Social Security falls. This ensures redistribution and progressivity in the replacement rates (Fields and Mitchell, 1984: 7–8). This step is not applicable in France, where benefits are tightly linked to earnings.

The third step adjusts the PIA according to the age at which benefits are first claimed. If a worker retires at the 'normal retirement age', his/her monthly benefit will be equal to the PIA. If benefits are claimed before normal retirement age, benefits are decreased, and if the worker retires after the normal retirement age, benefits are increased (Brugiavini, Peracchi and Wise, 2003: 11).

In contrast, the crucial factor in France is not the age at retirement; instead the number of contribution years features prominently in the calculation of retirement benefits. It should also be noted that in the USA one only requires ten years of covered employment to qualify for a Social Security pension (Diamond and Gruber, 1997: 10). However, each missing year towards the 35 years of highest earnings will count as zero in the calculation of the AIME.

In the fourth and final step, spouse's benefits are added, if applicable.

US Social Security prescribes a normal retirement age: the youngest age at which one is entitled to full benefits. It also prescribes an earliest eligibility age (EEA): the age at which one can first claim benefits with corresponding reductions. These two ages appear to have a strong and lasting influence on the effective age of retirement: retirement ages cluster at 62 (EEA) and 65 (NRA at the time) both in 1970 and in 2000

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(Burtless and Quinn, 2002: 4–5). However, the system itself has increasingly become age-neutral: with the actuarial adjustments for earlier or later retirement, there are practically no financial incentives to retire at particular ages (Brugiavini, Peracchi and Wise, 2003: 2 and Burtless and Quinn, 2002: 1, 6).

Defining the 'state pension age' in France is slightly more complicated than in the case of the USA. This is partly due to the diversity of the pension system, and partly due to the difficulties with the concept of 'age'. Within the general scheme, the 'legal' age of retirement is set at 65 (which the 2010 reform increased to 67 by the year 2016): apRoberts (2007: 25) refers to this age as the 'age of full tariff', the age at which one is automatically entitled to the full rate. However, it is possible to retire before this age, sometimes even at the full rate when fulfilling certain conditions. Because in the past most French employees fulfilled these conditions, the 'normal' age of entitlement was de facto equivalent to the 'minimum' age of entitlement, set at 60 (Legendre and Pelé, 2001: 136) and increased to 62 by the 2010 reform. The difficulties in designating the 'age of entitlement' in France are well discussed in Chauchard (2011).

Until 2008, the most common way of retiring at 60 was to have completed 160 quarters of contributions, that is 40 years. With the 2003 reform, the number of contribution years required was set to increase to 41 by 2012 (and further increase in line with life expectancy in the future). The 2010 reform then stipulated that an increase to 41.25 years would take place in 2013, going on to reach 41.5 in 2020, whilst the minimum age of entitlement would rise to 62. The 2013 reform increased the number of years further to reach 43 by 2035.

The full rate is also applicable to invalids from the age of 60, to those incapable of work, to war veterans and to mothers of at least three children, having contributed at least 30 years and who were active as manual workers (VDR, 2003: 90).

However, the story of the age of entitlement does not stop here. Indeed, even with an entitlement to a 'full rate' at 65 (67 from 2016 onwards), the pension will not automatically be equivalent to 50% of average salary (the maximum replacement rate). The 50% rate will be reduced if the number of years of contributions is below 150 quarters (albeit with a minimum replacement rate of 25%).

If one wishes to retire between the minimum age and the legal age and at the same time does not qualify for the full rate, there is a downward adjustment of the pension level. This takes place on the basis of either the number of years of contribution missing or the number of years missing until one reaches the legal retirement age (65, increasing to 67), whichever is more advantageous for the pensioner.

Thus, the number of contribution years can have a double impact on the pension level, affecting potentially both the abatement rate on the pure replacement rate and the number of insurance years (Dupont and Sterdyniak, 2000: 27): this can lead to a 'very strong dependency between age at retirement and the level of the pension' (Blanchet and Pelé, 1997: 7).

4.2 The reform paths

Pension reforms in France in the 1990s and 2000s focused not on the age of entitlement, but instead on the relation between the level of the pension and the number of contribution years. This could be considered to be a more technical, less obvious and therefore politically simpler means of achieving the same result, namely increasing the pensionable age. However, such reforms have been far from easy in France, whereas in 2010 a reform of the minimum and legal ages was in fact pushed through.

The first decades of pension reform in France were dominated by the expansion of rights. However, in 1971, with the 'Boulin law', the required contribution period for a full-rate pension was increased from 120 to 150 quarters (i.e. from 30 to 37.5 years). But this represents only one side of a package deal which, on the whole, increased pension entitlements.[3] Furthermore, it was then also made easier to retire at 60 because of invalidity. This represents the start of a general move towards enabling people to retire at 60. At the start of the 1980s, nearly half of the population was able to claim such an early pension (Bichot, 1999: 82–83).

The general right to retire with a full pension at the age of 60 subject to sufficient contribution years was instituted in 1982 in France,[4] while at the same time the debate in the USA was moving towards increasing the normal retirement age from 65 to 67, albeit with a long phase-in period.

Similarly to France, until the 1980s, US Social Security and its coverage were continuously expanding (Light, 1995: 32 and Reynaud, 2000:26), due to age-based lobbying, especially for middle-class contributors and retirees (Williamson and Pampel, 1993: 202). Unintended consequences of reforms also contributed to the expansion, such as the double-indexing of benefits (Wise, 2001: 112). Moreover, it became possible to claim

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actuarially reduced old-age pensions before the normal retirement age: from 1956 onwards women could claim early retirement at 62 and since 1961 the same has applied to men (Burtless and Quinn, 2002: 4).

However, from the 1970s onwards, the system was starting to face insolvency. This led to various amendments, but it was only with Reagan that serious reform was considered. Part of the long-term solution of 1983 was to increase the normal retirement age from 65 to 67 by 2022 and to reduce 'the incentive to retire by increasing over time the increment to benefits (called the "delayed retirement credit") for persons who worked past the normal retirement age' (Wise, 2001: 112). After three decades of growth post-1945, Social Security's path of expansion was cut off.

The 1983 Social Security reform was a true 'reform package': it included changes to both contributions and benefits, thus representing the cross-party compromise which was needed in order to enact the reform.

On the contributions side, the key measure was that the payroll tax increase, planned for 1985, was brought forward by a year, thus helping to solve an immediate funding crisis caused by the difficult economic situation.

With regard to benefits, several changes were made. First, the inflation adjustment instrument (cost-of-living adjustment, COLA) was no longer to be applied in June, but in January of the following year. This represented a small but 'permanent benefit cut for current (but not future) recipients' (Weaver, 2005: 239). A second measure on the COLA addressed long-term problems: if the trust fund reserve were to fall below a specific level, the COLA would be based on the lower of two cost-of-living increases – price inflation or wage growth (Seeleib-Kaiser, 1993: 218). Third, for the first time in Social Security history, a certain proportion of benefits for upper-income beneficiaries was to be taxed (Williamson and Pampel, 1993: 103).

Finally, the most visible change in the long run was the future increase of the age of eligibility for full pension benefits. The normal retirement age was to be increased from 65 to 67 in a gradual manner between 2000 and 2027. The earliest eligibility age was not increased: it remained at 62, but those workers who chose to retire at that age would have to accept a greater reduction in their benefits as a result of the increase in the NRA (Weaver, 2005: 240).

By the end of the 1980s, the outlook in France was also becoming gloomier and in 1991, under the left-wing government of Rocard, a White Paper was published. Both left-wing and right-wing parties gave

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their consent to reducing Social Security deficits which could no longer be corrected by increasing contributions (Natali and Rhodes, 2008: 30). However, Rocard was replaced as prime minister and the next general election saw a landslide victory for the right-wing parties.

In 1993, at the start of his term of office, Balladur took up the abandoned reform proposals, but limited the retrenchment of benefits to the private sector employees of the *régime général*. This turned out to be an astute move as the trade unions were dominated by public sector interests (Mandin and Palier, 2005: 78). As for the content of the reform, Balladur stuck to the proposals made in the White Paper: the number of years of contribution needed in order to qualify for a full pension was to be gradually increased from 37.5 to 40 by 2003. The goal was to delay retirement without touching the possibility of retiring at 60 for those with the required number of contribution years (Legendre and Pelé, 2001: 137). Furthermore, the reference salary was no longer to be based on the best ten years, but rather on the best 25 years of one's career, while the indexation of pensions on prices rather than wages was fully established after its preliminary introduction in 1983 (Natali, 2003: 24 and Dupont and Sterdyniak, 2000: 29,33). Finally, he also proposed to institute an 'Old Age Solidarity Fund' (*Fonds de solidarité vieillesse, FSV*) to cover non-contributory benefits, which was to be financed from general taxes as well as duties on beverages (Schludi, 2005: 195). This, in particular, was the trump card that enabled Balladur to gain implicit consent from the trade unions, as shall be illustrated below.

After the Balladur reforms, which had not touched the *régimes spéciaux*, civil servant pensions appeared more advantageous compared to pensions of the general regime (Natali, 2003: 28): the pension was calculated on the basis of the final salary, a full pension was reached more quickly, the replacement rate was higher and the pension was indexed not on prices but on wages, which tend to rise faster (Dupont and Sterdyniak, 2000: 40).

The year 1995 saw the arrival of Jacques Chirac as president and Alain Juppé as his prime minister. A reform plan on the renewal of the welfare state was subsequently drafted (Natali, 2003: 29). The main emphasis of the reform was on health insurance; but with respect to pensions it proposed to align the rules in the special regimes with those of the general regime post-1993 reform, and especially to extend the number of contribution years required for a full pension from 37.5 to 40 years, to introduce a minimum retirement age of 60 and to calculate the reference

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salary on the basis of the best 25 years, and no longer on the basis of the last salary (Blanchet and Legros, 2002: 120 and Schludi, 2005: 201). These reform plans aroused very strong public disapproval, including widespread strikes in November and December 1995 (Schludi, 2005: 203). The plans to reform the pensions were subsequently abandoned.

After the socialist government of Lionel Jospin proved unable, just like its right-wing predecessor, to reform public sector pensions, the Raffarin government, elected in June 2002, undertook a new attempt in 2003. The so-called Fillon reform had as its main objective to bring the public sector in line with the private (Mandin and Palier, 2005: 83), but excluded some special regimes such as the train and metro drivers (Schludi, 2005: 215). Already in January, the unions showed their willingness to co-operate; however, the government's proposals did not meet the unions' expectations: affiliated members of the *régimes spéciaux* would also have to contribute for 40 years to be eligible for a full pension. This would rise to 41 years for all by 2008 and to nearly 42 years by 2020 (depending on life expectancy increases). The pensions would be indexed to prices for all. Furthermore, there would be a financial incentive to retire later than 65 (Mandin and Palier, 2005: 84).

These proposals provoked strikes from all trade unions during May 2003 and several concessions were made by the government: an increase in the replacement rate for those on a minimum wage, earlier retirement for some people with long careers, and the possibility for civil servants to include bonuses in a supplementary scheme as well as keep their final salary schemes (Schludi, 2005: 217). Furthermore, three years of non-contribution, due to child-care, would be credited for any child born after 1 January 2004 (Rallet, 2008: 91). This meant the reform 'would only cover one-third of expected future deficits' (Mandin and Palier, 2005: 84). On the other hand, it drove a wedge between the different unions: CFDT and CGC signed the new agreement, but FO, CGT, UNSA and FSU called for further strikes. The government then made no further concessions on pension reform but instead withdrew the educational reform project proposed concurrently, which had fuelled much of the strikes of 2003. This took more wind out of the sails of the movement (ibid.: 85), allowing parliament to adopt the pension bill in July 2003.

Both countries thus underwent reforms impacting the pension age or equivalent. Whereas the USA raised the normal retirement age as early as 1983, France was reducing its 'official' state pension age to 60 in the same year and did not change course on this until 2010. It would thus seem

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natural to describe the USA as an 'early bird', instituting a reform that France was not even considering at the time. France instead increased the number of contribution years necessary to qualify for a full pension, but only in 1993 and 2003. It thus appears that France 'lagged' behind the USA in recognising that early retirement was not here to stay forever.

Both countries tried to stabilise their contribution rates and reduced benefits through changing indexing rules (highlighted in medium grey in Table 4.2), but mainly acted on the age of entitlement measures. The USA acted directly on the normal retirement age, whereas France acted on the number of contribution years necessary for a full pension. Early retirement is, however, possible in both countries with reductions in benefits (highlighted in light grey). Thus, the reforms highlighted in dark grey are indeed equivalent in both countries. Interestingly, the timing of the *implementation* of the reforms is similar despite the USA deciding on the reform itself much earlier than France.

TABLE 4.2 *Pension reforms by type and country*

	Contributions	Benefits	Entitlement age
1983 USA	Short-term payroll tax increase	Reductions in COLA: both one-off and long-term	Normal retirement age increase from 65 to 67 between 2000 and 2027
		Taxation for high beneficiaries	Earliest eligibility age remains at 62, but effectively reduction in benefits at that age
1993 France	Stabilised level of contributions	General scheme: reference salary to change from best 10 years to best 25 years	General scheme: increase of number of years of contributions required for full pension (from 37.5 to 40 by 2003)
	Old-Age Solidarity Fund (through taxes)	General scheme: indexation of pensions on prices	Right to retire at 60 with enough contribution years is preserved
2003 France	Child-care credits after 2004	Indexation on prices for all	Increase of number of years of contributions required for full pension for all (40, 41 by 2008, 42 by 2020)
		Incentives to retire later	Earlier retirement for long careers
		Increase of replacement rate for those on minimum wage	

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The next section will analyse the factors leading up to the reforms in the two countries, casting some light on whether the general narrative outlined above tells the whole story.

4.3 Enabling the reforms

Paul Light, in his convincing account of the path towards the 1983 reforms in the USA, points out that Social Security reform is particularly difficult: the programme is large, funded on a pay-as-you-go basis and balances two incompatible goals (equity and adequacy) (Light, 1995: 33–34). The French account would be similar. Attempts to change such big programmes involving long-term commitments and powerful vested interests would inevitably encounter strong opposition. Nonetheless, reforming the state pension age did prove possible in both countries, albeit at different times and with different means.

4. 3.1 Beyond institutions

Whilst the US debate on Social Security is ever-present and broad in scope, it does not reach the 'decision agenda' in Congress and there hasn't been any major reform since 1983 (Weaver, 2005: 231). The American political system allows for many voices, but does not enable many decisions to be taken: the separation of powers with checks and balances, separate and short terms of office and a bicameral Congress 'creates multiple veto points where controversial policy changes can be blocked' (ibid.: 236). A very broad coalition is needed for the approval of amendments and thus reforms only happen in 'big bangs' (Weir, Orloff and Skocpol, 1988). And indeed, it seems that the USA was forced into the 1983 short-term reforms, and took the opportunity to do something for the long run as well, but since then have not been able to generate the momentum for further reform. This mars the image of the USA as an early bird: it seems that institutions are preventing the USA from being a forerunner in all respects.

The Congress is divided into the House of Representatives and the Senate. First, the fact that the Representatives stand for so many different districts means that they are 'pulled in a variety of directions' (Light, 1995: 14): voting along party lines is not guaranteed and other (constituency) interests impact voting behaviour. The introduction of 'subcommittee government' also made it 'harder for party leaders and

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committee chairs to influence the movement of important bills' (Light, 1995: 15). Furthermore, the transparency policy following Watergate and the Vietnam War made it difficult to vote for benefit cuts or tax increases (ibid.: 3). In France, on the other hand, the pension reform process was dominated by many different external committees and commissions: 'by the time that a particular pension reform reached parliament, there was little left for parliamentarians to decide' (Ney, 2003: 88).

Second, the Senate in the USA has substantially fewer members than the House, which means more individual freedom to promote personal interests: it is 'designed for individual action' and provides an ideal stage for presidential candidates (Light, 1995: 17). And despite longer terms of office than in the House, the low re-election rates in the Senate have meant that many decisions were also electorally oriented.

Thus, neither the House nor the Senate provides the ideal soil for reforms of Social Security in the USA. However, the president has the opportunity to set the agenda at the start of the term. Reagan's position and his personal characteristics played an important role in forging a consensus: besides his veto power, he was also administrative chief (and thus able to place the right people in the right places), he had a high public approval rating, a party majority in the Senate, an 'ideological majority in the House' (Light, 1995: 21) and he had a talent for persuasion. Eventually Congress went along with him. The 1983 reform must therefore find its explanation in the ability of policymakers to break through the institutional restrictions.

Institutionally, one could argue that France is both likely and unlikely to reform its pension system. The complexity of the pension system contributes to the rigidity and lack of substantial reforms: the managerial web of bi- or tripartite arrangements in the various pension schemes requires substantial consensus-building in order for reform to be possible (comment by Martine Durand in Blanchet and Legros, 2002: 128).

At the same time, the French political system confronts governments with relatively few veto points and is conducive to centralised decision-making or unilateral action (Vail, 1999: 313). Of course this carries political risks, especially given the strong competition of left- and right-wing party blocs (Schludi, 2005: 212). Broad political consensus seems near-impossible. Furthermore, the system of coalition governments presents a particular problem for left-wing governments, which often rely on the support of the Communists, strong opponents of welfare cutbacks. This

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partly explains the lack of reforms under the left-wing governments between 1988 and 1993 and between 1997 and 2002 (ibid.: 194, 213).

Until recently the electoral cycle of presidential and parliamentary elections was not synchronised, which often meant the holding of crucial elections every two to three years, thus hindering unpopular reforms. Chirac, for example, refrained from proposing pension reforms before the 1988 elections (ibid.: 194).

Juppé started on his reform project in 1995 with the best possible institutional conditions: 'the presidency, parliament and the senate were all dominated by the right-wing majority and the next elections were programmed three years later' (Mandin and Palier, 2005: 79). His parliamentary majority of 79.7% was very comfortable and the coalition government comprised only two parties (Schludi, 2005: 199). However, despite this, Juppé failed. One could argue that the previous election was too recent: in his presidential campaign, Jacques Chirac had made promises not to adopt any welfare cuts. The public was thus not prepared for Juppé's project. It is undeniable that Juppé, as an individual policy-maker, made mistakes. But perhaps Raffarin was successful in 2003 only because Juppé had previously been unsuccessful and the country was growing weary of the large-scale strikes.

It seems therefore that although the French institutions can appear to favour reforms under certain circumstances, they cannot explain the pattern of reforms. As in the United States, institutions do not determine the reform path – the ability of actors to make the institutional constraints irrelevant is what is crucial.

4.3.2 Creating packages and consensus

This leads us to look at the politics of reforming. In the USA in the early 1980s there was intense ideological conflict between the parties, leaving no room for consensus-building and no possibility of shifting blame onto experts (Weaver, 2005: 237). The political situation was difficult: 'Both parties wanted to do something about social security because of its stature and impact. Democrats wanted to save it; Republicans wanted to cut it' (Light, 1995: 95–96).

Various reforms were considered. On the revenue side, one could increase taxes (difficult because of the approaching 1984 presidential elections); one could introduce funds from general revenues (disrupting the equity principle and unfeasible due to high budget deficits); or

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one could mandate coverage for federal employees (administratively difficult). On the benefit side, one could act on the COLA; one could tax benefits, and one could raise the pensionable age. Here, political and public opposition was at its fiercest. One part of the solution was compromise: earlier proposals were more far-reaching than those in the final package, thus making the latter more acceptable. For example, an increase in the normal retirement age was always on the agenda, but a more radical one than the reform finally enacted (Light, 1995: 104–105). There was also a debate about cutting early retirement benefits, but this option was completely abandoned in the final package, at least in the short run.[5] The other part of the solution was packaging: 'Conservatives would need federal coverage and COLA cuts; liberals would need tax increases and limited general revenues' (ibid.: 108).

In France, the successful reforms of 1993 and 2003 were also cleverly wrapped in a package in order to gain approval. The 1993 reform was path-dependent in nature: the system was not radically changed (Natali and Rhodes, 2008: 33) – this alleviated fears, and probably reduced the vehemence of the protests (Ney, 2003: 87).

The 2003 reform merely re-established the parity which had been abolished ten years earlier. Much of the debate post-1993 was focused on equality (*Assemblée Nationale*, 1998: 15; Dupont and Sterdyniak, 2000): it was only a matter of time until public sector pensions had to be brought closer to private sector regulations. One could argue that Balladur's reform would not have been feasible if the public sector had been included in the project, but his reform enabled the subsequent alignment of the public sector some ten years later.

It would seem that in both countries packaging and context were used in order to make the reforms more palatable: both content and presentation of the reforms contributed to their success.

