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Recent pension reforms in Europe: More challenges, new directions. An overview

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Abstract

During the last 30 years, all European Union member states have reformed their pension systems. In view of ongoing and intensifying population aging, efforts have aimed at containing the future rise of the contribution rate, improving the system dependency ratio, lowering the benefit ratio and/or infusing tax money or other financial resources into the system. Moreover, since about the early 2000s, we can observe a move towards a multi-pillar pension system in countries hitherto running a dominant-pillar system: private pre-funded occupational pensions and individual provision for old age are given larger roles within the public–private mix of retirement income. An analysis of reforms shows a finite menu of adjustment options, and concrete measures have to be adapted to nation-specific institutional contexts. Finally, we can conclude that pension reforms focusing on long-term financial sustainability may increase the risk of old-age poverty and, thus, violate a central objective of pension schemes.

KEYWORDS
EU countries, inequality in old age, pension reform, retirement age

1 | INTRODUCTION

Ongoing and intensifying population aging—measured either by a rising median age or an enlarged share of elderly people ("dependency ratio")—represents the most serious and an enduring challenge for developed and developing welfare states. Presently, Italy and Germany are the "oldest" countries in Europe with the highest share of elderly people. By the middle of this century when the aging process reaches its climax, Greece, Spain and Portugal will rank first. Nowhere, boosted immigration is a feasible option for maintaining a stable population size or an invariant age structure that would markedly ease the pressure for reforming welfare state institutions, whereas net emigration (like, eg, in Latvia, Croatia or Romania) aggravates the challenge. The fiscal impact of population aging is not confined to the pension system, almost everywhere the largest item of welfare state expenditure. It competes for public funding with other elderly heavy policy areas, like long-term and health care where senior people are the main recipients of the schemes' benefits as well.

The challenge of more people surviving until retirement age and, thereafter, claiming their (public) pension for an ever longer period entered the political agenda during the 1990s. In Europe, Germany was the first country that, in view of the foreseeable aging process, passed a still strictly path-dependent reform package in 1989 (Hinrichs, 2005). Other countries followed suit, also directing their reform efforts at the avoidance of a parallel development of population aging and rising public pension expenditure for the sake of the schemes' future *financial sustainability*.

A further challenge arose during and after the *Great Recession* in the wake of the financial market crisis (2007/2008): The reform process gained additional momentum particularly in countries confronted with serious sovereign debt problems and, hence, in need of financial aid from supranational organizations (Carone, Eckefeldt, Giamboni, Laine, & Pamies Sumner, 2016, pp. 7, 50; Hinrichs, 2015). Moreover, the consequences of the financial market crisis changed the environment for pre-funded, private pensions, which had been in the focus of previous reform efforts in a number of EU member states. Possibly even more massive changes of pension systems than those happened after the exogenous shock of 2008 may arise from the yet incalculable concomitants of the COVID-19 pandemic on labour markets or public finances. By the end of the year 2020, only short-term emergency measures have been concluded in a number of EU countries, like economic relief for employers (reduction or deferment of contribution payments) or securing retirees' purchasing power (Natali, 2020; OECD, 2020, pp. 18–23).

A third, gradually intensifying challenge results from the coincidence of pension systems in motion and substantially changing labour markets (Hinrichs & Jessoula, 2012): In the past, continuous full-time employment usually assured the central objectives of pension systems, namely providing *socially adequate benefits*, sufficient to prevent old-age poverty, *and* to ensure *true wage replacement* during retirement. Today, more frequent non-standard employment patterns meet reformed (mostly: less generous) pension systems and jeopardize the achievement of both the systems' objectives (OECD, 2019a, chaps. 2 and 3; European Commission & Social Protection Committee, 2018, pp. 61–8). Very often, this tension made (public) pension reform a contentious issue in the political arena.