4.3.3 Why reform at all? Recognising the need to do something

a. The demographic time-bomb

The extent of the impending sustainability problem, that is the functional pressure leading to state pension age reforms, was recognised relatively belatedly in France: the first official report presenting long-term projections and possible solutions was published in 1986 (Kessler, 1995: 190; see also Dreyfus and Feller, 2008: 73). This explains why the 1982 reform

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in France reduced the pensionable age, while a year later a reform was passed in the USA increasing the pensionable age, despite similar long-term demographic trends in both countries (Legendre and Pelé, 2001: 144).

In the USA, the demographic problem for Social Security was recognised earlier. This was due to the fact that 'each year the Office of the Actuary of Social Security prepares a projection of the finances of the system for the next 75 years' (Diamond, 2005: 1), whereas in Europe these projections are only made for the next 15 or 20 years (Bonoli and Shinkawa, 2005: 16). The demographic problem is not as acute in the US as in European countries (owing to higher fertility rates), but nonetheless the US was the first country to act on it.

In France, the population has not been easily convinced of the extent of the future financial difficulties for pensions: debate focused in the early 1990s on the reliability of fertility indicators before shifting later to assessing the exact consequences of these demographic trends (Blanchet and Legros, 2002: 109). Some believe that economic growth will offset the consequences, while those who disagree remain divided on the potential solutions. This has had an effect on the reforms undertaken: according to Kessler (1995: 193) the reforms of 1993 were mere cosmetic changes, securing pensions only in the short and medium terms.

b. Short-term difficulties in the USA ...

The USA in 1983 faced an urgent need to act on account of a short-term financial problem: 'Because of huge benefit increases from 1969 to 1972 and automatic cost-of-living adjustments (COLAs) starting in 1975, social security was in trouble by 1977' (Light, 1995: 34). To that must be added the very low effective retirement age: the programme was simply paying out more than it was receiving (ibid.: 86).

In the 1970s the American economy was hit by long periods of stagflation which were not foreseen by even the most pessimistic forecasts (ibid.: 87). The payroll tax increases of 1977 were far from sufficient (and implemented too late) to counteract the fact that benefits were linked to a racing inflation and that contribution rates were reduced because of economic stagnation and rising unemployment (Weaver, 2005: 238).

Social Security therefore faced a short-term funding crisis: 'Already $17 billion in debt [in 1982], social security would run out of money on the third day of July 1983. Benefit checks would be delayed' (Light, 1995: 31). This crisis created extreme time pressure for politicians to act and

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was one of the main reasons why a compromise was eventually reached (Weaver, 2005: 239).

Action was also needed fast for another reason: aged computer equipment for the Social Security Administration meant that in order to pay out the annual COLA, programmers had to start calculating in April: 'Thus if the social security rescue bill was going to include any changes in the COLA, it had to be renegotiated before April 1983. Otherwise, SSA's computers could not do the job' (Light, 1995: 40).

c. ... and the lack thereof in France

France faced no such immediate pressure in 1993 or 1995. One could thus go as far as to argue that agreement on France's reform of 1993, based mainly on long-term projections, was more difficult to achieve. Whilst the USA was able to use the immediate funding pressure to pass long-term measures as well, the debate in France was focused on potential medium- and long-term problems, making a political decision at the time all the more difficult, and thus arguably making the 1993 reform an admirable success.

The year 1999 saw the advent of longer-term predictions in France by the *Commissariat Général du Plan*, this time up to 2040 (the Charpin report). Although its predictions were cautious, the public largely perceived this report as extremely pessimistic, especially in terms of economic growth (Blanchet and Legros, 2002: 121 and Legendre and Pelé, 2001: 146), thus undermining its reform proposals.

Whilst the 1997 Maastricht convergence criteria of the European Union required retrenchment in welfare state spending in order to meet the 3% deficit criterion, France was experiencing strong economic growth, improvements in current public finances and a stabilised deficit post-1997. This reduced the need for action and meant that it was easier for Prime Minister Jospin not to reform the pension system (Schludi, 2005: 210).

France, as opposed to the USA, thus never experienced immediate financial pressures to reform its pension system. This makes it unfair to merely describe it as a latecomer: in fact, the opportunity structure was quite different.

d. Accepting the necessary

In the USA, the 1970s had already seen various reports of the Social Security Administration indicating 'a deteriorating financial position of

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the social security system for the short-run as well as the long-run, due to the projected demographic changes' (Verbon, 1988: 28–29). Yet, there was a significant time delay, with the substantial reform having been passed only in 1983.

This is similar to France, where the problematic projections only appeared towards the end of the 1980s, with a reform being passed in 1993. It would seem that France, with respect to timing, is not really a laggard, considering that the data confirming the existence of a future crisis had only been available for the same amount of time as it took the USA to achieve consensus on reform.

That said, the reforms undertaken in France in 1993 were not as extensive as those in the USA and only affected employees in the private sector. Even when the long-term trends were judged to be critical, and reforms were accepted as necessary in the 2000s, a solution was difficult to find: on the grounds of the need to maintain France's competitiveness, employers opposed any increases in the contribution rates. Increases in the pensionable age, on the other hand, were largely rejected because of the prevailing high unemployment (Legendre and Pelé, 2001: 146).

Until a few years ago, the 1982 reform, introducing retirement at 60, was too recent to be questioned. In the early 2000s, Blanchet and Legros (2002: 123) argued that 'the question of age at retirement should become more central to the pension debate in France'. However, the results of the 2007 Commission, stating that the previous predictions were in fact slightly too pessimistic (Rallet, 2008: 31), threatened to prevent such a development and indeed the reform proposals in 2008 failed. However, it proved possible for the 2010 reform (see Section 4.3.5) to be adopted in spite of strong public disapproval and mass movements. This can also be linked to the fact that the most recent conclusions of the *Conseil d'orientation des retraites*, a consultative body instituted in 2000, were not contested by government, employer representatives or trade unions, who recognised the analysis and predictions as being objective and trustworthy (Hadas-Lebel, 2011: 242).

4.3.4 Back to the easy answer? Different corporatist traditions?

At first sight it seems obvious to argue that the delayed reforms in France and the early reform in the USA are the result of the corporatist tradition in France, blocking reforms, and the lack thereof in the USA, enabling

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reforms. But this would be far too simplistic a representation. Of course trade union action was crucial in France; however, other factors can cancel out union power and thus become the pivotal points in pension reform-making. And the USA has found it very difficult to reform Social Security both before and since 1983. As in France, public opinion and interest groups can play a role in the policymaking process, but the particular circumstances and strategies in 1983 rendered interest groups powerless.

Union action against pension reform has always been a force to be reckoned with in France. At the end of the 1980s, private insurance companies put pressure on the government to develop complementary funded schemes, whilst unions were very vocal against the idea (Blanchet and Legros, 2002: 113). This created a heated environment for Rocard's White Paper issued in 1991, even if the Paper did not advocate a move to a funded system. This context was not favourable to immediate reforms, and it was only two years later, after general elections and the advent of a new prime minister, that the proposals of the White Paper were reconsidered.

Even though French trade unions do not have high levels of membership, they have a surprisingly large influence over policy (Vail, 1999: 314). Union fragmentation leads to a high degree of competition: they thus 'largely lack the strategic capacity to organise consent for reforms which impose losses on some members at the benefit of the greater collective' (Schludi, 2005: 213). Perhaps their declining membership forces the unions to fight even harder.

In the USA, historically, 'Congress and the presidency are quite sensitive to interest group pressure' (Light, 1995: 2–3). While trade unions' influence has declined in the post-World War II era (Seeleib-Kaiser, 1993: 229), seniors' interest groups (the 'social security lobby') have gained as a political force (Weaver, 2005: 237). The quality and effectiveness of their research have made them very influential with Congress (Williamson and Pampel, 1993: 113) and they present serious opposition to any reform, not least because they defend only one interest (Light, 1995: 71–72).

In 1983, confidence in the Social Security programme amongst the public was low, but support for it was still high. The public never actively protested against higher Social Security contributions (Light, 1995: 61). It was, however, opposed to an increase in the retirement age: 58% opposed such a reform in the early 1980s (ibid.: 66). However, Paul Light (1995: 62)

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argues that because the public had little knowledge about Social Security, it 'became little more than a political pawn in the social security debate, moved to and fro by all sides' (see also Seeleib-Kaiser, 1993: 225). Thus, public opinion was not relevant, especially when the crux of the reform was set to start taking effect only in 17 years' time.

France, experiencing a more 'traditional' union conflict, provided a hostile battlefield for the 1993 reform. The economic crisis and high unemployment rates were real problems for private sector unions and membership declined. In the public sector, however, union power was maintained (Pigenet, 2008: 41). Balladur avoided having to fight the highly unionised public sector by opting to reform only the private sector component of the pension system (Schludi, 2005: 196).

Furthermore, several important concessions were made to the trade unions in order to gain their tacit consent: the key to this was the Old Age Solidarity Fund, to be managed by the social partners. In addition the government limited price indexation, avoided an increase in the age of retirement per se, and only modestly increased the number of contribution years necessary for a full pension (40 instead of the proposed 42 years). Consequently, although the unions officially rejected the reform project, there was no general call to strike (Schludi, 2005: 197).

In contrast to Balladur's reform, the reform plans developed by Juppé in 1995 were prepared only by the political elite and in particular by four social advisers, some civil servants, the prime minister and the president: not even the minister of Social Affairs was included. The proposed reform of the public sector pensions remained a secret until the plans were unveiled to the public (ibid.: 200). The fact that they had not been consulted angered the trade unions. In October 1995, more than 50% of public sector employees went on strike for higher salaries, lower working hours and more jobs (Pigenet, 2008: 41).

Juppé's proposals to cut back on public sector pensions also coincided with rumours of a future privatisation of EDF (*Electricité de France*) and a restructuring of the SNCF (railway and train operator) (Pigenet, 2008: 42). This gave further ammunition to the unions, which mobilised between 1 and 2.2 million people in December. With public opinion against him, Juppé was forced to abandon the pension reform.

At the turn of the century, the French were still worried about the levels of their pension in the future (88%), but only a small part of the population would accept an increase in the retirement age (11%) (*Assemblée Nationale*, 1998: 3). The hot topic of pension reform was put back on the

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table in 2003. Shortly after the announcement of a new reform project in January 2003, the unions protested in favour of maintaining the right to retire at 60. Although the protests were of the same magnitude as those of 1995, the mobilisation rates were highly varied, the unions appearing to be split over the project (Schludi, 2005: 217). With the arrival of the summer, mobilisation was further reduced and public support for the protest also diminished in the light of the jeopardised exam period at schools and universities (Pigenet, 2008: 50). However, the key factor in the success of the 2003 reform, and the failure of the 1995 reform, was not public opinion. In 2003 the public was even slightly more in favour of, and less opposed to, the protest movement than in 1995: public opinion in support or sympathetic to the protests in February to May 2003 ranged from 64% to 68%, whilst in November–December 1995 it ranged from 54% to 59% (ibid.: 51). The key appears to have been the successful splitting of the unions over the concessions proposed by Raffarin after the first wave of protest.

Eight years after the first failed attempt to reform public sector pensions in France, Raffarin was successful in 2003. What had changed? Direct comparisons are made difficult by the fact that Juppé's proposals were more radical than Raffarin's: what was unacceptable to the unions in 1995 'was not so much the presence of cuts, but the explicit intention of the government to increase its grip over social security, and by the same token to reduce the unions' influence over it' (Bonoli and Palier, 1998: 326).

It might seem that the extent of collaboration with the trade unions was crucial: pensions are perceived as entitlements – negotiations with the unions therefore appear to be necessary (Vail, 1999: 315). This is also argued by Hinrichs (2000: 370): 'A government which comes forward with a reform proposal that has not been negotiated in advance is more likely to fail to achieve broad support.' But dividing one's opponents may be just as important.

It seems that Balladur was able to pass his pension reforms in 1993 because of large-scale consultation, the division of interest groups and the avoidance of reforms in the more unionised public sector (Vail, 1999: 316). Potential opposition was thus divided along the public–private lines. But with long phasing-in periods, a divide was also created along the generational line, 'longitudinally instead of cross-sectionally' (Bonoli and Palier, 2007: 569; see also Vail, 1999: 321). This strategy was also applied in the USA: the gradual phase-in, starting only in 2000, meant

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that 'there would be no immediate political costs' (Quadagno and Street, 2006: 308).

Unlike in the United States, dividing the unions appears to have been crucial in France: Balladur was successful in 1993 with divided unions. Balladur's strategy was not centred on negotiations: he 'acted unilaterally in creating a reform that would trigger the least degree of opposition from the unions' (Natali and Rhodes, 2008: 31 and 32). Juppé was unsuccessful in the area of pensions where the public sector unions stood united against his technocratic style, but successful with his health reforms where doctors were divided (Vail, 1999: 324). Finally, Raffarin was able to reform public sector pensions on the basis of divided unions following a range of concessions made after the first wave of protest (Bonoli and Palier, 2007: 565). Reforms were thus possible in all sectors of industry, with or without large-scale consultations. The key seems to be the division of the trade unions.

And although we have established that unions and public opinion did not directly have any impact on the US reform of 1983, we have to note that previous reform efforts in the 1970s had failed (just as reform efforts in France had also failed), leading to the immediate and urgent financial crisis of the early 1980s. As suggested at the outset of this section, the crucial elements leading up to the various reforms in both countries have been those that were able to make public opinion irrelevant in the decision-making process, either by highlighting the urgency or by cleverly dividing interest groups.

The idea of achieving reform success through a division of the unions stands in contrast to Hinrichs' argumentation that the success of reforms is contingent upon either having the main opposition party backing the reforms or achieving the support of trade unions (2000: 370). Natali and Rhodes (2008: 31) argue that Juppé's key failure was not so much his confrontational style, as the fact that he simply tried to introduce too many reforms: constructive dialogue between the government and trade unions appears near-impossible in France and thus cannot explain the reform successes. The fact that the state pension system in France is heavily fragmented makes a centralisation of pension expertise very difficult, which means that 'the government has the upper hand to impose its wishes' (Marier, 2008: 14). It thus seems that traditional power resource argumentation cannot explain the success of reforms: instead, the ability to circumvent public opinion and stakeholders appears more convincing.

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4.3.5 Recent developments in France

In 2010, France undertook an unprecedented reform initiative, directly delaying the ages of entitlement for pensions (rather than acting on the years of contributions required).

The *Conseil d'orientation des retraites* published a new report in April 2010 which focused on the impact of the financial and economic crisis on the sustainability of the French pension system: increased unemployment rates meant reduced overall contribution rates, thereby aggravating demographic developments which already endangered the system itself. At the same time, consultations with the social partners were launched.

The reform project was presented in parliament in September, following the announcement in June by Eric Woerth, the minister of Labour, Solidarity and Public Services, that he would seek to increase the minimum age of entitlement from 60 to 62.

This had been preceded by a commitment of François Fillon (then prime minister) in an interview in April 2009 not to question the ages of entitlement. However, only a few days later, he suggested that all stakeholders, from all sides of the political spectrum, should discuss pension reforms, including a potential increase of the normal pensionable age to 67. Along with similar statements from the minister of labour at the time, Brice Hortefeux, this enabled President Sarkozy to announce in June 2009 that if the social partners were not able to agree to a solution, he would propose legislation in the middle of 2010 (Charpentier, 2009: 313–314).

Despite large-scale strike movements in both the spring and autumn of 2010, the reform was passed in parliament in October 2010 and promulgated in November 2010. Its main measures were as follows: The minimum age of entitlement was to be raised from 60 to 62 between 2011 and 2017. The normal pensionable age (from which no reductions are made on the basis of the number of years of contribution) was to be increased gradually from 65 to 67, starting in 2016. Furthermore, the number of contribution years required for a full pension prior to the normal pensionable age was to be increased to 41.5 years by 2020 (thus staying in tune with the 2003 reform).

The *Conseil d'orientation des retraites* will produce a new report at the latest in 2018 not only on the sustainability of the system, but also on the development of employment rates of older workers and those with disabilities and the equality of men and women concerning old-age protection (Verkindt, 2011: 256).

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The reform was put to the Constitutional Council (*Conseil constitutionnel*), which confirmed the decision within seven days: according to Bernaud (2011: 306) this underlines the fact that there was a clear joint political will to put an end to the discussions and opposition movements.

The political success of President Sarkozy in pushing this reform through was, however, not popular. The reform attracted substantial criticism from the left-wing parties and was a prominent feature in the presidential election campaign in 2012. Following his election, President Hollande issued a decree in July 2012 whereby those people who started to work before the age of 20 and who have the required number of years of contributions may retire at the age of 60 (this right already existed for those who had started to work before the age of 18, but is now also extended to those who started work at 18 or 19). This, however, does not re-establish the 'right to retire' at the age of 60 for all, nor does it affect the increase of the normal pensionable age to 67 for those who do not have a full contribution record. That said, the need to act remains recognised in France, with the 2013 reform further increasing the number of contribution years required for a full pension prior to the statutory retirement age: the years required are to increase to 43 by 2035.

4.4 Conclusion

Until 2010, France attempted to raise the effective age of retirement by increasing the number of years of contribution necessary to qualify for a full pension. In practice this could be considered a measure equivalent to increasing the minimum age of retirement. Until 2010, no change was made to the ages themselves. The measures were therefore directly aimed at increasing the *effective* retirement age.

In contrast to the USA, which decided to increase the normal retirement age in 1983 (albeit with a long phase-in period), France always appeared to be a laggard. In 1982, it reduced its earliest retirement age to 60. Whilst other countries were already in the midst of increasing their retirement age to 67 or 68, France was lagging behind.

But as we have seen in this chapter, this may be completely coincidental: the United States was an early bird because of its short-term financing problems. The process of pension reform has been very slow and difficult before and since 1983 and it would seem that the short-term

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pressures provided policymakers in the USA with the opportunity to also press for long-term reforms. France was not 'forced' by immediate difficulties to reform its pension age substantially (although the impact of the financial and economic crisis in the late 2000s was used to justify an increase in the pensionable ages, enacted in 2010). Would the USA still be an early bird if the situation at the beginning of the 1980s had not been as dramatic, and would France be lagging behind if the economy had not recovered from earlier set-backs?

The current debate in the USA centres on raising the earliest retirement age in order to prevent people from retiring too early at too low a replacement rate. Here, in contrast, France seems to be ahead of the game: it provides a minimum replacement rate of 25% regardless of the number of years of contribution. France can be considered to have increased the effective minimum age, whereas the USA has increased its 'normal' age: maybe France should not be considered to be a 'reform laggard', but rather a 'reform partner', undertaking precisely those reforms not undertaken in the US.

In this chapter we have analysed the French reform path and can conclude that the traditional union power argument has not convinced entirely: the key to the success of the 1993 and 2003 reforms did not relate to a variation in the trade unions' power. In fact, the mobilisation of trade unions was identical in 1995 and 2003. The key was political: both Balladur and Raffarin were able to create divisions in the unions and focus the policymaking process back on the centre, on the government.

In both countries the institutional lock-ins were not strong enough to prevent reforms, and indeed they do not enable us to predict any future reforms. Instead, what appear to have been crucial are the mechanisms by which policymakers were able to get round the institutional hindrances: in the USA this was clearly linked to circumstances requiring urgent action, and policymakers using the opportunity structure to create clever longer-term reform packages. In France, the process was more directly planned and geared towards the longer term: smart strategies circumventing union opposition rendered the reforms possible.

It is therefore too hasty and simplistic to define the two countries respectively as early bird and laggard: both the processes and the content of the reforms are too different. However, Paul Light's description of the 1983 Social Security reform as 'artful work' can most certainly also be applied to the French reforms of 1993 and 2003. And our accounts of the successful reforms show that the following is also true of both countries:

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'Social security is too big, too important to ever escape politics' (Light, 1995: xiii).

Notes

1 *Association générale des institutions de retraites des cadres.*
2 *Association pour le régime de retraite complémentaire des salariés.*
3 The reference wage was to be calculated on the average of the ten best years (instead of the last ten) and the full replacement rate was increased from 40% to 50%.
4 The near-explicit aim of making people retire at 60 in France was underlined by the fact that the supplementary pensions of AGIRC and ARRCO were to be paid out at 60 for all, without any rebate.
5 In the long run, the EEA will not increase, but as NRA increases, retiring at 62 will mean retiring with fewer benefits, as more months will be counted as a malus against the full retirement PIA.

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5

Similar, Yet Different? A Comparison of Germany and the United Kingdom

Abstract: *Germany and the UK enacted legislation increasing the state pension age in the same year. This chapter shows that what looks similar at first is in fact quite different in its rationale: Germany wanted to secure the financial sustainability of its system, whereas the UK also wanted to maintain strong private and occupational sectors, but its concurrent goal was to combat pensioner poverty. Nonetheless, there are similarities across the two countries (responding to an ageing population, restoring trust, and dealing with the not entirely successful move towards privatisation). Moreover, the chapter demonstrates that it was possible to adopt such contentious reforms in both countries thanks to strong consensus-building, with commissions and consultations in the UK and with the advent of a grand coalition in Germany.*

Keywords: Germany; pension age; reform; UK

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Both Germany and the UK enacted legislation increasing the state pension age in the late 2000s, following special commission reports on the future of the pension system: the Rürup Commission in Germany and the Turner Commission in the United Kingdom. According to these reforms, in Germany the state pension age was to increase from 65 to 67, whereas in the United Kingdom it was to increase from 65 to 68. In both countries the increase was to be implemented gradually over a long period.

There is a specific interest in studying the reform processes in Germany and the UK, as these are two countries with very different pension systems, yet undertaking similar reforms and enacting these in the same year. Are the regimes in fact becoming so similar that countries are responding in the same way to similar pressures? Or is it simply coincidence that the reforms were decided at the same time?

Part I classified Germany and the United Kingdom into two different pension system types: Bismarckian and Beveridgean. Germany represents a country providing its citizens with state pensions which aim at maintaining in retirement the living standards achieved during working life. The UK, on the other hand, has a state pension providing a basic level of support, with occupational and personal pensions securing living standards in old age. Thus in the UK people on lower incomes rely far more heavily on state pensions than wealthy people. In Germany, state pensions represent the largest share of income in retirement even for the second highest income quintile (Börsch-Supan, Reil-Held and Schnabel, 2001: 188).

With path-dependence theory suggesting that reforms are heavily determined by existing institutions, it is interesting that the two countries passed a similar reform measure in the same year. This appears to contradict Bonoli and Palier (1998: 319–320), who suggested that Bismarckian schemes are made sustainable by strengthening the relationship between contributions and benefits, whilst Beveridgean schemes restrict eligibility.

5.1 Undertaking similar reforms

In the light of population ageing, both Germany and the UK will be increasing their state pension age over the coming decades. In Germany, such a reform was passed in 2007: the age from which an individual is

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TABLE 5.1 *Pensionable age reforms in Germany and the UK, 2007*

	State pension age increase	Time period for implementation
Germany	65 → 67	2012 → 2029
UK	65 → 68	2024 → 2046

able to draw his/her statutory pension was to be gradually raised from 65 to 67 between 2012 and 2029: at first more slowly (at a rate of one month per year between 2012 and 2024) and then faster (two months per year thereafter).

In the UK, a number of reform measures were adopted at the same time: employees were now to be automatically enrolled into occupational pension schemes,[1] 'personal accounts' were to be introduced to increase the extent and coverage of private pension saving, it was made easier to qualify for the full state pension, and both the state pension and Pension Credit (the means-tested old-age income scheme) were indexed to earnings growth (rather than prices), yielding a higher income for pensioners (Pemberton, Thane and Whiteside, 2006: 12). On the flip side of these 'expansionary' measures, the state pension age was to be raised in order to 'share the growth in life expectancy between time spent in work and time spent in retirement' and to secure financial sustainability (DWP, 2006d: 18). The increase was to be first from 65 to 66 (between 2024 and 2026), then from 66 to 67 (between 2034 and 2036) and finally to 68 (between 2044 and 2046) (DWP, 2006d: 18).[2]

It should be noted that since the 2007 reform was passed in the UK, the following government (Conservative-Liberal coalition, elected in May 2010) has legislated to accelerate the pensionable age increase. The increase will begin in 2018 (and women's state pension age will increase to 65 by 2018), reaching 66 in 2020. The government has proposed to then increase the pensionable age to 67 by 2028, with increases thereafter to be linked to life expectancy.

Other reforms relating to the age of entitlement had previously been adopted in Germany when the early retirement age was raised from 60 to 63 years. This reform was accompanied by measures reducing the level of pension entitlement when retiring early. In Germany, the reforms on early retirement entitlement produced an increase in the effective retirement age by one year between 1999 and 2005 (Berkel and Börsch-Supan, 2005: 97), and further thereafter (see Table 5.2). In both Germany and

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TABLE 5.2 *Average exit age from the labour force*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Germany	60.6	60.7	61.6	61.3	n/a	61.9	62.0	61.7	62.2	62.4
UK	62.0	62.3	63.0	62.1	62.6	63.2	62.6	63.1	63.0	n/a

Source: Labour Force Survey, Eurostat.

TABLE 5.3 *Total employment rate of older workers aged 55–64 years*

	1993	1995	1997	1999	2001	2003	2005	2007	2009	2011	2012
Germany	35.8	37.7	38.1	37.8	37.9	39.9	45.5	51.3	56.1	59.9	61.5
UK	46.7	47.5	48.3	49.6	52.2	55.4	56.8	57.4	57.5	56.7	58.1

Source: Labour Force Survey, Eurostat.

the UK it was expected that a future increase in the pensionable age (as decided in 2007) would have a similar effect (Blundell, 2004: 19).

However, much more work will need to be done in order to make retirement patterns peak around state pension age. Indeed, as Table 5.2 shows, neither Germany nor the UK currently has had an average exit age close to the pensionable age.

In Chapter 2, we saw that in order for a rise in the pensionable age to have an impact on employment rates, the labour market needs to be able to respond and provide jobs to older workers. As can be seen in Table 5.3 the employment rates of older workers have increased in recent years in both Germany and the UK, but remained at relatively low levels, considering that 65 was still the normal retirement age. Both countries established strategies, such as employment subsidies and training measures for older unemployed workers, to increase the employment potential of those above 50 years: the 'New Deal 50 Plus' and 'extending working lives' in the UK and 'Initiative 50 Plus' in Germany.

Such measures are becoming increasingly common across a number of countries. In its Annual Growth Surveys the European Commission has also called on its Member States to implement measures 'supporting longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, and developing employment opportunities for older workers, including through incentives' (Commission of the European Communities, 2011a: 11).

The economic activity of older workers can also be increased through limiting the availability of early retirement schemes, as well as shifting

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TABLE 5.4 *Proportion of the total inactive population, aged 55-64, who want to work (%)*

	1993	1995	1997	1999	2001	2003	2005	2007	2009	2011	2012
Germany	0.8	1.1	3.8	3.1	3.0	3.5	4.9	5.5	7.4	8.5	8.4
UK	12.7	13.5	15.1	15.0	14.0	13.9	11.9	12.3	13.6	14.4	15.7

Source: Labour Force Survey, Eurostat, author's own calculations.

expectations about the age at which they are likely to retire. This may, however, be very hard to achieve as 'institutions profoundly shape cultural preferences. Once established, the expectation that "normal retirement" occurs at age 55 or 60 may be extremely difficult to change' (Myles, 2002: 131). That said, increasing the pensionable age can signal to people that their expectations should be reviewed. If the scheme rules do give such guidance through a minimum age, people will indeed retire around that age. It could therefore be argued that schemes have a responsibility to signal the need to work longer through increased pensionable ages.

Currently, only a small proportion of inactive older workers aged 55–64 would prefer to be in employment, as can be seen in Table 5.4. Whilst in the UK the numbers are substantially higher than in Germany (possibly because of the higher average replacement rates in the latter), Germany has witnessed a dramatic increase in its numbers: in 18 years, the proportion increased from 0.8% to 8.4%.

With longer life expectancy and the existing retirement patterns of their populations, both countries are implementing measures to encourage workers to stay in work longer and are reducing public expenses by increasing the age from which one is entitled to a full state pension.

5.2 Similar reform rationales?

5.2.1 Increased longevity

At the time when the reforms were being discussed, the UK's old-age dependency ratio (the ratio of people aged 65+ to those of working age, i.e. 15–64) was expected to increase substantially within the following 50 years (from 22% in 2005 to 46% in 2050). In Germany the predicted development was worse: an increase from 24% to 56% by 2050 (DWP, 2006d: 8).[3] Germany and the United Kingdom both justify the

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increase of the pensionable age in terms of the projected demographic developments.

The Pensions Bill in the UK was justified to the House of Commons on the basis of 'a growing pensioner population resulting from increasing longevity and falling birth rates' (House of Commons, 2006: 13). John Hutton, the secretary of state for Work and Pensions at the time, defended the proposals by saying 'As unpopular as it may be to talk about working longer – the simple fact is that if we aren't prepared to increase the state pension age, we will simply pass an even greater and frankly unsustainable burden onto our children and grandchildren' (Hutton, 2006).

Raising the state pension age would put state pensions on a more sustainable footing: it would maintain 'the proportion of male life spent in retirement close to its current rate of 30 per cent' (DWP, 2006b: 47). Arguments were also made in terms of generational fairness: 'each generation [should face] the same proportion of adult life contributing to and receiving a state pension' (Pensions Commission, 2005: 4).

This principle of a 'contract between generations', the *Generationenvertrag*, is even more important in Germany for the popular legitimacy of the system. This is underlined by the 'Commission for Sustainability and Financing the German Social Insurance Systems', also known as the Rürup Commission, set up in November 2002. The basic principles of the system are a mixture of self-responsibility, justice and solidarity and, according to the Commission, those principles should not be changed (Rürup, 2003: 68). Indeed, 'for generations, people paying into the state pension system have been able to have much confidence in its return and its stability' and the state pension should 'continue to be the most important pillar of retirement income in Germany'[4] (BMAS, 2006: 1).

At the same time, 'increasing dependency ratios and decreasing growth rates [create] growing pressure on contribution rates for state social insurance schemes'[5] (Rürup, 2003: 46). Germany decided not to let contribution rates rise uncontrollably (20% until 2020 and 22% until 2030), but at the same time, pension legislation specified that the state pension levels must not fall below 67% (Rürup, 2003: 7). Therefore, the only lever left to sustain the system would be to increase the pensionable age, as also recognised by the Federal Ministry (BMAS, 2006: 1). As in the UK, increasing the pensionable age, by delaying entitlement to a full state pension by two years, was seen as a way of increasing the amount of contributions and reducing the absolute amount of benefits to be paid.

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5.2.2 Restoring trust

Both Germany's and the UK's pension systems were struggling with a reduced degree of trust within the population. A Eurobarometer survey (2005: 52) of November 2004 revealed that 84% of British citizens and 82% of Germans were not confident about the future of pensions.

The UK's trust issue began in the 1980s with the state pension cuts and went on to affect occupational and private pensions in the 1990s through mis-selling and misappropriation scandals. Elphicke (2003: 8) presents poll data according to which 35% of people did not trust state old-age provision, while 31% also did not trust pension companies. In Germany, 'a number of formal and informal polls show particularly among younger persons a serious lack of confidence in the pension system' (Börsch-Supan, 2001b: 27).

Therefore, in Germany, the increase in pensionable age was presented as a means of guaranteeing the sustainability of pensions, enabling greater confidence about its future (Rürup, 2003: 5). Equally, in the UK it was argued that the increase in state pension age was necessary 'to give trust and confidence to all parties that this is a sustainable deal for the long term' (DWP, 2006d: 25). The other reforms in the package (indexing the state pension to earnings and broadening private saving) provided reassurance about future retirement income. The increase in the state pension age signalled that the government was taking up its responsibility and responding to population ageing, thereby diminishing the risks of future retrenchment and providing people with the ability 'to plan with confidence' (DWP, 2006b: 47).

5.2.3 Reform paths

The logic of adjusting the pension system to increasing longevity and thus restoring trust in public provision has therefore been important in both countries. Nonetheless, one should also consider the reform path which provided the guiding framework for the reforms themselves.

Up to the end of the 1970s the pension systems in the UK and Germany were adapted but not substantively reformed: the reforms were incremental, rather than radical. The UK was aiming for a universal pension, sufficient for subsistence, and encouraging citizens to save in occupational or private pension schemes (Taylor-Gooby, 2005: 119–120); whilst Germany wanted to secure its mandatory state pension system as an insurance system, strongly linking future pensions to previous earnings (Hinrichs, 2005: 52).

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The 1980s and early 1990s saw different types of retrenchment reforms in both countries, whilst they maintained their respective basic philosophies. The retrenchment of state pensions in the UK was stronger than in Germany, with the explicit aim not to save costs but to increase private pension coverage (Clasen, 2005: 131, 134). Germany's reforms were aimed at securing the existing system: 'both parties [were] interested in adjusting institutional parameters in order to maintain traditional pension structures' (ibid.: 135).

a. Germany: ensure financial sustainability

The German pension reform of 1992, passed in 1989, attempted to ensure a 'stable target replacement ratio of 70 per cent' (Hinrichs, 2005: 54) and to curb the strong trend towards early retirement through introducing permanent deductions for each year of early retirement. This was a first response to the realisation that the population was ageing (Hinrichs, 2003: 7 and Veil, 2007b: 7). It also set 65 as the 'pivotal age' for benefit entitlement (Berkel and Börsch-Supan, 2004: 4).

The reunification of Germany created pension rights for the former citizens of the GDR, but the system lacked corresponding contributions to pay for them and thus came under substantial financial strain. The reforms of the 1990s continued to be incremental, but in 2001 a move towards increased private provision was enacted, representing a substantive shift from the existing one-pillar system. This so-called Riester Reform,[6] by offering tax incentives and direct subsidies, encouraged workers to take out private pension saving (Willetts, 2003: 31) and, at the same time, guaranteed that the replacement ratio would not fall below 67% (Hinrichs, 2005: 64). The reform also fixed the ceiling of contribution rates from employers and employees combined at 20% up to 2020 and then 22% up to 2030. Hinrichs (2005: 58) describes this reform – moving away from generous state pensions and towards the need for additional, personal savings to secure the adequacy of retirement income – as 'paradigmatic': the replacement rate for future pensioners is reduced while workers are compensated through subsidies towards private pensions (see also Bode, 2007: 707–708).

However, the future funding problems could not fully be compensated by the Riester Reform, and thus a new commission, the Rürup Commission, was established in 2002. The objectives were the same: stabilise contribution rates whilst maintaining adequate future pension levels (Börsch-Supan and Wilke, 2004: 46). In the context of high

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unemployment and low growth rates, a short-term financial crisis was upon Germany, thus creating a sense of urgency for reform. And since the 2001 reform, there was more public awareness of long-term funding difficulties (ibid.).

Most reform proposals made by the Rürup Commission were adopted by the Social Democratic-Green government in 2004. The reform introduced a 'sustainability factor', effectively reducing benefits in accordance with developments in life expectancy. The commission had also suggested increasing the state pension age from 2011 onwards, but the adoption of such an unpopular measure was postponed (ibid.: 51) given the impending election. While in the UK the Commission proposals were sufficient to create general consensus, this was not the case at this stage in Germany, where day-to-day politics dominated the agenda-setting possibilities.

The Rürup Commission had, however, made it clear that an increase in the pensionable age was necessary in order to stabilise contribution rates and maintain the replacement rate, and recognising this necessity, the grand coalition of CDU/CSU and SPD adopted this reform in 2007. Bode (2007: 710) sees this not only as a stabilising measure, but also as a response to the fact that private pension provision had not experienced the expected take-up rates, and that there was declining trust in both state pensions and private provision. The government thus refrained from further measures towards privatisation, focusing on the financial stability of the public system.

b. United Kingdom: sustain non-state provision, but provide adequate state pensions

From the end of the 1970s onwards the expansion of private provision was a key aspect of the pension reform agenda (Taylor-Gooby, 2005: 120). The link between the value of state pensions and the evolution of earnings was abolished by a return to price indexation in 1980. This was a de facto reduction in the generosity of state pensions, as prices generally rise less fast than wages. The earnings-related pension, SERPS, also underwent significant cuts and increased incentives were introduced to opt out of state pension provision and into private provision (Bonoli and Palier, 1998: 323).

In the wake of these measures, the basic state pension fell 'from about 20 per cent of average earnings in 1977/8 to about 15 per cent in 1997' (Pemberton, Thane and Whiteside, 2006: 6). However, despite

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efforts to increase the take-up of occupational pensions, 'sales of private pension plans [were] disappointing, particularly to those on low incomes' (ibid.: 10).

The Labour government elected in 1997 continued the policies of the previous two decades: 'Its stated goal in the 1998 Green Paper was to increase private sources of income in old age from 40 per cent to 60 per cent by the middle of the twenty-first century' (Ervik, Helgoy and Christensen, 2006: 580). This led Ginn and Arber (1999: 338) to argue that increases in state pensions were required to prevent too many people from falling back on means-tested benefits. And indeed, the Labour Party also sought to reduce inequalities and increase the living standard of people on middle to low incomes (Join-Lambert and Lefresne, 2007: 78). The 1999 reform increased income support and indexed it to earnings (Blundell, Meghir and Smith, 2002: C157). This Minimum Income Guarantee (MIG), however, suffered from low take-up and was subsequently replaced by Pension Credit in 2003, which had a guarantee at a higher level than the basic state pension.

Notwithstanding these efforts, it was forecast that 'in the longer term retaining price indexation would progressively reduce the state pension to 11.6 per cent of earnings by 2025/6, the lowest in the western world' (Pemberton, Thane and Whiteside, 2006: 6). This was the main challenge to the UK's pension system and it is in this light that the 2007 reform has to be assessed.

The first report of the Pension Commission in 2004 pointed to a large savings shortfall particularly for individuals on low or medium incomes (Blackburn, 2008: 157). At the same time, eligible pensioners often did not take up the means-tested benefits to which they would be entitled due to 'assumed ineligibility and concern that interaction with other benefits will make them worse off... [and] the perceived complex/intrusive nature of the application process' (Bunt, Adams and Leo, 2006: 5). There was a risk that people who needed public benefits most might not in fact receive them (Ward, 2004: 50). With predictions that the proportion of pensioners qualifying for means-tested benefits would reach 73% by 2025 and even 82% by 2050 (CBI, 2004: 36), this represented a serious challenge.

The problem was thus not crucially one of the ageing of the population. Indeed, previous reductions in state pensions would have resulted in the proportion of GDP spent on state pensions in 2050 actually being lower than its current level, contrary to most other OECD countries

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(Blundell, Meghir and Smith, 2002: C154). Although the ageing of the population was put forward to justify the increase in the state pension age, the real need was different. Government documents hint at this: 'Raising the State Pension age will ensure the affordability of other key reforms, allowing us to link the basic State Pension to rises in average earnings' (DWP, 2006c: 27).

The White Paper issued in 2006 outlined five priority aims (DWP, 2006d: 16–19): making it easier to save for retirement, simpler and more generous state pensions as a solid foundation on which to save, a fairer and more accessible state pension, extended working lives and a streamlined regulatory environment.

Pensioner poverty was at the centre of the reform: 'tackling pensioner poverty – our first priority' (ibid.: 3). A first means of doing so was to increase the number of people entitled to a full basic state pension: this was done by reducing the total number of years of contributions required down to 30. At the same time, the value of the state pension was to be increased by indexing it to average earnings again (Pemberton, Thane and Whiteside, 2006: 11). Furthermore, individuals were encouraged to save for retirement throughout their working lives; that is, people should know that saving was worthwhile. Raising the state pension age, and thus freeing up funds for a more generous state pension, was used as a facilitator for tackling pensioner poverty.

Therefore, motives based on the fact that the population was living longer were in reality subsidiary: the government wanted a 'more generous State Pension' (DWP, 2006c: 29) and did not want to accept 'that the State Pension should continue to decline in value in relation to average earnings' (ibid.: 27). It was therefore natural that the reform package should encompass a variety of measures besides raising the state pension age. These measures served a multitude of aims: an increase in savings, an increase in the number of people entitled to a full basic state pension, an increase in its value and a decrease in the number of pensioners entitled to Pension Credit (DWP, 2006d: 20).

5.3 How were these reforms possible?

In general we can observe strong public disapproval of extending working lives: people have the impression that they are being deprived of an earned right as 'the years "gained" [through increased life expectancy]

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cannot be experienced beforehand. ... Therefore, people feel they are on the safe side if they do not retire later than their predecessors' (Hinrichs and Aleksandrowicz, 2006: 595). At the same time, politicians and parties have a limited interest in postponing reforms, as the problems would then be exacerbated in the future (Hinrichs, 2003: 18). But what makes politicians take the risk and implement an unpopular measure such as pensionable age increases?

One could assume that smaller pensions in the future are even less acceptable than having to work longer. This is what Gruescu (2006: 100) observed for the British case, and it is confirmed by Eurobarometer survey results (Eurobarometer, 2007: 74) showing that in 2006 31% of British citizens preferred the option of working longer, whilst only 9% preferred to maintain the existing pensionable age and receive less (though the most popular option, at 43%, was to maintain the age and increase contributions). For Germany, however, the same Eurobarometer survey showed that only 16% of Germans supported working and contributing longer, with both other options having more supporters (33% for increasing contributions and 21% for receiving less).