Over the last 30 years, the multitude of pension reforms and their outcomes has been extensively researched. Among others, in single-country or comparative studies reform processes have been analysed—how the supposedly most immovable element of welfare states was actually changed. The foci either were on political parties, labour unions, the role of commissions and supranational organizations, or governments' blame avoidance strategies when the imposition of losses was at stake (see for example, Arza & Kohli, 2008; Bonoli & Palier, 2007; Hinrichs, 2000; Myles & Pierson, 2001; Weaver, 1998). Other research highlighted the importance of pension system typologies (on the Bismarck/Beveridge divide[1] see Bonoli, 2003; Myles & Pierson, 2001; Hinrichs, 2011; Weaver, 2010) or looked into the changing interplay of public and private pension arrangements (Clark & Whiteside, 2003; Ebbinghaus, 2011; Rein & Schmähl, 2004). More policy-oriented studies analysed single reform measures and their impact, like changing early exit policies on transitions into retirement or credits for informal care work and their importance for closing the gender pension gap (see for example, Bennett & Möhring, 2015; Buchholz, Rinklake, & Blossfeld, 2013; Hofäcker, Naumann, & Hess, 2015; Kuitto & Helmdag, 2021, this special issue; Möhring, 2021, this special issue; OECD, 2015, chap. 3).

In this paper, I scrutinize pension reform activities in *EU countries* during the last 30 years. All countries have been confronted with similar although not equally sized challenges. Hence, have we seen "more of the same" changes over time? Were different policy levers pulled during this period? Has the focus switched in view of new or newly perceived challenges? Or have reform measures even "gone too far" and, thus, been reversed towards more lenient access to benefits and generous pension levels? From the variety of reform measures, the aim of this survey is to ascertain common directions of policy changes related to the challenges pension systems in EU member states are facing.

The paper is structured as follows: the next section systematizes the levers that could be operated in a public pension scheme for containing the fiscal impact of population aging or limiting expenditure for other reasons. Subsequently, I will delineate which measures were/are actually taken in European countries, regularly amounting to a series of smaller or more comprehensive pension reforms. In particular, four aspects will be looked at the *access* to (public) pensions, the *level* of retirement income, the *structure* of pension systems and the *distribution* of retirement income. Finally, I will discuss trends and commonalities.

The compiled information on the contents of reform measures actually taken is mainly obtained from the *International Updates* of the US Social Security Administration,[2] documents from the European Commission (like the *Ageing Reports* or the *Pension Adequacy Reports*; for a recent synopsis see Carone et al., 2016) and the OECD publications *Pensions at a Glance* and *Pensions Outlook*, both published every 2 years. For recent comparative studies, see Natali (2017), Grech (2017) and Hinrichs (2015).

2 | PENSION REFORMS: WHAT COULD BE DONE?

Adjustments of pension systems to the challenges of population aging, labour market or family changes may be divided into *parametric* and *structural* reforms. The latter are systemic changes that move established systems "off path," while the former constitute incremental adjustments to the system's parameters. Usually run as pay-as-you-go (PAYG) schemes—incoming contribution (and/or tax) revenues from the currently economically active generation are immediately spent on pensions for today's elderly generation—*parametric reforms* are related to the terms of the following equation:

$$c = (B/C) \times (P/W) \times (1 - S)$$

The contribution rate (c) that ensures the payment of all pensions in a given year is the result of a multiplication of three factors, namely the quantitative relationship of beneficiaries (B) and gainfully employed persons liable to contributions (C) (which is the *system dependency ratio*), the average pension (P) in relation to the average wage (W) (which is the *benefit ratio*) and state grants (S) to the pension scheme out of current tax revenues. S can also be withdrawals *from* a reserve fund that is gradually melting down or, in an immature scheme, allocations *to* the reserve fund.[3]

At the same time, the terms on the right side of the equation constitute the "adjusting screws" for parametric reforms that aim at stabilizing the contribution rate or containing its further rise. That was the prime objective of policy changes since the 1990s for not to overburden employers with non-wage labour costs and the younger generation for equity reasons. Three general adjustment options are available: the pensioner–worker ratio (B/C) may be varied by shifting the normal retirement age or increasing the number of economically active persons liable to contribution payments. The variation of the pension level (P/W) is another approach and, finally, it is possible to increase the tax-funded share (S) of the scheme's expenditure.

Pension reforms in Europe (and elsewhere) since the 1990s were meant to put the brakes on a quasi-natural increase of public pension expenditure resulting from population aging. In order to prevent a proportional rise of the contribution rate (or of total expenditure in tax-funded basic pension schemes) certain targets are politically defined

and to be achieved by changing levels or instruments. Usually, their actual attainment is reviewed at regular intervals, possibly triggering a readjustment or intensification of reform measures. Those future targets could be a certain share of GDP public pension expenditure must not exceed, a maximum contribution rate for pre-defined years, assets in a PPRF that are not allowed to go below a certain limit, but also a minimum benefit level that has to be observed. The concrete reform measures available to influence the system dependency ratio or the benefit ratio are manifold, but their actual availability depends on the institutionalized arrangement of the pension scheme, and the respective changes produce a different impact for younger and older workers, new pensioners and the already retired persons, high- and low-wage workers, and so forth.