Undoubtedly the logic that working longer is a necessary next step needed to be conveyed to, and understood by, the population – a task that will be highly dependent on political opportunity structures.

5.3.1 Governmental opportunity structures and party positions

The political situations of Germany and the UK at the time of the pensionable age reforms were comparable, with both governments having comfortable majorities in parliament.

In the UK, the Labour government did not need the support of the Conservatives in order to pass legislation. In fact the latter were not opposed to the reform package proposed in the White Paper and later in the Pensions Bill. Just like Labour, both the Conservatives and the Liberal Democrats pointed to both the complexity of means-tested benefits and the need to prevent too many people from falling into the means-tested category (CBI, 2004: 36). The rationale underlying the 2007 reform, namely the need to increase the generosity of the state pension, had already been advocated in a Conservative party publication in 2003: 'We therefore propose a carefully costed programme to increase the value of the basic state pension in line with earnings during the course of the

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next parliament' (Willetts and Yeo, 2003: 38). The consultation following the White Paper confirmed this political consensus: 'There was widespread welcome for the package of reforms that the White Paper proposed' (DWP, 2006c: 17). This consensus was not short-lived: the Conservative-Liberal government elected in May 2010 committed itself to further ensuring the generosity of the state pension. It passed legislation stipulating that the state pension was now annually indexed to whichever was the highest: wage growth, inflation or 2.5%, the so-called triple guarantee.

While UK politics were dominated in the 1980s by party conflict, followed by consensus from the late 1990s onwards, Germany saw the opposite development: there was consensus on pension reform until the late 1990s. Increased party competition on this topic from then on was not, however, a mirroring of the earlier British conflict, which had been mainly ideological, but instead reflected more electoral and strategic thinking in German politics.

First attempts at retrenchment in Germany were undertaken in 1976. However, substantial public protest ensured that future reforms were to be more incremental (Haverland, 2001: 317). The 1980s saw the first real awareness of the consequences of demographic change and unemployment for the sustainability of state pensions (ibid.). Furthermore, in the context of a single European market, it was no longer acceptable to have ever-increasing contribution rates which would increase the cost of labour (Bonoli and Palier, 2007: 561). The pension reform of 1989, implemented in 1992, was passed with a broad parliamentary majority (and expert support) and legislated for an indexation to net (and not gross) wages and slightly lower replacement rates, accompanied by an increase in taxes and social contributions. It also provided for a curtailment of the early retirement incentives which had been implemented in the 1970s and a permanent reduction for pensions claimed before the pensionable age. The centre-right government of the time argued that the reform was preserving the existing system but, crucially, was also able to share the blame with the Social Democrats, who supported the bill (Haverland, 2001: 318).

In 1999 the new Social Democratic-Green government passed a substantial reform of state pensions – which was the first reform not also supported by the majority of the opposition (ibid.: 319). It included making access to disability pensions more difficult and effectively also reduced benefits. Contributions were reduced through an energy tax (*Ökosteuer*) (Hinrichs, 2003: 14).

The 2001 reform, incorporating radical changes, such as public subsidies to private pension schemes, was not based on parliamentary consensus either (Haverland, 2001: 319): 'Pushing through this reform proved extremely difficult for the government. Because pension politics had become adversarial, it was unreasonable to aim for a consensual solution' (Bonoli and Palier, 2007: 564).

In Germany, it was the governmental opportunity structure of the late 2000s that created consensus again: the fact that the two biggest parties, the Christian Democratic Union and Christian Social Union (CDU/CSU) and the Social Democratic Party (SPD), were governing together in a 'grand coalition' obliged them to reach an agreement before passing any legislation, but it also ensured that once agreement was reached, opposition from elsewhere would not have a great impact. The federal opposition, consisting of Greens, Liberals and the Left Party, represented a disparate range of ideologies and, even when taken together, only constituted 27% of the members of the Bundestag. The existence of the grand coalition also reduced the usually disruptive impact of the frequent regional (*Länder*) elections.

Thus, although the political playing-field was very different in the two countries, the two main parties in each country were in overall agreement on the 2007 reforms.

5.3.2 Other actors

While in Germany the main impetus for reforms stems from politicians and their agenda-setting in a context of strong competition, in the UK other, non-governmental actors have been very influential in the formulation of reform proposals, reflecting the increased search for consensus. A Green Paper was published in 2003 advocating little change: 'the Government is not considering more deep-seated reforms, despite growing public concern and deteriorating pension savings and returns' (Elphicke, 2003: 9).

At the same time, other actors argued for stronger reforms: 'One pension provider – AXA – has already called for a rise in the retirement age to 70. Raising the retirement age to 70 would mean that around the same percentage of the population would be entitled to a state pension in 2050 as is entitled to a pension at present' (ibid.: 4–5). The

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Confederation of British Industry (CBI) also proposed an increase in the state pension age to 70 'to reflect increased life expectancy' and finance a larger state pension (CBI, 2004: 30), while the Pension Policy Institute even suggested age 72. The Institute for Public Policy Research (IPPR) proposed to increase the state pension age to 67 from 2020 onwards and to increase the value of the state pension to be at least equal to the minimum income guarantee (now Pension Credit); it found support across parties for this (Elphicke, 2003: 13–14).

A key actor opposing such an increase in the state pension age was the Trades Union Congress (TUC) (Join-Lambert and Lefresne, 2007: 86–87). On the other hand, the TUC did strongly advocate a rise in the value of the state pension, which represented a key part of the proposals being generally discussed.

In reality, however, in both Germany and the UK unions and employer representatives have limited direct influence over the state pensions, as the parameters are set by legislation (Ebbinghaus, 2011: 321–322).

Stakeholders in Germany, such as the DGB (trade union federation) or the *Sozialverband Deutschland* (2006), opposed the increase in the state pension age in their publications and statements, but their opposition was focused on the logic of what to prioritise: they argued that one must enable people to work longer first, before reforming pensions. They were not opposed to working longer per se, which meant that their actions were perhaps not truly 'oppositional'. During the 2010 review of the feasibility of increasing the pensionable age, the trade unions were vocally against pursuing the reforms within the time-scale that had been fixed by legislation. However, their power to influence appears limited: the reforms will go ahead, even though the 55–64 age group is still experiencing employment rates of below 60%.[7] As Ebbinghaus (2011: 326) puts it: 'German trade unions have lost much of their influence in affecting pension policy-making, but they now use the bargaining route to advance occupational pensions.'

5.3.3 Wide-scale consultations and commissions

Incorporating other actors was crucial for the success of pension reforms, in particular through commissions and preliminary negotiations (Hinrichs, 2000: 370 and Diamond, 2005:17). The UK Pensions Commission comprised a former president of the CBI, a union leader, and an economics professor. It evaluated the system and proposed

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reforms whilst consulting key actors (interest groups, civil servants and political parties) with the support of the prime minister. The proposed solutions thus had a 'very broad support base' and this was key in achieving acceptability for the increase in the pensionable age (Marier, 2008).

In Germany, consensus-building was equally important, but came from the political opportunity structure described above. The proposal to increase the pensionable age in Germany, despite being in line with the 2003 Rürup Commission report, went against more recent reports prepared by the Expert Commission on Ageing Questions, writing for the German ministry for family, older people, women and youth. In 2005, this Commission did not recommend increasing the pensionable age (*Bundesministerium für Familie, Senioren, Frauen und Jugend*, 2005: 84): it was split, presenting arguments about the alleged unfeasibility of changing early retirement mentalities (ibid.: 58) and the potential social divisions it would create, as well as maintaining that employment rates among older people would have to be increased and the financial burden lightened (ibid.: 268). It thus seems that the political momentum created through the coalition agreement between the Christian Democrats and the Social Democrats was even able to overcome experts' reports that had very recently spoken out against a simple increase in the state pension age.

5.4 Conclusion

This chapter started with the observation that two countries featuring substantially different pensions systems adopted similar reforms in the same year. But it has been shown that what looks similar at first is in fact quite different in its underlying rationale.

Some similar apparent reasons for the reforms were observed, such as needing to respond to increasing longevity and to rebuilding trust in state pensions. Nonetheless, the basic purposes were substantially different: Germany wanted to secure the financial sustainability of its existing system, whereas the UK also wanted to maintain strong private and occupational sectors, but its concurrent goal was to combat pensioner poverty. It seems that pension privatisation has not been successful in preventing old-age poverty in the UK, thus leading the government to seek to increase the value of the state pensions.

One could postulate that the UK is thus a step ahead of Germany, which since 2001 sees the solution to the longevity problem mainly in

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increased privatisation. It would appear that recent reforms have brought the two systems closer together: in both countries, workers are urged to take out personal private pensions in order to ensure their living standard in old age. The UK started this process in the 1980s, whilst Germany moved to increased private provision from 2001 onwards. The British example has shown that pensioner poverty is increasing, a risk that Germany could also face in the future when the 2001 reforms start to impact pensioners. The German system is geared to continuous working arrangements, whilst the experience on the labour market is 'towards a rise in the number of discontinuous and/or unstable working arrangements (part-time work, temporary work contracts, decisions in favour of financially less secure self-employment, jobs not subject to compulsory insurance, etc.)' (Naegele and Walker, 2002: 5).

Benefit levels are moving closer together: while the UK is now increasing the value of state pensions, Germany is reducing their value, or at least merely seeking to sustain them in the future: at 'a time when the core European states are still bent on privatizing pension provision, opinion in the "Anglo-Saxon" states is turning in another direction' (Blackburn, 2008: 172).

Bridgen and Meyer (2011: 180–181) point out that 'The British reform will push pension institutions in a markedly social democratic direction, while the changes in Germany will move its system strongly in a liberal direction such that only some small elements of the traditional German model survive.' They go on to argue that this is not the same as a process of convergence: the German system could therefore be categorised as a 'liberal/conservative hybrid system', whilst the British one has moved more towards a 'social democratic/liberal hybrid' (2011: 205).

We have also seen that this trend towards increasing private pension coverage has recently (but perhaps only temporarily) been halted in Germany, and the measure of increasing the pensionable age was introduced to sustain existing state pension levels in the future. Here we can see a parallel to the UK's rationale.

It would thus seem that the fact that the two countries decided to reform state pensions in the same year is mainly a coincidence, as the underlying reasons for reform are different. Nonetheless, we were able to observe certain similarities between the two countries (responding to an ageing population, creating trust, and dealing with the not entirely successful move towards privatisation). Moreover, we saw that it was possible to adopt such contentious reforms in both countries thanks to

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strong consensus-building, with commissions and consultations in the UK and with the advent of a grand coalition in Germany.

Notes

1 All employees were to be automatically enrolled into an occupational pension scheme satisfying certain minimum standards. This scheme could be provided by the employer or the employee could be enrolled into the newly established National Employment Savings Trust (NEST). It would be possible to opt out of this system, but departmental calculations estimated that between five and nine million additional employees would benefit from occupational pension provision in the future.

2 In addition, the entitlement age for women's pensions was to rise from 60 to 65 between 2010 and 2020, in order to reach the same level as for men.

3 The Rürup Commission estimated a rise in the German ratio from 24.2 in 2000 to 52.6 in 2040 (Rürup, 2003: 55).

4 Author's own translation.

5 Author's own translation.

6 Named after the labour minister in the first Schröder government.

7 That said, the new German coalition government of 2013 has proposed the possibility to retire at 63 if the individual had contributed for 45 years.

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Part III
Bringing the Stories Together

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6

Acting and Reacting: The Public–Private Interplay in Pensionable Age Reforms

Abstract: *This chapter depicts the various links between the public and private sectors for state pension age reforms. Retirement decisions may be affected differently by state pension age reforms depending on the structure of pension systems, that is, the proportion of retirement income provided for by the state, compared to occupational/private pensions. That said, the secondary aims of such reforms concern the private sector: governments attempt to signal to both the population and private pension providers that life expectancy is increasing and individuals should at least partly offset this development by working longer. However, the state runs up against limits to its regulatory potential: private providers might themselves be reacting to the external constraints of longevity and investment risks, rather than responding directly to state pension reforms.*

Keywords: private; public; state pension age

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Changes in the demographic structure of the population lead governments to reform the pension system: in this context policymakers are often depicted as reacting to new constraints. However, governments are also considered to be actors, attempting to change the behaviour of others through legislation. This chapter will analyse how individuals and the private sector, in different pension systems, may react to government action on pensionable ages. And we will ask whether all governments are in fact acting in the same way and hoping for similar reactions. As depicted in Part I, pension systems are structured differently in each country. Retirement patterns, that is, the age at which people stop working and move into retirement, can be determined not only by state pension plan availability, but also by other governmental and private programmes, such as employer-provided pension plans or unemployment and disability benefits (Guillemard, 1989: 171).

As a result, the impact of reforming state pension ages is difficult to measure. Gustman and Steinmeier (1985), referring to the 1983 Social Security reform in the US, point out that the expectation is that an increased normal retirement age would simply shift the peak of retirement from 65 to 67. However, it is conceivable that private pension plans would in fact adapt in such a way as to offset the incentives to retire later (Gustman and Steinmeier, 1985: 248). The interplay of policy changes with individual and corporate action is at the centre of this chapter.

6.1 Different systems, different impacts?

6.1.1 Different degrees of reliance on the state pension

One of the purposes of an increase in state pension ages is to prolong working lives. However, given that not everyone is dependent to the same extent on the state pension, an increase in the pensionable age will vary in its impact. Across countries we can observe that 'different *public* retirement income delivery systems provide very similar replacement ratios at the lower end of the income distribution' (Disney, 2000: 961), but not necessarily at the top.

Pension systems are typically classified into two clusters, as discussed in Part I: Bismarckian system aims to maintain the living standard in old age, with Germany as a prime example, and Beveridgean system seeks to provide a basic level of support, to be topped up with

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occupational/private provision, as in the UK. Thanks to its system, 'the UK has a broader mix of state and private pensions than most other developed countries' (CBI, 2004: 17). There is strong stratification in the UK, with public benefits making up 80% of income for the lowest quintile of pensioners, and only 20% for the highest (Disney, 2001: 101). In terms of retirement ages, as Meadows (2002: 22) points out, healthy early retired persons 'appear to be drawn disproportionately from the group who are well-provided for financially', who are able to plan for their retirement with occupational and personal pension provision (see also Banks and Blundell, 2005: 47).

In Germany, on the other hand, 'state pensions' provide the key source of retirement income for all social strata. The income for retired households of over the age of 65 comes mainly from state pensions (80%), only 5% from occupational pensions and 10% from personal savings (Hinrichs, 2005: 53). When considering different strata, we note that the share of state pension income for the lower income quintiles is above 85%, and even for the second-highest income quintile the share is more than 75% (Börsch-Supan, Reil-Held and Schnabel, 2001: 188), while for the highest quintile public provision still makes up 40% of total income, with private pensions representing a large share of retirement income (Emmerson and Johnson, 2001: 325). Although the 2001 reform is actively encouraging the take-up of personal private pensions for all, the state pay-as-you-go scheme will, even at full uptake of private pensions, still represent 55%–60% of total retirement income (Börsch-Supan and Wilke, 2004: 43).

A further characteristic of the German system is extensive pre-retirement possibilities, mainly through unemployment compensation or pre-retirement schemes, and through disability transfers: 'Labour force exit before age 60 is frequent: about 45% of all men call themselves "retired" at age 59' (Berkel and Börsch-Supan, 2004: 3–4).

France is very similar to Germany: it also has a pay-as-you-go scheme with high working income replacement rates and an underdeveloped supplementary funded sector (Math, 2004: 106 and Brugiavini, Peracchi and Wise, 2003: 6). French state pensions duplicate income inequalities from working life into retirement.

We also placed the USA in the Bismarckian tradition, albeit with slight nuances: the universal mandatory earnings-related pensions are explicitly redistributive, with higher earners securing their living standards in old age through occupational and personal pensions. With

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regard to personal pensions, 'only 5 percent of households in the lowest income quintile have traditional IRAs [individual retirement accounts], compared with 58 percent of households in the top income decile' (Holden and Reid, 2008: 9). Hayward and Hardy (1985: 501, 510) point out that, as in the UK, early retirement between 62 and 64 is more likely for workers in more highly skilled jobs because they have fewer financial constraints. In Germany and France, the differentiation in early retirement between social strata is much less pronounced.

6.1.2 Different impact of state pension age reforms

Problems of health are frequently cited as 'the most common factors "pushing" people out of the labour market', together with dissatisfaction due to stress or intensive work routines: this is especially true of 'men and women in lower social class groups' (Phillipson and Smith, 2005: 1, 4). However, the same authors also consider financial security to be an important factor in the timing of retirement: those who retire early tend to have 'higher earnings than those leaving at state pension age' (ibid.: 1). Fenge and Pestieau (2005: 2) even maintain that financial incentives are the most important factor motivating early retirement. This would therefore make the eligibility age in the Social Security system (and any other pecuniary changes) crucial in determining actual retirement ages. Unlike Phillipson and Smith (2005: 3), they conclude that health problems have only a minor influence on early retirement. In view of such opposing stand-points, this section will consider to what extent the structure of the pension system could impact retirement decisions in the aftermath of reforms.

New Zealand recently introduced measures to delay retirement which came into effect almost immediately. Before these reforms were implemented, state pensions had crowded out private provision and thus the generation about to retire had low levels of non-housing wealth. Raising the entitlement age would therefore have forced many people to work longer and thus the government also instituted a 'transitional retirement benefit' until 2004, which was available for three years prior to the new eligibility age and was means-tested but not conditional on poor health or the willingness to work (Hurnard, 2005: 12, 19–20). The New Zealand government thus clearly accepted the link between the extent of an individual's private provision and the possibility to retire at an earlier age than the normal age set by the state pension, and provided a transitional

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benefit for those who had not had enough time to adjust to the new situation.

Similarly, the German government accepts that, for certain people, retiring later in response to an increased state pension age is unavoidable: the ministry believes that 'one third of workers retire at the new retirement age, one third continue to retire at the old age of retirement and accept the deductions which this implies, and one third avoid the new rules by claiming benefits for disability' (Berkel and Börsch-Supan, 2004: 8).

In the UK, 'the two most important sources of income [for those who leave the labour market] before state pension age are income from private (predominantly occupational) pensions and disability benefits, which are not mutually exclusive, as disability benefits are not means-tested' (Blundell, Meghir and Smith, 2002: 158). The UK experiences similar drops in employment rates to Germany from age 55 onwards (see Table 6.1). Unlike in Germany, it is not possible to receive a state pension before state pension age, even with reductions. However, a large proportion of people still cease to be economically active before they reach this age: in 2009 the average exit age from the labour market for men in the UK stood at 64.1 years[1] (with a state pension age of 65 for men). This means that the receipt of the state pension does not by itself determine the decision to cease working in the UK, as occupational pensions seem to provide some workers with the possibility to retire early. The disparity between the total employment rates and those of older workers can be seen in Table 6.1.

Higher-income workers are more likely to be able to retire early than lower income workers in the UK. This difference is slightly less pronounced in Germany, where all are able to take early retirement, albeit with a reduction in the replacement rate (which is not equally feasible for all incomes). In France, as the number of years of

TABLE 6.1 *Total employment rates by age group, 2011 (%)*

	Total (15–64)	Ages 15–24	Ages 25–54	Ages 55–64
Germany	72.5	47.9	82.8	59.9
France	63.9	29.9	81.4	41.5
UK	69.5	46.4	80.1	56.7
USA	66.6	N/A	N/A	60.0

Source: Eurostat.

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contribution determines the potential to retire earlier (along with the financial feasibility of accepting reductions through retiring without the required number of years), the possibility to retire earlier than the normal pension age (set at 65) is much more widespread.

Increasing the state pension age will, in all likelihood, only affect those people in the UK currently financially unable to retire before the state pension age (assuming that private provision is not affected: for more on this see Section 6.4). Raising the state pension age in a Bismarckian country, such as France, on the other hand, will theoretically affect most parts of the population equally. However, in practice, many people currently retire much earlier than the pension age (Veil 2007a: 49) and are likely to continue to use the paths available to them.

In the United States, the departure rates at the earliest eligibility age are only around 25%: 'the difference corresponds to large differences in the tax on continued wage earnings' from that age onwards (Gruber and Wise, 1997: 15). Thus the replacement rates are lower, there are actuarial adjustments between 62 and 65, and there are lower payroll taxes. Nonetheless, the fact that actual retirement shows some concentration – even if to a lesser extent than in Germany and in France – at the ages of 62 (the earliest eligibility age) and 65 (the normal retirement age) suggests that Social Security regulations can explain much of the pattern of retirement (Diamond and Gruber, 1997: 15 and Montalto, 2001: 10). Gustman and Steinmeier (2005: 454–455) describe two types of individuals for whom Social Security benefits will determine the age of retirement: those unable to retire without these benefits, and those who do not wish to forgo any state benefits, regardless of the age at which they are offered. Furthermore, few households cash in their private pension provision before receiving Social Security benefits (Holden and Reid, 2008: 17). It should also be noted that there is a small spike in retirement patterns at age 55 'which may reflect the early retirement provisions at that age under many pension plans' (Diamond and Gruber, 1997: 15). This peak has recently shifted to 60, as pension plans have adjusted to demographic changes (Gustman and Steinmeier, 2005: 455). Montalto (2001: 2) expects that contributions to private pensions will increase as a result of the changes in Social Security being currently implemented, thus potentially offsetting some of the impact of changes by the government on the effective retirement age.

In this section we have thus seen that different pension systems create different degrees of reliance on public provision for different types of

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people, with consequent variations in the impact of state pension age reforms on retirement decisions. In Bismarckian countries, the proportion of retirement income from public provision is substantially higher than in a Beveridgean country, such as the UK. Thus, other things being equal, the UK is likely to see fewer increases in effective retirement ages which can be traced back to changes in the pension eligibility age in comparison with the Bismarckian countries considered. Nonetheless, these countries will not necessarily witness an automatic increase in actual retirement ages, given that a substantial proportion of individuals are already retiring early, with other benefits (such as unemployment or disability benefits); it is unlikely that a mere increase in state pension age will induce these people to stay in work longer. In the United States a further component seems to be the increasing reliance on private pension provision. This leads us to the question which will be considered in the next section: Are the existing differences in pension structures going to remain valid? Are not all pension systems evolving towards multi-tiered systems with a substantial place for private saving? If so, would that not mitigate this section's conclusions, as retirement ages would be likely to converge eventually as well?

6.2 Different systems, same reform path?

As outlined in Chapter 1, we can observe some convergence of pension systems across developed countries: in particular, increased privatisation and reduced state pensions. Bonoli and Palier (2007: 557) reach the conclusion that there are four distinct phases or stages through which social insurance systems move on their way towards multi-pillar systems: stage 1 is without retrenchment (contributions or government transfers are increased); stage 2 involves moderate retrenchment (breeding insecurity with regard to future benefits and thus indirectly encouraging private saving); stage 3 brings more radical retrenchment, as well as the introduction of voluntary funded pensions; and in stage 4, the final stage, the funded elements are strengthened further.

Germany appears to fit best into this scheme. In the 1980s there was an increased awareness of the consequences of demographic change (Haverland 2001: 317). This led to the reforms of 1992, during which the second stage was implemented (with reductions in pension value, abolition of early retirement subsidies and reduced indexation). This

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represented a change in the 'dominant policy paradigm' (Bonoli and Palier, 2007: 561 and Veil, 2007b: 7).

In the UK, the trend towards privatisation began earlier than in Germany: from 1979 onwards, the Thatcher government undertook reforms to increase private pension provision (Taylor-Gooby, 2005: 120), reintroducing the indexation of state pensions to prices, cutting the value of the earnings-related state pension and creating financial incentives to opt into private provision (Naegele and Walker, 2002: 21). As discussed in Chapter 5, the basic state pension fell by five percentage points to 15% of average earnings between 1977 and 1997 (Pemberton, Thane and Whiteside, 2006: 6). However, take-up of other means of provision for old age (such as occupational pensions or private pension saving) was low and, as we have seen, the subsequent Labour government tried to tackle pensioner poverty, through reforms both to state pensions and to the private pension system.[2] Apart from re-establishing the indexation of state pensions to wages rather than inflation and raising the state pension age, the pension reforms of 2007 planned to increase the number of people enrolled in an occupational pension scheme, further cementing the requirement for all to save privately for retirement (Gruescu, 2006: 97).

In Germany the move towards a multi-pillar system, that is stage 3 according to Bonoli and Palier's logic, was instituted with the 2001 reforms. The replacement rate provided by the state pension was to be reduced from currently 70% to around 67% by 2030. In parallel, the new *Riester-Rente*, consisting of voluntary private pensions with tax incentives and direct subsidies, was introduced. Each pension reform in Germany thus seems to build on the previous one, which in turn had changed the parameters of action: the 2004 reforms profited from the fact that the 2001 reform had 'paved the way' towards increased private pension provision (Börsch-Supan and Wilke, 2004: 46). Finally, the 2007 reform of the pensionable age can also be seen to be a further move towards increased privatisation, just as previous reductions in the earliest entitlement age had also been an incentive to save more through private pensions to compensate (Hinrichs, 2003: 25).

France also seems to be moving down this apparently 'predefined' multi-pillar road. In 1993 first retrenchment measures were imposed on private employees. In 2003 the same was applied to public sector employees and simultaneously two systems of voluntary saving were created, which were exempted from tax (PERP and PERCO[3]), thus moving

France into stage 3. Between 2003 and 2009 PERCO assets increased to €3 billion and 41% of companies are now offering their employees access to PERCO schemes (AFG, 2010).

The USA decided on substantial retrenchment in 1983 (with a long phase-in period), thus fulfilling the stage 2 criterion. Stage 3 was gradually implemented with various tax incentives for individual retirement accounts and tax penalties to discourage people from tapping into these savings before retirement (Holden and Reid, 2008: 16).

By this logic, increasing the state pension age is nothing other than retrenchment of state pensions, signalling to people to save more on a private basis, as the state is reducing its input in the face of various constraints. The timing is slightly different in the various countries, with France and the USA using such reforms to enable *future* privatisation, whilst Germany and the UK use the reforms to further strengthen the *existing* move to increased private provision (stages 3 and 4). But is retrenchment the only underlying logic of state pension age reform? The next section will look at the relative success of the reforms encouraging private provision and consider in more detail the *intended* consequences of increasing the state pension age.

6.3 Different reform intentions

Private pension saving is said to be affected through pension reform by '(i) the change in uncertainty induced by the new system, (ii) the change in public saving induced by the transition deficit, (iii) the new characteristics of the post-reform pension scheme' (Buffa and Monticone, 2006: 4). Thus one would expect that with state pension retrenchment, as witnessed in the previous section, private pension saving would increase.

Taking the example of the USA, however, total 'private accumulation', that is, the amount of money saved by an individual in pension plans, whether defined benefit or defined contribution, decreased by 2% between 1983 and 2011 (Blackburn, 2008: 158). When broken down by type of plan, we can see that the proportion of households with a defined benefit plan fell from 69% to 45%, whereas the corresponding proportion for defined contribution schemes did rise from 12% to 62% (Wolff in Blackburn, 2008: 158), albeit with lower contribution rates. Reducing the availability of defined benefit plans has been a common reaction

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of private pension providers to increasing longevity whereby they shift this risk to the members of defined contribution schemes. However, we also see a reduction in the total amount of contribution to such private pension provision, whilst at the same time state pensions are de facto about to be cut through the increase in the pensionable age.

In the UK, the 2007 and 2008 reforms, including the reform of the state pension age, were adopted in the context of low and declining occupational pension coverage: 'There are currently around 9.5 million individuals in the UK who work for an employer who does not make a pension contribution of at least 3 per cent of the employees' salary. Of these, about 8.8 million work for an employer who offers no contributions at all' (DWP 2006e: 134). In 1967 there were 12.2 million active members of occupational schemes, whilst in 2004 there were only 9.8 million (DWP, 2006d: 32).

Explanations range from a distrust of financial markets (Blackburn, 2008: 161) to claims that workers are short-sighted in terms of their own saving, often not saving enough or long enough (Disney, 2000: 968, 971). Thus contribution rates in defined benefit schemes were high, but generally hidden. When members need to make these contributions explicitly (as in defined contribution schemes), distrust and short-sightedness start to weigh heavily: in the UK in the mid-2000s contribution rates to defined benefit schemes stood at 19% of earnings, compared to 9% for defined contribution schemes (DWP, 2006d: 34).

The UK has witnessed particularly severe cases of private pension devaluation. Stock market crashes between 2001 and 2003 reduced the value of these pensions by 45% on average in the short term and the financial crisis of 2008–2009 also had a strong short-term effect. This does not reassure consumers who are considering taking out private pension plans.

Similarly, Germans seem to be hesitant to start saving privately (Bode, 2007: 709). Opinion polls suggest declining trust in both state old-age provision and private pensions. Bode (2007: 710) takes this to be a reason for the state not taking further steps towards privatisation, but instead imposing further 'classical' retrenchment measures with respect to the state pension. This would represent a break with Bonoli and Palier's timeline depicting an ever-increasing trend towards privatisation.

And indeed, the policy of increased privatisation is not entirely set in stone in all countries. Even if most European states are still looking towards increasing the third pillar through tax-incentivised defined contribution schemes, other countries are turning in the opposite direction, in the light of their declining success. Thus, in the USA attempts to partially privatise Social Security have been rejected and the UK's reforms focus on strengthening the state pension (Blackburn, 2008: 172). This leads Bode (2007: 714) to say that 'a welfare culture that has always been labelled "liberal" may in the long run bring out a stronger pledge for collectively organised pensions than its corporatist counterpart'.

The British government's White Paper of 2006 (DWP, 2006d: 16–19) is particularly revealing in this respect. From the various aims of the reforms which it cites (see Chapter 5, Section 5.2.3 above) it is clear that the intention was to enhance overall opportunities for saving for retirement and obtaining an adequate pension: this was to be done both by making the state pension system more generous and more accessible and by facilitating access to non-state pensions, thereby increasing saving rates. Thus both the state and individuals have a responsibility to do more to avoid undersaving and underprovision. But a broader coverage needs to be financed, which in turn justifies the increase in state pension age.

Averting pensioner poverty was also a motive behind the pension reforms in Germany, but less so than in the British case. The Rürup Commission considered sustainability to include 'the effective prevention of poverty in old age and appropriate provision for future generations... [through properly] functioning welfare state institutions'[4] (Rürup, 2003: 6, 45, 48). As such, the argument on poverty prevention was a means to achieve a fiscally sound system, which itself required an increase in the pensionable age.

The rationales of the French reforms of 1993 and 2003 also mainly concerned the demographic challenge lying ahead and the need to increase effective retirement ages from their current low levels. Similarly, in the USA, the 1983 Social Security Act aimed to address both the short-term financing difficulties and the long-term demographic problems. As the reforms in both countries addressed sustainability through retrenchment before paving the way for further privatisation, this does not as such contradict Bonoli and Palier's 4-stage timeline.

For Germany, however, the matter is different. As we saw, until the early 2000s Germany was firmly on the 4-stage path, having gone through stages 1–3. However, from 2004 onwards, Germany was unable to move further towards privatisation and confined its reforms to securing state pensions. As a result, the German pension reform path has not

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(yet) reached the 4th stage of Bonoli and Palier's timeline. But does that mean that the German government (and the others) had no intentions towards the private sector in their recent pensionable age reform? The next section will consider the potential effects of the reforms on private sector provision.

6.4 Regulation or signalling?

A common, albeit generally secondary, rationale for increasing the state pension age is its potential for signalling and encouraging other developments. There is an expectation that as life expectancy increases, working lives should be extended and the government reinforces this expectation by delaying the entitlement to a state pension. The German ministry recognised this explicitly: 'The proposed increase is more than a reform to secure the financial sustainability of the pension system. It is also a signal ... that participation rates of older employees should be increased ... there will be a fundamental change in mentality'[5] (BMAS, 2006: 1–2).

In the UK, one can identify a correlation between state pension entitlement ages and the normal retirement ages in occupational pension schemes (Blundell, 2004: 16). Thus, state pension age reforms aim to signal to both workers and pension providers that the age of entitlement should change.

However, the state generally does not stop at this indirect measure. In many countries we find that for any state-subsidised private pension arrangements there are corresponding regulations with regard to the age of entitlement. In the UK since 2005 occupational schemes only benefit from tax advantages if the normal retirement age is 65 (if not, this needs to be justified) and benefits cannot be paid out before the age of 55 (increased from 50 in 2010) (DTI, 2006: 25). In Germany, Riester pensions are also regulated: incentives are only available for those savings which guarantee the payment of a life annuity upon retirement or at the age of 60 at the earliest (Börsch-Supan and Wilke, 2004: 32, 34).

In the USA there is a tax penalty for early withdrawals from individual retirement accounts (IRAs): a 10% penalty on withdrawals prior to age 59½ (with some expenditure exempted). And these regulations prove to have an impact: 'more than half (54 percent) of taxpayers with IRA withdrawals were age 70 or older, 18 percent were 60–69 years old, with the remaining 28 percent of taxpayers taking withdrawals being age 59 or

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younger' (Holden and Reid, 2008: 11). Furthermore, in order to prevent individuals from transferring their tax-incentivised IRAs to their heirs upon their death, they are required to start taking money out of them at age 70½ (ibid.: 7).[6]

Thus governments try to impact private pension schemes in order to ensure a suitable retirement income for all. But private pension provision regulation has its limitations. Recently, providers have been closing many defined benefit schemes and moving individuals towards defined contribution schemes. Defined contribution schemes tend to create higher effective retirement ages than defined benefit schemes (owing to a short-sighted view and underestimation of the contributions required to achieve a certain income at a certain age, which means that scheme members must work correspondingly longer, assuming expected investment returns are met). Furthermore, in the USA 'provisions in many traditional defined benefit plans offer a significant subsidy for early retirement, while 401(k) plans are neutral with respect to retirement age', if one disregards the regulatory constraints mentioned in the previous paragraph (Munnell, Triest and Jivan, 2004: 2).

Additionally, in the USA, defined contribution plans tend to offer lump-sum payments to the individual, whereas defined benefit plans tend to offer annuities. This leads Munnell, Triest and Jivan (2004: 3) to argue that individuals prefer to accumulate more funds before retirement if they are enrolled in a defined contribution scheme than if they are in a defined benefit scheme. They may be afraid of spending too much too soon or of being unable to leave anything to their heirs, and thus might want to contribute longer. Thus, in the USA at least, 'people covered by any type of plan will retire earlier than those not covered, and people with a defined benefit plan will retire earlier than those with a defined contribution plan' (Munnell, Triest and Jivan, 2004: 9). Where pension schemes pay out lump sums, individuals may choose to turn this into an annuity in order to secure a regular income until death. The rates offered on the market will depend on the age at which the individual wishes to start drawing their annuity and will be linked to life expectancy.[7] This can create incentives to delay retirement by a few years in order to be able to benefit from a higher annuity rate.

Disney (1996: 211–212) shows that with increasing awareness of the riskiness of private provision, expectations on returns are lowered and retirement may well be deferred. Thus, where they cannot regulate, many governments aim to signal a higher retirement age for the occupational and private sector by increasing the state pension age. Through this signalling they hope to prevent large inequalities in retirement ages due to differential abilities to underwrite supplementary schemes during one's working life. However, the extent of public policy impact on private provision is probably limited: the sustainability logic drives private pensions towards theoretically age-neutral defined contribution systems, which, however, tend to produce higher retirement ages and thus happen to correspond to the governments' signalling efforts.

6.5 Conclusion

This chapter has attempted to depict the various links between public and private sectors in state pension age reforms. The questions asked related to identifying actors and reactors and their behaviour. First we saw that the structure of pension systems, that is, the proportion of retirement income provided for by the state, compared to occupational/ private pensions, is likely to have an impact on the consequences of increasing the state pension age. If occupational and private pensions represent a large proportion of retirement income, then a change in the state pension age is unlikely to affect those individuals who do not rely on state pensions. Here, the state acts, the individual reacts and, using a mathematical analogy, private pensions represent a constraining condition to an individual's behaviour.

We then considered the fact that it is often claimed that pension systems are currently all converging towards a multi-pillared system in which private pensions occupy an increasingly important position. We found that this alleged convergence is not as clear-cut as some might imagine: substantial differences remain and it is unlikely that the systems will be aligned in such a way as to balance out the differing impacts on individuals.

Indeed, a country such as the UK has recently moved to increase its state pension, not to reduce it, alongside other attempts to make people save a greater amount privately. The aim of the increase in state pension age was not so much to have an effect on private saving, but rather to enable an increase in state pension coverage. Germany's key aim, as we saw, in the most recent reform, was not to continue down the path of privatisation, but rather to ensure the sustainability of the state pension. Section 6.3 thus painted a picture of state action being unrelated to private sector action.

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Nonetheless, secondary aims of state pension age reforms undoubtedly concern the private sector. Indeed, governments increasing the state pension age attempt to signal to both the population and private pension providers that life expectancy is increasing and individuals should at least partly offset this development by working longer and receiving private pensions later. However, governments generally do more than the mere signalling through state pension age reforms. State regulation of tax-incentivised private pensions is common, notably through setting minimum ages for entitlement and ages from which pensions must be drawn. However, the state runs up against limits to its regulatory potential, as can be seen by the independent action taken by occupational providers to limit defined benefit schemes and increase defined contribution schemes. Interestingly, this is in fact likely to increase the age of entitlement independently of the government's raising of the state pension age: the state acts, but the private sector reacts not to this action, but instead to longevity and investment risks.

Notes

1 *Source*: Eurostat, average exit age from the labour force, males, weighted by the probability of withdrawal from the labour market.
2 The earnings-related state pension (SERPS) was replaced in April 2002 by the State Second Pension (S2P), which was aimed at 'the pensions of the lowest paid – those earning less than £9,000 per annum' (Naegele and Walker, 2002: 22). Those above that threshold and not part of an occupational pension scheme were encouraged to pay into a flexible private 'stakeholder pension' from 2001 onwards (Taylor-Gooby, 2005: 128).
3 PERP: '*Plan d'épargne retraite populaire*', PERCO: '*Plan d'épargne pour la retraite collectif*'.
4 Author's own translation.
5 Author's own translation.
6 In the UK, tax-advantaged pension saving had to be transformed into a stable income by age 75 at the latest. However, in 2011 this age requirement was effectively abolished and in the 2014 budget further flexibilities on draw-down were announced.
7 Some insurers will offer 'impaired life annuities' or 'enhanced annuities' to individuals who have had a medical diagnosis of a significant reduction in life expectancy.

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7
Acquiring the Ability to Reform

Abstract: *This chapter maps the different conditions and strategies in place in the four case study countries: political consensus, reduced union impact, technical blurring, grandfathering, response to a crisis, independent commissions, packaging and existing context. Being able to adopt pensionable age reforms appears to require a certain number of supportive conditions to be in place, and, in addition, that these should be mutually reinforcing. It concludes that when striving for success in pension reforms, policymakers should ensure that the following boxes are ticked: objectivity, coherence, complexity and consensus.*

Keywords: conditions; pension age reform; strategies

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In the Introduction, Jacobs (2008) was quoted as asking why governments choose to incur high short-term costs for long-term gains, rather than delay or redistribute cuts. He argues that retrenchment theory is not the right lens through which to view this phenomenon: the potential for trade-offs between the short term and the long term means that there are options beyond the simple alternative 'to undertake or not undertake benefit cuts'. Reforming *in* the long term or reforming *for* the long term opens up different discourses. Arguments such as 'this reform is logically necessary' can enable reforms to take place. This fits with Natali and Rhodes' assessment that 'the more reform dimensions there are, the more opportunities exist for "trading" them with one another' (2008: 27).

The previous chapter has shown that beyond the state or public dimension to pensionable age changes, impacts and interactions with private pension provision also need to be considered when analysing such reforms. This chapter will analyse, on the basis of the country comparisons undertaken in Part II, how countries that wanted to increase the pensionable age acquired the ability to do so. The following chapter will then combine the research results on the rationale for the reform and on the ability to reform to identify drivers and interactions and distil a differentiated overall view.

7.1 What can make reforms possible?

Path-dependence theory suggests that the institutional design, its resulting popular support and its inherent long-term focus make a pension system particularly difficult to reform. Proposals for pension reforms, even if they are not easily understood and highly technical, make headline stories. This is linked to the fact that pensions address a well-known, near-inevitable personal risk – living into old age. Retirement is easy to imagine, with grandparents and parents visibly entering that phase of their life, and it becomes an expectation, perhaps even an idyll. Many pension schemes operate on the basis of 'earning rights' through contributions, and therefore pensions are also viewed as an acquired right, not to be dismantled. Pension reforms are always situated in an emotional context and thus at the centre of political debate.