Income security in old age has almost never and nowhere solely been a matter of state provision, but rather, pension systems are characterized by a public-private mix that, with varying weight and coverage of the different components, combines public (state) pensions, employer-sponsored occupational schemes and personal provision into a multi-pillar arrangement. Such an edifice opens up the possibility for *structural reforms*: setting new goals for different components and perhaps inventing new components that compensate for the deliberately lowered income security provided by the PAYG-funded public pension scheme.

3 | PENSION REFORMS IN EUROPE: WHAT IS BEING DONE?

3.1 | Lowering the benefit ratio

There are two basic levers available for improving pension schemes' long-term financial sustainability by a lowered *level* of security: measures aiming at a lower *overall* benefit ratio may affect (a) pensions in payment or (b) the calculation of newly awarded benefits.

a. When several European countries had to turn to financial aid from supranational organizations (such as IMF or EU) after 2008, so called *memoranda of understanding* demanded drastic pension reforms, sometimes including a nominal cut of benefits. Among others, in Greece, Latvia, Portugal and Romania corresponding legislation was ruled unconstitutional either completely or in parts (Hinrichs, 2015: p. 22; European Commission & Social Protection Committee, 2015: pp. 175–8). A more subtle approach was to suspend indexation of (all or only higher) pensions in payment for one or more years. Ireland, Greece, Hungary, Italy, Portugal, Romania or Latvia did so. Changing the indexing formulae may as well imply quite substantial long-term savings of pension expenditure due to the lower "basis effect": a (partial) exclusion of retirees from rising standards of living of the working-age population is attained when pensions are adjusted according to the consumer price index instead of wage growth, the portion of inflation in a mixed indexing formula is increased, or a sustainability factor is taken into account and lowers the annual adjustment (as in Germany, Portugal or Spain). Most European governments have turned to this reform instrument of "creeping retrenchment" since the early 1990s. It is less visible for the public and, thus, well suitable for governments not being blamed and subsequently penalized in elections (Jensen, Arndt, Lee, & Wenzelburger, 2018).[4]
b. Lower newly awarded earnings-related pensions come about by changed methods of *valorization*: Very often, past earnings that enter the benefit formula and determine pension entitlements are no longer uprated in line with average wage growth, but according to the inflation rate (e.g., France) or a combined index (e.g., Croatia or Belgium). Furthermore, initial pension is lowered when in defined-benefit schemes the accrual rate, which defines the proportion of earnings replaced for one year of insurance is reduced, as in Austria, Greece or Slovakia. Additionally or alternatively, demographic parameters—further life expectancy at retirement age (e.g., in all Nordic countries and Austria) or the system dependency ratio (Germany, Spain and Portugal)—became incorporated in the formula by which the benefit level is determined at the time of retirement. When more years in covered employment are required for attaining for full entitlement, in general, initial pensions will be lower. In many

European countries benefit formulae were changed in such a way that earnings liable to contributions over (almost) the entire employment career are taken into account, whereas previously fewer years in covered employment sufficed to attain a "full" (or: target) pension, and the benefit level was determined by earnings achieved during a number of "best years" or "last years" prior to retirement (Austria, France, Romania, Portugal, Finland, and so forth).

Calculating pensions in accordance with the lifetime average principle neutralizes the effect of different career earnings profiles, but diminishes internal redistribution and implies lower public pensions, especially for workers who cannot produce a long uninterrupted full-time career. The tightest (and most transparent) link between lifetime contributions and benefits was established in so called *notional defined contribution* (NDC) schemes which mimic fully funded plans (with the growth rate of covered wages defining the "interest rate") but actually operate on a PAYG basis. Italy, Sweden, Latvia, Poland and Norway have shifted their public employment-related schemes to this almost actuarial method of benefit calculation, eliminating all internal redistribution (Palmer, 2006).