Hinrichs (2000: 369) argues that retrenchment reforms on public pensions are accepted if there is a recognised necessity, if they are

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perceived as coherent (but not a 'rupture' to the system), if they are negotiated and command a broad consensus, if they ensure a balanced burden distribution and if they are phased-in over a longer period. This is a long list of requirements for successful pension reforms. Others argue that the institutional context is crucial: 'institutions play a very large role in shaping retirement patterns. They explain most of the international variation' (Börsch-Supan, Brugiavini and Croda, 2009). The OECD provides yet another list of necessary conditions: the political-institutional and economic framework, an electoral mandate, divided opposition parties, a co-operating opposition, and the urgency of the need to reform (OECD, 2009a: 35–41).

The case studies described in Part II reveal a similar picture: we identified many different variables that enabled reforms to take place. Can this qualitative and small sample reveal something about pensionable age politics in general?

7.2 What have we learnt through the country focuses?

In Table 7.1 the various potential explanations for the success of pensionable age reforms are mapped with what has been observed in the four countries. Some of these explanatory factors (e.g. context) are conditions independent of the political actors; others concern their strategies; while still others may be situations which the actors themselves create (political consensus, reduced trade union impact). Strong impact of the factors in question is indicated in dark grey, moderate impact in light grey and no impact in diagonal shade.

As this exercise is based on a small sample and is not intended to yield quantitative results, this table should not be over-interpreted. But we can conclude that reforming the pensionable age requires a large number of conditions to be in place in order to be achievable.

Out of the eight categories of potential contributory factors represented in the table, it emerges that six were strongly present in the USA, five in France and the UK and three in Germany. It is also noteworthy that no more than two factors were ever absent in each of the case studies. Some, such as a retrenchment context and recourse to independent commissions, are invariably found – others, such as reduced impact of trade unions or technical blurring are less consistently encountered. The next sections will shed some light on each of these conditions/strategies.

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TABLE 7.1 *Mapping conditions and strategies in four different countries having undertaken pensionable age (or equivalent) reforms*

Conditions / strategies	UK (2007 reform)	Germany (2007 reform)	USA (1983 reform)	France (1993 & 2003 reforms)
Political consensus	Yes, cross-party consultations	Yes, grand coalition	Yes, cross-party compromise (reform benefits and contributions)	No, unilateral reform
Reduced union impact	Yes, impact already low: low trade unionisation	No: opposition, but no impact on reforms	Yes, impact already low	Yes: divided unions
Technical blurring	No	No	No	Yes
Grandfathering	Yes, but reform necessary in light of state pension age equalisation for men and women (brought forward later)	Limited	Yes	No
Response to a crisis	No, only instrumental to increase in pension benefits	Spiralling deficits	Urgent	Spiralling deficits
Independent commissions	Yes	Yes	Yes	Yes
Packaging	Yes, main component to allow for increase in state pension levels	No, taken out of 2004 package	Yes, mix of short-term and long-term cuts	1993: package of different measures but also avoided capitalisation 2003: retrospective package aligning public–private
Context	Existing retrenchment	Existing retrenchment, already announced in 2003 Commission	Retrenchment appears inevitable: short-term urgency, long term forward-look	2003: existing retrenchment, need to establish parity

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For now it is worth responding to some readers who might wonder why qualitative comparative analysis (QCA) was not used for this purpose.[1] Despite its strengths, this was not possible. First, even through separating the different French reforms, there would not have been a sufficient number of cases to fit each possible truth table row combination. The QCA model is deterministic and therefore the lack of combinations or even the lack of an identified variable would flaw its results. Furthermore, as pension policy development falls more into the probabilistic, rather than the deterministic camp, QCA would not be the answer.

Second, I do not systematically analyse cases yielding Y= 0, that is no reform undertaken. However, Charles Ragin (1987: 87) advocates that in QCA different binaries for the dependent variables are required for *each* possible combination of independent variables.

Third, I question the ability of QCA to form robust theories about policymaking processes: how would cases be assigned a score of 0 on the dependent variable? One possible candidate is the failed reform in France in 1995, though it could also be seen as part of the process that led to the 2003 reform. In general how do we determine what is a Y= 0 case? Should we include only those cases in which a proposal was made that was then abandoned? Should we look at all years in which no reform was undertaken? Or should we choose the option of years in which a reform was discussed in the mainstream media but not adopted?

In my view, policymaking outcomes are difficult to classify in a binary way and case selection is likely to be too biased to yield sufficiently robust theories on the basis of QCA.

7.2.1 A broad majority: the role of consensus

A common factor for all countries studied was that a broader majority than a simple parliamentary majority was created. What this majority looked like and how it was achieved differed. But concertation with actors both within and outside government is undoubtedly a key success factor. Schludi (2008: 52–53) explains this through actors potentially having veto positions, through governments having an interest in ensuring that reforms are not overturned after the next election, and through the fact that predictability of pension policy is important in itself.

Both the German and British governments enjoyed comfortable majorities in parliament at the time of the reform decision. Germany, in particular, was governed by a 'grand coalition' of the two main parties, which had included pension age reform in their coalition agreement. However, governments have often chosen to go beyond parliamentary majorities and undertake general consensus-seeking. The UK experienced cross-party agreement on the reform project and in Germany the government mollified its opponents by making a compromise suggestion: as the opposition to the reform was not arguing against the concept of working longer, but about what to increase first (the effective retirement age or the pension entitlement age), the government simply promised an (unspecified) review of the reform in the light of changes to the effective retirement age. This successfully took the wind out of the opposition's sails.

The idea of consensus-seeking and compromises can also be found in the USA, where, however, the struggle was to find a legislative majority. Typical negotiation tactics were used: stronger proposals had been originally put forward and the final package represented a compromise. Furthermore, although public opinion was against an increase in the pensionable age, the divide was a class-based one and not between ages: a political compromise could be found as long as the impact was not felt strongly by current voters.

However, caution should be expressed with regard to the concept of 'consensus-seeking' as contributing towards the success of the reforms on its own – some of the other factors in fact *enabled* a consensus to be found: the conditions presented in Table 7.1 are not necessarily independent of each other.

So, for example, whilst France's reforms were undertaken largely unilaterally, for its 2003 reform the government prepared the general public through wide-ranging consultations. Lessons had been learnt from the failure of the 1995 reform and 'while this did not generate a societal consensus in support of the reform measures themselves, which were fiercely contested, it did secure widespread acceptance of the need for reform and it defined the parameters of the pension reform debate' (OECD, 2009a: 81). Therefore, some efforts towards consensus-seeking also *enable* a country to develop recognition that change is inevitable.

That said, our findings on consensus-building support the proponents of 'new politics' who argue that actors are now fragmented and different potential coalitions could support a particular reform. Häusermann (2010: 121) argues this in the case of successful French pension reforms: 'Unexpected cross-class alliances among labour and capital and among right-wing and left-wing parties formed in favour of the reforms'.

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7.2.2 Power relations: dealing with trade unions

Trade unions, through their potential threat to reforms, require special attention when analysing the possibility for a reform to succeed. For example in France, according to Häusermann (2010: 123), 'dividing the unions' opposition has turned out to be a necessary condition for reforms: because of their strong position in the management of the insurance schemes and their high capacity for mobilisation, the social partners are de facto veto players whose agreement is needed for a reform to succeed'.

Of course, the role and strength of trade unions differed in the countries analysed and it appears that trade union positions were not always key in determining the reform potential. In the USA the 'Social Security lobby' of seniors' interest groups may have been more of a force to be reckoned with.

In France, what is striking about both the 1993 and the 2003 reforms is the fact that they were not openly negotiated with the trade unions, but that the government was able to achieve their (divided) consent nonetheless. As such, 'the Balladur reform can best be characterised as a "pre-emptive" trade-off. In other words, it sought the tacit consensus of the social partners without actually engaging them' (Natali and Rhodes, 2008: 31). Indeed, this reform ended up being less drastic than previously feared by the trade unions, only affected private sector employees and gave the trade unions a managerial role in supplementary pensions that they could sell as a victory to their constituents.

As regards the 2003 reform, the OECD deems that the French government consulted but did not negotiate, thereby avoiding

> risks associated with the kind of unilateral action that had been attempted in 1995 without engaging in the kind of negotiations with social partners that might have led to a watering-down of the reform. While significant concessions were made at a key point in the process, the government demonstrated sufficient resolve in the face of protests to ensure that its principal aims were not compromised. (OECD, 2009a: 81)

In addition, the threat of a further move towards funded pension schemes allowed a second conflict dimension to appear that 'crosscut the class divide' and 'divided the left-wing opposition' (Häusermann, 2010: 118). Similarly, in 2003 'the targeting-capitalisation axis became the decisive conflict line in this reform' and 'capitalisation emerged as a highly polarising issue in the French pension debate over insurance reforms' (ibid.: 120, 123).

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Overcoming union protest was also, according to Ebbinghaus (2011: 327), important in the UK and Germany. He explains that this was feasible thanks to the phasing-in of reforms as well as the weakness of the unions' mobilisation capacity and political veto opportunities. In the UK the capacity for unions to mobilise is indeed rather limited, certainly in the private sector. In Germany unions are more prominent, but if consensus is achieved at party level (see Section 7.2.1), the veto opportunities of trade unions are substantially reduced.

One could therefore argue that overcoming trade union opposition is a necessary, though not sufficient, condition. Where trade unions are already weak, achieving this condition may not be difficult (and may not even be considered relevant), but where they can organise mass protest movements, some attention needs to be paid on how to defuse this potential bomb. As seen in France, defusing trade union power does not necessarily call for large-scale concessions; it can also simply mean creating a division between the different unions.

The 2010 reform in France could call this conclusion into question: despite mass public protest, Nicolas Sarkozy pushed a reform of the pensionable age through – a topic that had not previously been directly addressed. However, given the failure to achieve a consensus in 2010, two years later, under a new president, this reform was partially overturned: retiring at 60 became an option again for those with long periods of contribution and who started to work in their teens. One could therefore argue that the lack of at least tacit approval from trade unions provided a favourable political environment for a new president to partially reverse a previous reform and satisfy public opinion.

When considering the potential power of trade unions (and therefore the risks to the success of a proposed reform), it is important to bear in mind that the margin of manoeuvre for governments can be quite wide: various policy goals can be traded against each other. Thus increasing the administrative role of social partners can be traded against benefit cuts. Alternatively, losses can be concentrated on less well-represented groups, such as younger cohorts and private sector employees (Natali and Rhodes, 2008: 29). The enhanced administrative role and the private sector focus were typical of the French reform of 1993 and the concentration on younger cohorts was used in the US reform of 1983. Even in an age of 'new politics', public opinion and labour movements continue to be a factor when designing, negotiating and implementing reforms.

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7.2.3 Technical changes: the role of blurring

Using technical changes, rather than changes that are easily understood by the general public, is a common way to achieve the aims of a reform without endangering its political feasibility. Such a strategy was used by the German government in 2004 to reform future pension benefits through a complex formula. Indeed, in contrast to the proposals that had originally been submitted by the Rürup Commission, the explicit reform of the pensionable age was taken out of the reform package and only the complex and technical changes were maintained.

Interestingly, though, Germany did pass a pensionable age reform a few years later without any technical camouflaging and scheduled to implement the reform relatively quickly (certainly compared to the reform passed at the same time in the UK). However, as already described, the German coalition government did build in a future 'review' of the law in 2010, to allow for potential amendments should the labour market not be delivering a sufficient number of jobs for older workers. This proposed 'reality-check' enabled the reform to be passed. However, how such a review would be undertaken and under what circumstances amendments could be made were not defined. The prospect of a technical, presumably fair, review satisfied some political opponents, but had the potential to prove an empty promise. Indeed, despite difficulties experienced in raising the effective retirement age, the reform as decided in 2007 still stands.

Technical changes were used most prominently by the French governments in 1993 and 2003. In fact, they did not explicitly tackle the (easily understood) pensionable age, but instead decided to increase the number of years of contributions required to be able to retire on a full pension. As these years are set at a high level, this would de facto increase the age at which workers would (financially) want to retire. Despite the more technical nature of this proposal, there was large-scale opposition to the reforms, with numerous strike movements. That said, it is likely that attacking the 'right to retire at 60' could have triggered even greater opposition.

In the context of pensionable age reforms, it is unsurprising that the technical nature of the changes is not a crucial explanatory factor for the feasibility of the reforms: pensionable age changes are easily understood by the population. However, the French case between 1993 and 2003 provides us with a useful comparison: the French government did use

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a relatively technical change by acting on the number of contribution years required. Therefore, technical changes constitute a viable alternative to directly reforming the pensionable age and are certainly a means by which to pass other difficult benefit cuts in a very complex domain. Governments may find it difficult to reform systems as complex as pensions, but their complexity can also be used as an advantage to avoid explicitly showing the general public what is being done.

7.2.4 Grandfathering: delaying the impact of reforms

Delaying, or 'grandfathering', the impact of reforms can be seen as a means to secure their success through enabling easier transitions and protecting older workers from the impact of cuts. An example of this was the increase in the pensionable age as defined in the US in 1983: the increase would only be fully in place by 2027, 44 years after the reform was passed. Those impacted fully were 23 at the time the reform was decided. The increase in the retirement age was due to take place gradually: people as old as 45 at the time would see a delay in their retirement by a few months.

As the OECD (2011: 25) highlights: 'Falls in pension ages were generally rapid.... Increases in pensionable age, in contrast, have tended to be phased in more gradually'.

Of course some grandfathering is necessary in any case: people plan their lives, their work and their saving behaviour according to a predicted age of retirement. That means that pension reforms need to be phased-in to allow expectations, and therefore also behaviour, to change accordingly.

Not all 'grandfathered' reforms appear as such at first sight: Germany allowed for a potential delay in implementation under certain labour market circumstances, to be determined three years after the adoption of the reform. This effectively grandfathered the final decision and pushed it into more objective territory. Recent debates have shown that since the adoption of the reform, and with the advent of a new government, the consensus around the reform has been withering, as a result of opposition politics and struggles for power.

The more the impact of a reform is pushed into the future, the easier it becomes to legislate. However, at the same time, the later it is implemented, the less effective the reform is at tackling problems that would occur earlier. Therefore, in the wake of an economic crisis, with a certain

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level of public understanding about the future sustainability of systems, it was possible for the UK government elected in 2010 to propose to accelerate the increase in the state pension age by eight years.

It appears that delaying the implementation of a reform can make it easier to adopt. Nonetheless, the context in which the reform is taking place is also important in order to determine whether such a tactic needs to be used, as will be seen in Section 7.2.8. Therefore, grandfathering pension reforms can be a useful strategy, but is certainly not a necessary one, as the recent British developments have shown. In addition, the French reform of 2010 made do with hardly any delays in implementation.

7.2.5 Acceptance of the need to reform: the role of a crisis

A crisis in the existing system can also contribute to the success of pension reforms. As we saw in Chapter 4, the recognised need for urgent action and reform opened a window of opportunity that enabled the US to undertake long-term reforms as well. The reform of the pensionable age was not immediately needed (and indeed was only due to be fully implemented several decades later); nonetheless, the context of near-bankruptcy and an inability to write Social Security cheques put pressure on politicians to find sustainable solutions and compromises.

Whilst such a crisis context certainly helped in the USA (and without such urgency no further reform of pensionable ages has been witnessed since), it cannot be deemed necessary in all cases. First, there was no guarantee that the short-term emergency in the USA would be used to also undertake reforms needed to ensure long-term sustainability. Furthermore, the UK was able to reform its state pension age without a direct threat to the sustainability of the system.

Nonetheless, Overbye (2008: 74) underlines that 'an economic crisis prior to, or during a reform process, helps. Crises-conscious voters often support politicians who demonstrate initiative and ability to act'. And indeed, pressures such as predicted demographic ageing, the need to keep labour costs low in the context of a single European market, restrictions on the ability to run deficits (such as those imposed by the Maastricht criteria) and exogenous budgetary pressures (e.g. the costs of German reunification) can bring about the political opportunity to discuss difficult decisions, such as those concerning pensions.

That said, the same combination of conditions (demographic ageing affects all types of systems) have led to very different results and a

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number of countries have not adjusted the pension age to increases in life expectancy: crises, whether immediate or longer-term, can yield impetus for reforms, but other conditions need to be in place in order to ensure success.

7.2.6 Establishing a long-term view: the role of independent commissions

Arguments about necessary evils for positive goals and high short-term costs for long-term gains were frequently used by commission reports or expert analysis of the reforms. However, such arguments, although highly valid, did not appear to be the clinching ones for success. Thus the existence of expert analysis did not prevent the rounds of unsuccessful proposals in France, nor the fact that Social Security has remained unreformed in the USA since 1983. The sustainability problem for US Social Security has not been fully resolved and is still commonly recognised to constitute a problem. This issue is so widely acknowledged that it makes appearances in popular TV programmes, such as the *West Wing*.[2] Nonetheless, reform seems near-impossible.

All countries analysed in this study chose to establish commissions and publish reports about the sustainability of the pension system, thereby underlining the weight that 'rational reasons for reform' can have in the political debate.

That said, even with full information, countries are not always able to reform: whilst both France and the US had reports available at the same time that predicted long-term difficulties in funding the pension promises that had been made, the USA was able to decide upon an increase in the age of entitlement much earlier than France was. Indeed, France even defied the reports and reduced the legal age of entitlement to 60 years in the early 1980s.

On the other hand, the recommendations of commissions or committees were the explicit basis for the reforms undertaken in the UK and Germany. The Rürup Commission had recommended increasing the pensionable age in their report in 2003 and, although this was not adopted immediately, the rationale and recommended content of the reform were taken up four years later. The Turner Reports in the UK were similarly comprehensive and evidence-based, therefore allowing politicians to outsource and avoid the blame for what was being presented as a necessary evil.

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This fits with Overbye's assessment that the potential for politicians to reform systems is in fact quite large:

> most voters, most of the time, are rationally uninformed about the exact content of political issues.... Limited initial knowledge implies that large groups of voters can be persuaded by whatever new pieces of information that drifts their way, plus by how this information is framed. (2008: 82–83)

Although the expert reports were put under great scrutiny and criticised in France, the OECD (2009a: 52) also points to the 'potential utility of credible "reform institutions" ' in 'de-politicising' reforms and presents France's decision to institute a specialised body in 2000, the *Conseil d'orientation des retraites*, as a key factor for subsequent reform success (ibid.: 81).

7.2.7 Trade-offs and fairness: the role of packaging

A further important expedient when trying to gain public approval for a difficult reform is to package cuts along with other reforms. Where political conflict is greatest, packaging can provide a useful strategy to alleviate some of the concerns of the opposition, through undertaking complementary, and potentially even off-setting, reforms.

Being part of a negotiated bargain or a trade-off can be an explanation for the success of reforms: actors can, of course, be willing to impose losses on others if that means gains for themselves, but they are potentially also willing to accept some losses if others lose too. In France, the 1993 reform was made possible by giving trade unions power in the administration of a supplementary pension scheme. Changes to the number of years of contributions required were also made less painful for the public-sector-dominated trade unions by excluding public sector regimes from the reform. The reform also featured a number of other changes to the private sector pension scheme, such as increasing the number of years used to calculate the reference wage (generally leading to a benefit cut for the individual) and indexing pensions on prices rather than wages. Adding layers to the reform enabled the government to split the unions and created different ways in which individuals would be impacted, thus blurring the real impact on the pensionable age.

The French government did not, however, tie packages of retrenchment or benefit cuts to the introduction of systems based on capitalisation. Indeed, it preferred to link the concept of capitalisation/funding with macroeconomic policy (through highlighting the impact on the savings rate),

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rather than create a link with the pension system, thereby avoiding a further negative impact on the proposed pension reforms: 'Capitalised funding has always been highly controversial in France; the issue was unsuitable for credit claiming with the broader public' (Häusermann, 2010: 125).

This approach stands in contrast to the British and German cases, where the advent of supplementary means of pension saving (and the increasing reliance on funded schemes) was often mentioned in the same breath and within the same logic as reforms to the public schemes. This leads Natali and Rhodes (2008: 27) to claim that 'the introduction of supplementary, fully funded schemes is a good example of a credit-claiming exercise'. Whilst funded schemes have given rise to controversy in these two countries (in terms of coverage rates and outcomes), it is indeed true that the political rhetoric around such schemes tends to be positive: the debate tends to be framed in terms of individualisation and generous tax incentives.

The link between reforms to the state pension system and occupational or private pension provision was analysed in Chapter 6. And reforms in one sector do indeed tend to be linked to intended or existing outcomes in another, as the British reform rationale (fighting pensioner poverty) shows: not all people were enrolled in a supplementary pension, nor were those enrolled benefiting from high pensions.

The Social Security reform in the USA in 1983 also constituted a package which ensured that gains and losses were shared out and so yielded a cross-party deal: all aspects of the pension system were reformed – benefits, contributions and the age of entitlement. Both current and future pensioners were impacted through indexation changes, tax increases and future increases in the age of eligibility.

Pension age increases are undoubtedly, on their own, to be interpreted as a cut in benefits. Credit-claiming appears to be possible as long as the right package is presented. In this vein, one could argue that in the UK credit-claiming was pursued by announcing that the pension reforms were meant to ensure that pensions could be paid out at a higher level. Credit-claiming was also a feature of the 1983 US reform: the fact that the package was the result of a cross-party agreement made most actors want to justify and take credit for having contributed to a package that would secure the future of Social Security.

As a result, credit-claiming could even be a key incentive for actors to undertake a reform of the pensionable age: 'While blame avoidance is usually considered to be the major motive inspiring reform strategies,

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we claim that credit-seeking and claiming is a major spur to participation in these "bargains" and a key explanation for reform success' (Natali and Rhodes, 2008: 26).

But packaging is not a necessity for successful pension age reforms. In Germany, although it was logically coherent with preceding paradigmatic changes to the public pension scheme, the difficult reform of the pensionable age was excluded from the 2004 reform package under the Social Democratic-Green coalition in order to enable the package to be adopted. The pensionable age instead resurfaced on its own in 2007 under the so-called grand coalition where blame could be shared between the two largest parties. Packaging was therefore not as such a requirement for successful reform in Germany, but as the next section will show, the German context at the time provided an opportunity structure for coherent pension reforms that built on the results of previous reform efforts.

7.2.8 Context: the role of previous reforms

Reforms do not take place in a vacuum: the context in which they are adopted can be enabling but also sets the scene and the parameters. For instance, if the reform is undertaken in a context of existing retrenchment, the population already expects to be worse off and can be weary of putting up opposition.

The timing of a proposed reform also has to be seen in the context of what has preceded it: Has it been previously discussed? Can it be seen to complement a previous reform? Would it stand in contrast to a previous recent reform?

Of course, when discussing context, one should not forget the impact of national specificities and how they affect a government's ability to reform. For example, in Germany, being earnings-related, the pension promise and resulting expectations are much stronger than in the UK. Reforms to such a system could therefore also be much more difficult. Similarly, the US and French systems could be categorised as very complex and therefore path-dependent.

A common feature in the German and British state pension age reform was the fact that both countries had to restore trust and deal with the not entirely successful move towards increased private pension provision. Germany had been engaged in a long pension reform process since the 1990s, with each of the reforms seemingly built on the previous one (reduced early retirement, the advent of supplementary pension saving,

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reduced entitlements, a continuing search for sustainability through increased pensionable ages). The government was keen to show coherence in the new design of its retirement provision and political will to overcome party barriers. The UK government, for its part, wanted to show that it was not blind to negative developments arising from the country's previous reform path, in terms of both pension outcomes and trust in the system: it had to tackle both adequacy and sustainability of pensions. Framing the reforms in such a context meant presenting them as necessary and desirable for the population.

It is interesting to note that since the reforms were adopted, the population more readily accepts the need to increase the official retirement age: according to a Eurobarometer survey conducted at the end of 2011, 51% of British citizens and 27% of Germans accept the need (Eurobarometer, 2012: 67). Although the questions asked were not quite the same in 2006,[3] the responses given prior to the reforms were substantially different: at the time, 31% of British citizens and 16% of Germans were prepared to envisage working longer (ibid., 2007: 74). This evolving public attitude is thus part of the changed context created by the reforms themselves.

The French case is again characteristic of a government operating within a restricted context. The 1993 reform reflected the complexity of the pension system: it maintained the structure and design of the system and therefore adhered to the principle of path dependence. The 2003 reform did not fundamentally alter the system either, but simply endeavoured to apply the principles of the 1993 reform to the entirety of the population (i.e. including those in the public sector). Of course establishing such parity was not a sufficient condition for the success of the reform – a similar reform on grounds of fairness across the population had failed in 1995. Nonetheless, the 1993 reform paved the way for a later reform to the public sector pension system – something that in 1993 had still appeared impossible. Indeed, 'blocked, reversed or very limited early reforms need not be seen as failures: they may play a role in undermining the status quo and setting the stage for a more successful attempt later on' (OECD, 2009a: 47).

7.2.9 Interactions between the conditions

The previous sections have shown the relative importance of the conditions in place and strategies used. But they have also given us indications that these factors might not be wholly independent of each other.

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For example, the fact that countries built consensus is due to actors *seeking* to build consensus (and therefore an independent strategy), but the *ability* to build consensus is influenced by the use of techniques such as packaging, or even the fact that trade union power was reduced. Circular interactions can also be identified: thus, the fact that actors sought to build consensus could have prompted the creation of independent commissions, which facilitated an increasing acceptance of the necessity to reform, which in turn led to a greater ability to create consensus.

The ability to reform is dependent on building a workable majority, that is, eliminating or mitigating the potential impact of an opposition. The tools used, as we saw, are diverse, but not entirely different in our four country studies. The fact that we can identify some patterns in the reform strategies and conditions in place highlights that it is perhaps their cumulative effect (and the interactions between them) that created the necessary framework for successful reforms.

Whilst the absence of an *individual* condition may not be sufficient to explain the lack of a reform in the cases of countries that have so far been unsuccessful in this reform area (just as the presence of one condition would not necessarily lead to the reform being adopted), the absence of *several* conditions that would otherwise have reinforced each other's effects may well turn out to be a decisive factor to explain diverging trends in pensionable reform ability. The answer is therefore more complex than 'a lot of conditions need to be in place' (see Section 7.1). Instead, our results would suggest that a *certain number of interlinked conditions* need to be in place to produce a successful, though highly unpopular, reform. Chapter 8 will attempt to cast more light on the relationship between the different kinds of conditions and the outcome of the reform.

7.3 Taking the reform out of (national) politics

In terms of ability to reform, it remains to be added that beyond what has been observed among the four case studies, other conditions can also help to make pensionable age reforms successful. For example, taking politics out of the reform process can produce a seemingly more objective reform path. Measures such as automatically linking the pensionable age to life expectancy developments would be a means of achieving this. The UK, following the government's announcement in 2011 that it was considering a faster rise in the pensionable age, amended its legislation to allow for automatic increases to the state pension age, linking it to life expectancy.

Such reforms have also recently been advocated by international organisations and by the European Commission, keen to ensure budget sustainability, both now and in the longer term. For example, both the Green Paper on Pensions from 2010 and the follow-up White Paper point to the need to increase effective retirement ages, notably through increases in pensionable ages: 'raising the pensionable age and the effective retirement age to automatically reflect gains in future life expectancy would contribute very substantially to ensuring progress towards fiscal sustainability' (Commission of the European Communities, 2012b: 10).

The European Commission also advocates increases to pensionable ages in its Annual Growth Survey by asking Member States to pursue reforms towards 'aligning the retirement age with increasing life expectancy, restricting access to early retirement schemes, supporting longer working lives, equalising the pensionable age between men and women and supporting the development of complementary private savings to enhance retirement incomes' (ibid., 2011a: 4–5). Similar wording was used in the 2013 Annual Growth Survey. In this vein, the Commission has addressed country-specific recommendations on pensions to a large number of Member States, in particular on retirement ages. This could potentially enable governments to shift the blame on to the European sphere for reforms that would not be easily accepted by the population. Coupled with the recognised need to restore fiscal balance, this can be a recipe for success, though, considering the interpretation of Table 7.1, it is still unlikely to be sufficient on its own.

7.4 Conclusion

We have seen that a variety of factors can influence the success of pension reforms. The proposed reform outcome and the resulting public debate need to be framed in such a way as to allow a certain amount of agreement. This leads to consideration of the perspectives of the actors in the conflict: within the discussions around the reform various trade-offs can be made and different goals can be pursued. Furthermore, pension reforms do not have to take effect immediately: temporal preferences of the actors therefore need to be taken into account.

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Moreover, the case studies have allowed us to understand that pensionable age reforms can come in different guises: some are explicit and rapidly operational, some are of delayed effect, some are instrumental to other reforms, yet others are indirect age reforms. This also means that different discourses and different trade-offs are possible: pensionable age changes do not have to be straightforward retrenchment measures.

The necessity of reform, if presented objectively and independently, can foster public understanding of the measures proposed. This was demonstrated by the widespread use of expert committees or commissions. The context in which political actors operate can further enhance this understanding: if the reforms proposed are coherent and follow up on previous reforms, the public is more prepared to face what some might call a 'necessary evil'. The reform actors not only have to cope with the fact that pension systems tend to be complex and therefore also difficult to reform, but can also exploit that complexity by using technical changes to blur the intended reform, delaying impacts or hiding pensionable age reforms in a larger package. Finally, establishing a broad majority for the reform appears to be both necessary and desirable for the long term. This can be achieved through consultations, negotiations, adopting reforms that are less painful than originally feared or dividing the opposition.

Being able to adopt pensionable age reforms appears to require a certain number of supportive conditions to be in place, and, in addition, that these should be mutually reinforcing. In conclusion, when striving for pension reform success, policymakers should ensure that the following boxes are ticked: objectivity, coherence, complexity and consensus.

Notes

1 QCA allows the researcher to identify combinations of variables that could explain the existence or lack of a phenomenon. In that sense, QCA's framework would have fitted with this chapter's aim: classify the explanatory variables and understand their relationship. Another strength of QCA is that it maintains the holism of the case, whilst allowing for abstraction: as Gerring (2007) says, it appears to solve the problem that case studies struggle to recognise structures, whilst variable studies struggle to recognise the process. Furthermore, criticisms of QCA, such as its binary value aspect and its lack of longitudinal aspects could all be overcome through adaptation of the simplistic truth table structure.

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2 The West Wing, Season 5, Episode 12 'Slow News Day', Warner Bros. Television, 2004.

3 The question in 2011 was 'To what extent do you agree or disagree that the official retirement age in your country will need to increase by the year 2030?', whilst in 2006 it was 'If you had to choose from the following aimed at guaranteeing the financing the pension system in your country, which one would be most acceptable for you? Work longer and contribute longer? Maintain the retirement age and increase your social security contributions? Maintain the current retirement age and accept that you will receive less?'

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8

Reconciling the Approaches

Abstract: *This chapter re-examines the functionalist and actor-centred logics and the interaction between them. It examines whether political players only react to existing constraints and determine whether the solution to the constraint can be achieved or whether they in fact also shape the substance of the reform. Similarly it reflects on whether the constraints can not only shape the reform content but also contribute towards enabling reforms to take place. It concludes that the four country case studies help us to uncover a more diversified overall approach to explaining the reform outcomes.*

Keywords: actor-centred; functionalist; pension reform

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Intuitively, the reform of the pension systems appears inevitable: populations are ageing; the time spent in retirement compared to the time spent at work will not be in balance if pensionable ages do not also rise. Furthermore, again intuitively, whether the change can be implemented depends on political players and how they react to the constraints: Are they able to form a sufficient majority in favour of the reforms?

This may prompt one initially to single out quite different kinds of factors as having been crucial to the success of the reforms. So, first, the US reform could be explained by the fact that the actors were responding to the short-term emergency situation. In France, the success or failure of pension reforms can be attributed to the way in which trade union power was handled by the government. In Germany, the existence of a 'grand coalition' of the two major parties may be seen as having provided the right political opportunity structure. And in the UK the pensioner poverty situation created pressure to find a way of providing a more generous state pension.

But as we have seen, there was far more at play than at first met the eye. This leads to the following questions: Do the political players really only react to existing constraints and determine whether the solution to the constraint can be achieved? Or do they in fact also shape the reform? And do the constraints contribute towards enabling reforms to take place? The answers to these questions will lead us to reconsider in the last section of this chapter whether the classical models of explanation really enable us to appreciate the political reality in all its complexity.

8.1 A first intuition: actors determining ability to reform and systemic factors determining reform content

First, the way in which politics and institutions affect the actors shapes the potential for the content of the reform to be pushed through. The way actors behave and the circumstances they face (political and institutional) determine the ability to reform. On the other hand, the way the system functions and the constraints it faces (such as increasing longevity versus path dependence) determine the type of reform.

These impressions are confirmed by the logics used by welfare state theorists: some theories focus on the actors' abilities to reform, whereas others focus more on the system's path and its own requirements for reform.

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For some, economic development was a prerequisite for welfare institutions: the growth of national wealth was necessary to be able to institute a welfare state (Cutright, 1965; Marshall, 1950). This is a matter of actors reacting to new circumstances. Similarly, for Wilensky (2002) the welfare state arises out of the necessities of an industrialised society: the state has to step in to take up the role the family would have otherwise played. The system thus defines the reform path: this is what is argued by proponents of path dependence. It would therefore seem that cutting back a certain social policy is far more difficult than adopting one: thus, the '*acquis*' will determine the future of the policies (Amenta 2003) and it is previous policies, rather than previous conflicts, that determine the policymaking environment (Pierson, 1996: 179).

Such theories outline the rationale for a welfare state or the need for reform. To them may be added those which point to characteristics of existing systems, such as the national context and mentality, which have doubtless influenced social policies. For example, it has been argued that in the US we can observe a strong emphasis on individualism, meritocracy, hard work and voluntarism: equality of opportunity is preferred over equality of outcome (Lipset, 1996; see also Katznelson, 1986). Such characteristics are not influenceable directly by the political actors, who must act in the light of them when proposing reforms.

Other theories, such as those based around class or political struggles, focus on the ability to reform. Cutright (1965), for example, points out that where there have been more representative political structures there has been more Social Security coverage. Such a 'struggle'-based ('power resource') approach can also be seen in Korpi and Palme's (2003) work.

When digging deeper into the actor-centred view, one realises that existing institutions have an impact on actors and the way they behave: institutions structure interest representation and decision-making and thus define political opportunity structure (Myles and Quadagno, 2002). However, whilst institutions are important for politics, they do not cause outcomes on their own: actors are necessary to achieve this (Thelen and Steinmo, 1992).

Existing theorisations of the welfare state reinforce the intuition that actors react to constraints and provide the ability to reform, whilst systems determine the content of a potential reform. Such a framework could therefore be depicted as in Figure 8.1.

Some might argue that the differentiation between the two sides is too artificial. It is no doubt true that any application of these theories

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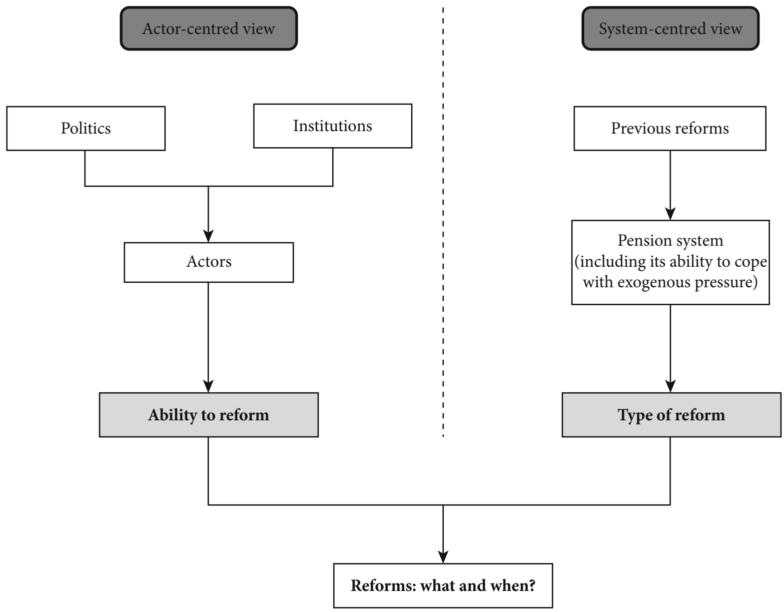

FIGURE 8.1 *Intuitive framework for analysis*

will analyse the ability of institutions to shape the political discourse or the political will and preferences of actors. However, these are generally taken to be *static* or predetermined. This is why the traditional theories, which set out to predict *change*, are inherently seeking to explain different things: content and ability. This also means that they are not incompatible and explains why a number of authors attempt to bring the two sides together as we shall see later.

In addition, the cases presented here are all positive cases of reform. The system and its constraints generated the recognised need to increase the age of entitlement. As a result it was important to reflect this linear progression also in the framework of analysis, and maintain the distinction between content and feasibility, moving then to discover the interactions (rather than mixing the approaches from the outset).

8.2 What can be observed?

Having established this framework, we now seek to establish whether the country case studies are able to validate these existing welfare state

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theories: in the reforms analysed, was the driving force for the *content* of the reform the existing pension system and the constraints within which it was operating? And, on the other side, were the factors *enabling* the reforms to take place situated in the use actors made of the opportunities the institutional set-up gave them?

In Figures 8.2–8.5 each of the elements of the reform paths identified on the basis of the four case studies is placed in the intuitive framework just developed. Many of the conditions in each country do fit into the theoretical framework of actors determining the ability to reform and systemic factors determining the content of the reform. This can be seen through arrows (indicating influence of one factor on another) staying inside the column from which they originated (i.e. the actor-centred view or the system-centred view).

Thus, taking the case of France (Figure 8.2), the fact that unilateral government action was possible gave political actors some room for manoeuvre to propose a reform. However, the mobilisation potential of trade unions reduced the actors' ability to push through unpopular reforms. It was therefore the fact that policymakers were able to divide the unions that ensured that, on balance, the reform ended up being feasible. Looking at the right-hand side, the previous reforms led to the existing pension system, which required (a) to be put on a sustainable footing to face the challenges of the future and (b) in 2003 to be complemented by re-establishing fairness between private and public sector employees. This shaped what the reform would look like.

These findings suggest that the two theoretical models described find some validity in the French case study. At the same time, however, other circumstances of the French reform path breach this two-column model. Thus, existing retrenchment from previous reforms also conditioned the ability of French governments to continue down a retrenchment path: the population had already been faced with the reality of cut-backs. We therefore have a factor from the 'system-centred' column influencing the *ability* to reform, and not just the *content* of the reform (an arrow from the right-hand column to the left-hand column). A similar argument can be made about the 1993 reform which had created an unequal situation between the public and the private sectors and thus prepared the ground for the 'equalising' reform of 2003.

In addition, actors themselves shaped the content of the reform (indicated by an arrow from the left-hand column to the right-hand column). They adapted to their political opportunity structure (fiercely opposed to

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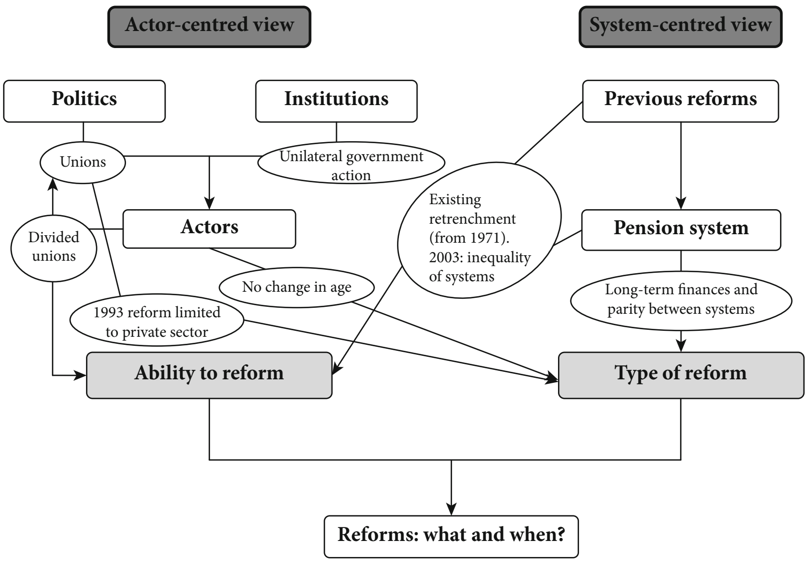

FIGURE 8.2 *Pension reforms in 1993 and 2003, France*

a rise in the pensionable age itself) and therefore designed reforms that did not attack the right to retire at 60, but instead targeted the number of contribution years required. Similarly, the 1993 reform was constructed by actors in such a way as to target only the – less mobilised – private sector employees. The political opportunity structure shaped the content of the reform.

The French case therefore partly calls into question the framework set up in Section 8.1: some factors fit into this framework; others, however, do not. Similar findings emerge for the other countries.

In Germany (Figure 8.3), the grand coalition, the findings of the Rürup Commission and the ability of the political actors to construct a broad majority clearly contributed to the ability to reform, thereby confirming that actors do determine the reform potential (left-hand column). On the system-centred side, the content of previous reform paths and the need to put the pension system on a sustainable footing naturally led the next reform to tackle the age of entitlement. However, we can also see that in 2007 the boundary between the two theoretical columns was crossed: the long-term financing need *obliged* actors to find a broad majority, while the fact that pension reforms had been building up an expectation of retrenchment since 1992 positively influenced the *ability* to reform.

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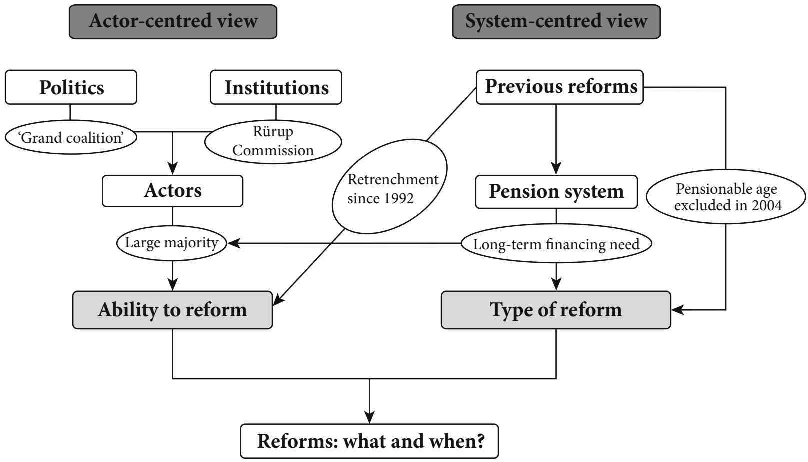

FIGURE 8.3 *Pension reform in 2007, Germany*

In the UK (Figure 8.4), the existing institutional structure, along with independent results from the Turner Commission, clearly influenced the ability to reform (left-hand column), while the existing pension system, building on the previous reforms, had created the need to find a solution to pensioner poverty whilst remaining affordable: this led to the type of reform that was eventually proposed (staying in the right-hand column). However, actors could have chosen between different policy options (e.g. contribution rates could have been increased instead) but they elected to adhere to the proposals that had been made by the Turner Report. This creates an arrow from the left-hand side to the right-hand side. In the other direction, the pension system itself – its design and purpose – was not contested by the report or the proposed reform and therefore its maintenance and the achievement of its main aim (poverty prevention) enabled a consensus between actors to be formed. Finally, the type of reform (a package appealing to both parties) helped to make the reform 'achievable' (again, a link from right to left).

Turning now to our fourth case study, the USA (Figure 8.5): given the heavily party-divided institutional framework, it was actors' willingness to compromise that clearly contributed towards the ability to reform (left-hand column). The pension system and the crisis it was facing, including the lack of previous reforms, had the effect that the reform options were narrow (right-hand column). However, here again we can find factors from one side impacting on the other: the urgency of

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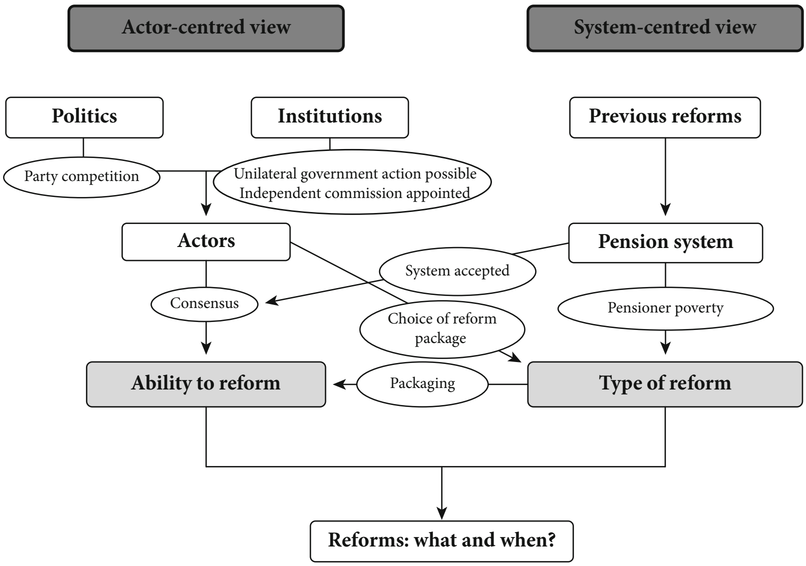

FIGURE 8.4 *Pension reform in 2007, UK*

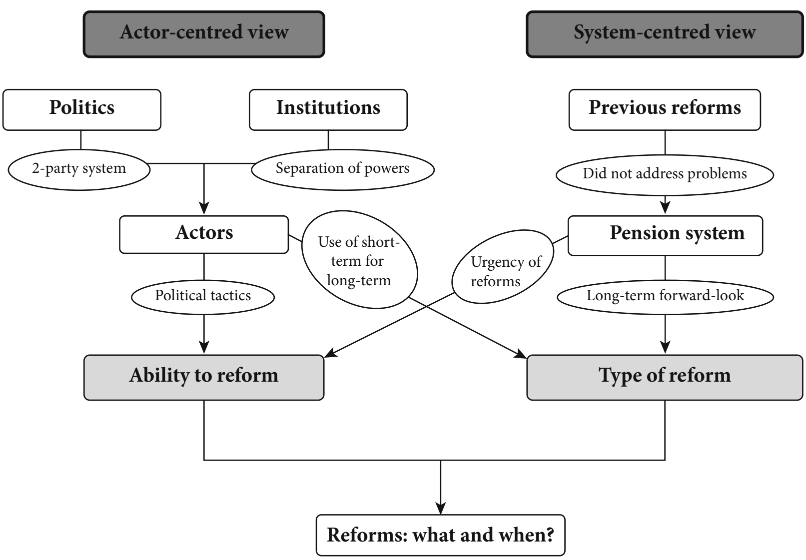

FIGURE 8.5 *Social Security reform in 1983, USA*

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reforms contributed to the willingness of actors to find compromises and, in the other direction, by the use of the short-term emergency to promote long-term reforms actors themselves influenced the type of reform undertaken without having been constrained to do so.

In all four countries, therefore, we have arrows crossing from one column to another. Consequently, in the case of pensionable age reforms we can conclude that traditional actor-centred and system-centred theories do not provide us with the full picture, even if they are considered together (rather than on a mutually exclusive basis). We have seen that factors belonging to one side of the argument can influence the other side. And it is precisely this interaction that allows us to explain the trends in pensionable age reform that we are witnessing.

Some readers might wonder whether this would fit with theories on actor-centred institutionalism developed by Scharpf (2000) and Mayntz (2004). Existing institutions clearly have an impact on actors and the way they behave. However, whilst institutions are important for politics, they do not cause outcomes on their own: actors are necessary to achieve this and these actors interact with each other in a game-theoretical world. This is the approach advocated by Scharpf and Mayntz in what they call 'actor-centred institutionalism'. But the present approach differs slightly from theirs. First, the figure would look slightly different if they had drawn it up. We would expect a linear (and eventually circular) flow of argument: institutions determine *both* the content of the reform and impact on the actor preferences and rules for interaction. Actors then act within these constraints. The result is the reform, which potentially changes the existing institutions and their impact.

The approach presented here separates two aspects: the ability to reform and the content of reform. It recognises, just as Scharpf and Mayntz do, that institutions, systems and previous reforms restrict the choice of options. However, it goes a step further and claims that the required general content of the reform is predetermined (rather than providing a range of very different options). And indeed, rationally speaking, there will be an optimum balance in the pension system between time spent at work and time spent in retirement. As such, the system will have a clear idea about the rational choice for the pensionable age.

In all four case studies we witnessed the rational choice change (increasing the age of entitlement). The question is how the actor was able to achieve such an unpopular reform. The analytical framework relates not to actors expressing preferences on content: it is about the

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ability of the actors to legislate *the* reform. One could argue that we are considering a specific sub-set of actor-centred institutionalism: one where the reform options equalled 1. This is why it is useful to separate the actor-centred linear development and the system-centred linear development.

But are the results consistent with actor-centred institutionalism? To an extent they are not contradictory: actor-centred institutionalism also recognises the power of actors to determine the path (within limits). However, the approach would miss out on the way the system can bypass or coerce actors. Urgency of reforms and recognised retrenchment are not merely constraining or shaping aspects; they can themselves directly lead to outcomes by restricting or enabling the choice of action to only one possibility.

Considering all four diagrams, we find two conclusions: (1) the constant interplay between institutions and actors (consistent with actor-centred institutionalism) and (2) direct impact of one column on the other, without a transforming mechanism (potentially in contrast to actor-centred institutionalism, which claims that institutions are a remote cause). That said, the framework of actor-centred institutionalism fits well with the conclusion we now come to, which suspends the two logics of actor-centred and system-centred views and focuses on interactions of constraints and action.

8.3 Viewing the complete picture

In the Introduction it was observed that, while demographic trends are cited generally as the driving force behind pension reform, the extent and composition of the specific reforms adopted vary considerably. We also noted that, while the actor-centred approach cannot fully explain the convergence whereby reforms of the pensionable age have happened in a significant number of countries, the system-centred approach cannot properly account for the divergence in the content of those reforms – still less the fact that in some countries they have not materialised at all.

When we uncovered the policy processes operating in the four different countries, this revealed a number of conditions that shaped both the outcome of the reform process and the ability to reform in the first place. This chapter has now confirmed that real life must allow for significant

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interaction between these two categories of explanation. But reality is also more complex in another respect: as well as interaction *between* them, we must take account of diverse, if interdependent, factors *within* each category and of others which cannot be assigned unambiguously to the system-centred or the actor-centred logic alone.

Suspending these two logics, therefore, one can conclude that decision-makers are in fact faced with a whole range of interacting and competing constraints, which could be summed up as follows:

1. *External constraints affecting the pension system directly* – demographic developments, negative side effects of the existing system (e.g. pensioner poverty), the economic and budgetary situation. These constraints, one of which is generally the mainspring of the reform project, may not all be pushing in the same direction and some accommodation between them will be needed in the policy that emerges.
2. *Constraints inherent in the pension system* – These may go under the heading of path dependence: a significant departure from the existing system, with all its links to the social and political order and all its vested interests, would require a much greater mobilisation of political resources than smaller changes to the existing system.
3. *Constraints pertaining to the national culture and mentality* – These concern in particular entrenched popular attitudes and expectations (individualism, corporatism, equality, etc.). They may be seen as elements conditioning the character of the existing pension system and thus contributing to path dependence, but they also establish parameters for political actions.
4. *Political structures through which decisions must be steered* – character of the institutions, degree of representativeness, existence of checks and balances, direct or indirect democracy, veto points, structuring of interest representation.
5. *Possibilities of mass mobilisation of social interests* (especially by the trade unions).

The interdependence between these different kinds of constraints gives rise to widely varying situations in different countries. But they are not the only variables, and in particular they are not to be envisaged as competing with one another in some impersonal way. For that would be to leave out of account the political actors themselves, their talent and

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their creativeness, but also the fact that they may have political, even ideological, preferences of their own.

Thus we may accept that the political system and institutions shape the potential for securing adoption of the reform. But we have seen that while institutions may (or may not) favour reforms, they do not determine the reform path: what counts is the ability of actors to cope with the institutional constraints. It is they who decide, by common accord or by fighting it out, what the extent and the coverage of the reform will be, the timing of its implementation, what will be traded in return, and who will be losers and gainers.

Thus, several of the factors noted earlier as influencing the success of pension reforms concern the strategies which the actors employ, while others take the form of opportunities which the actors exploit. The boundary between the latter and the constraints affecting the pension system itself (i.e. those in the right-hand column) is not always clear. For example, economic constraints on the pension system may demand a reaction, but it may be possible to address them in quite different ways (including changes elsewhere in the political system), and sometimes they can be seen as opportunities to be exploited for other purposes. A crisis may make it unavoidable to take some form of action, but it may also provide an opportunity for the political actors to push through difficult decisions. Moreover, actors not only condition the potential success, but they also 'can affect outcomes by defining pension policy problems to suit their preferred solutions' (Ney, 2003: 84).

Similarly, the contributory factors for the success of a reform may be pre-existing or they may be something the political actors bring about. Thus there may already be a basic political consensus between the parties as to the direction that reform should take (UK); or consensus may need to be sought deliberately in the context of forming a coalition (Germany) or in tough inter-party negotiations (USA). Likewise, trade unions may already have only limited impact on policymaking; or it may be necessary for the political actors to find strategies to curtail their influence (France). The interaction between the decision-makers and their operative environment is rich in possibilities.

In these various ways, the four country case study examples have helped us to uncover the diversity of (often underestimated) factors that contributed to the reform of the age of pension entitlement, and thus to appreciate the reality of that reform in all its complexity.

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Conclusion

Abstract: *The three levels of analysis are considered: public debate, struggles between political actors, and temporal preferences. Negative public debate was generally counteracted and political consensus was achieved or the impact of mass movements was reduced. The impact of existing retrenchment measures on pension policy is underlined – further measures are no longer surprising. It is also argued that the case studies showed how packaging, compromises, coalitions and cross-party consultations were all relevant. Temporal preferences are explained in terms of a recognised objective need to reform, a desire to reduce the cost for the main part of the electorate, and a certain degree of credit-seeking. The text ends on a discussion about taking politics out of the pensionable age through automatic links to evolving life expectancy.*

Keywords: automatic; condition; pension age reform; success;

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This study set out to answer the question how certain countries were able to raise their state pension age. The aim was to establish whether we can identify cross-country patterns and trends in both the formation and the content of pensionable age reforms. A large number of countries are taking measures to encourage longer working lives. Putting pension systems back on a sustainable path is necessary: 'In 1950, there were more than seven people of working age for every one of pension age. By 2047, there will be just two workers per pensioner' (OECD, 2011: 40).

Although a number of other instruments are available to policymakers, some choose to reform the most transparent aspect of pension policy: the age of entitlement for state pensions. Acknowledging the current norm of 65, we examined three countries, with different pension systems, which had decided to break with this norm and increase the pensionable age. We also considered the path taken by a country that focused its attention, until recently, on enhancing the incentives to stay in work longer by means of increases in the number of contribution years required, but not touching the eligibility age. And Chapter 6 underlined the need to consider state pension age reforms in the wider context of the entire pension system: for instance, the impact of such reforms might differ, whilst the state pension age can also act as a signalling factor.

C.1 Playing out retrenchment politics

In the Introduction we saw that retrenchment politics could play a role in determining how such reforms were possible and the type of reforms that were introduced. Different levels of the impact of retrenchment politics were identified: the link between the outcome and public debate, struggles between political actors, and temporal preferences.

The case studies show that negative public debate was generally counteracted, or even ignored. Political consensus was achieved, thereby neutralising any public backlash, or the impact of mass movements was reduced. Unilateral action was successfully taken in France in 2010 (though similar action was unsuccessful in 1995). Arguably, this contributed to the later electoral defeat of the president. However, his successor, although he had campaigned strongly on the pension question, did not fully reverse the adopted reform.

Furthermore, public opinion is not as easy to define as traditional retrenchment theory would have it. Whilst increasing the pensionable

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age is a strong and controversial message to the population, it is not a surprising measure, nor one that represents a paradigm shift. One of the main findings of this study is the role of existing retrenchment measures on pension policy. Even in the USA, where the reform was undertaken at the same time as first measures of retrenchment in pension policy, the retrenchment arguments had been in play for quite a while and reform appeared inevitable.

With regard to the second level, the struggles between political actors: the case studies have shown that packaging, compromises, coalitions and cross-party consultations were all relevant to a certain extent. In one country, a cross-party consensus already existed, in another a coalition government compelled compromises and in yet another compromises on the reform measures secured a cross-party agreement. Budgetary constraints played an important role in three of our case studies: most prominently in the USA, but also to a certain extent in Germany and France. Political struggles therefore faced an external constraint: something had to be done. The ever-increasing pensioner poverty problem in the UK also represented an external constraint that obliged political players from both sides to act.

Temporal preferences remain difficult to explain: Why do political actors accept short-term losses for themselves in return for long-term gains for society? The answers are likely to be found in the recognised objective need to reform, coupled with the desire to do so at the least possible cost for the main part of the electorate (middle- and old-aged voters). This leads to 'grandfathering' of reforms, as witnessed in the UK and the USA and, to a lesser extent, in Germany. At the same time, there is a certain amount of credit-claiming: if the rationale for the reform is making provisions for the long term and at the same time it also avoids impacts on current voters, the reform can be framed in a credit-seeking way, presenting the politicians in power as responsible and objective, able to forge a political consensus. It could therefore be a positive and desirable goal to pursue for policymakers: France in 2010 and also Germany's grand coalition could be examples of this.

When considering retrenchment mechanisms and the potential for actors to undertake difficult reforms, it is also necessary to consider whether some groups in fact benefited from the reform. Was retrenchment perhaps not universal? Arguably, the intergenerational contract had to be saved: younger workers would 'suffer' through working longer, but would see their pensions sustained at an acceptable level. Older workers would not see their expectations dashed at a time when they could not do much to change their future retirement income. However, this logic was very difficult to convey to the population and, whilst it was important, the case studies did not reveal it as crucial.

C.2 How can and should pensionable age reforms be undertaken?

This study has shown that nothing happens in a vacuum: where retrenchment measures are widely recognised as a necessary evil and where previous reforms have already paved the way for further retrenchment, negative public opinion can be overcome. Unpopular reforms need to be justified in an objective way – independent commissions are therefore important. Political elites themselves were able to find compromises and consensus, notably through packaging of various reforms and weakening of opposing stakeholders, such as trade unions. Alongside this, grandfathering the impact of the reform helped to mollify the electorate.

The Introduction pointed out two hypothetical approaches that were then further developed in Chapter 8: certain constraints give rise to the necessity to act and political mechanisms create the potential to act. Although some stories focusing on single factors appear intuitive at first sight, the reality was sometimes different and certainly more complex. Much more was at stake in each country than was originally suggested. At the same time, we observed remarkable similarity in the types of reforms being undertaken, with even France starting to reform the pensionable age.

The distinction between factors that facilitate the adoption and factors that determine the content of the outcome turned out to be an oversimplification: previous reforms also conditioned the feasibility of pensionable age reforms and actors themselves chose the content of the reform to fit their constraints.

C.3 Where to from here?

With international organisations, such as the OECD and the European Commission, pushing to put pensions on a sustainable footing without endangering the adequacy of the pensions being paid out, a rethinking

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of the entitlement age is clearly on the agenda. Such reforms are possible, although a number of conditions need to be in place. Both the content and the feasibility of the reform are dependent on institutions, actors, previous reforms and the characteristics of the system itself. Tools are at hand to facilitate the reform and opportunity structures are there to be exploited.

That said, the variety of tools and contributing factors clearly indicate that country-specific analysis will always be necessary. It is possible to identify patterns and trends, but without the specific national context, not much can be said, nor predicted.

In fact, pension policy is political and as such to an extent unpredictable. Pensions are, alongside education and health, one of the biggest concerns of our society. Predictability of what will happen in old age is of paramount importance to most of our society. Consequently, it can be considered worrying that pension policy is potentially unpredictable and dependent on circumstances, past reforms and individuals.

One of the boldest reforms, yet arguably also the easiest, in pensions would be to create automatisms with developments in the economy or in society. Pension schemes and systems could automatically adjust to changing circumstances, being prepared for potential future budgetary problems or increased longevity and adjusting in a number of ways if unpredicted developments take place, rather than relying on political actors taking the relevant decisions. Perhaps not surprisingly, some automatic mechanisms (such as in Germany pensions indexation) have not been systematically allowed to function (Hinrichs, 2011: 111–112), with politicians fearing negative effects of the mechanism and electoral repercussions. However, the design of the mechanism is crucial in that respect: What is the expected lead-in time? Are the adjustments expected to be highly visible? Are they linked to cyclical factors or to structural factors? Furthermore, the 'degree of automaticity' may also matter. Certainly, politicians 'may be sorely tempted to renege and claim credit for preventing those unpopular benefit cuts or tax increases when the time actually arrives' (Bosworth and Weaver, 2011: 7). However, 'automatic' changes to the pensionable age in line with changes in life expectancy, targeted to young workers on the basis of stable predictions, and adopted if possible through a strong mechanism requiring a substantial majority to overturn it, are likely to reduce the risk of non-implementation. Taking politics out of pensions may be impossible, yet it is perhaps highly desirable.

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Finally, we can ask ourselves the heretical question, why do we still have state pension ages: What is their use? There is often no normal retirement age in defined contribution schemes, as the systems are actuarially neutral – why can an actuarially neutral calculation with respect to the retirement age not also apply to state pensions? The answer lies no doubt at least partly in the fact that individuals are often not good enough judges of their own life expectancy. The key actors and reactors are thus still clearly the state and the individual, as the state tries to influence individuals' behaviour, with private provision in a supporting role. With or without automatic adjustments, pensions in general, and the pension age in particular, are too big an issue to be relinquished by the state.

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