3.2 | Prolonging working lives

The pure demographic ratio is not the most important parameter for the (future) financing of pensions. Rather, it is the quotient of inactive elderly receiving a pension and the number of contributors to the social security scheme (OECD, 2019b; Wöss & Türk, 2011). Employment policies in the broad sense could improve the system dependency ratio by mobilizing more women for paid work, launching programs to fight youth unemployment, recruiting more immigrant workers or, make older employees work up to a higher age. Likewise, it is possible to enlarge the denominator by making *all* gainfully employed persons liable to contribution payments (and, as a consequence, eligible for pension benefits later on).

One strand of pension reform policy in Europe during the last three decades has focused on the numerator, that is, restricting older workers' *access* to retirement benefits (Ebbinghaus & Hofäcker, 2013). At first, it was guided by the objective making the present normal retirement age again the true exit age for all elderly workers. Predominantly, it meant closing pathways into premature retirement that were opened up after the end of the *Golden Age* by the mid-1970s when in a number of countries the belief prevailed the labour market chances of younger workers would improve if older (and worn-out) workers exited into financially well positioned retirement. Terminating special pre-retirement schemes, lifting the earliest eligibility age, ending old-age pension access after long-term unemployment or no longer granting disability benefits also for labor market reasons have indeed reversed the early exit trend that dominated in Continental Europe (particularly in Germany, Austria, but also in Finland). Moreover, most European countries have introduced or extended individual options for flexible retirement. Claiming a public pension before reaching normal retirement age regularly implies permanent (and more or less actuarial) benefit deductions, while working beyond the standard age is rewarded with a corresponding bonus. The steep increase of men aged 60 to 64 still participating in the labour market in a number of countries after 2000 should largely be the result of legislated (dis-)incentives and bans as well as from improved employment opportunities for elderly workers. However, in almost all European countries, the average age of exit from the labour market is still below the presently valid normal retirement age (Carone et al., 2016, pp. 9–10; Komp, 2018; OECD, 2017a, pp. 21–4; OECD, 2019b).

Up to now, legislation lifting *normal* retirement age as such has not yet significantly affected the system dependency ratio as this reform component is of more recent date and regularly goes along with a long phasing-in period, providing workers concerned more latitude for adaptation. Increasing normal pensionable age is obviously the "quasi-natural" response to rising life expectancy and, hence, prolonged pension receipt. It counters the implicit expansion of public pension schemes, but has to be accompanied by an adjustment of the age of mandatory retirement (or its complete abolition, as in Denmark or Norway—see Larsen & Pedersen, 2017, pp. 19–21). Discretionary definitions of a normal pensionable age in pre-defined steps rising to 67 or even 68 years have been, among others,

concluded in Germany, Ireland, the Netherlands, the United Kingdom or Spain, while in a number of CEE countries, age 65 has been fixed as a (next) target. Moreover, where women and/or public employees previously enjoyed a lower eligibility age (as it was true for example, in Italy, the United Kingdom, Austria or Greece), it will be aligned to the one of men and/or private sector workers.[5]

In most countries, this issue was quite contentious as a rising eligibility age for a public pension is a most tangible retrenchment and much disliked.[6] Disapproval of seemingly spending less time in retirement is probably strong because a higher eligibility age would take away a vested right and also mean a disadvantage compared to earlier generations of pensioners. Even if working longer does not imply less time spent in retirement, the years "gained" through declining mortality cannot be individually experienced beforehand. Therefore, people assume that they are on the safe side if they do not retire later than their older siblings, colleagues or neighbours (Hinrichs & Aleksandrowicz, 2008, pp. 594–5). Some governments have responded to the widespread discontent by instituting new outlets for early retirement (Germany, Italy), deferring scheduled increases (Greece, Ireland), or completely (Poland, Croatia) reversing earlier legislation.[7] More "elegant" and less tangible, thus meeting less resistance, is to establish an automatic link between normal retirement age and further gains in life expectancy. This happened in Italy, the Netherlands, Denmark, Slovakia, Portugal, Greece, Norway, Estonia and Finland (European Commission & Social Protection Committee, 2015, pp. 189–92; European Commission & Social Protection Committee, 2018, pp. 101–3).

Whether discretionary or via an automatic link, a uniform increase of normal pensionable age raises at least two equity problems: (a) Many people performing heavy labour or working in hazardous jobs cannot persevere up to the presently valid eligibility age, let alone until a higher age. More workers may be squeezed out and become (long-term) unemployed, be granted a disability pension or have to draw a permanently reduced old-age pension. In any case, their income security will be impaired and possibly endangered because, very often, those arduous jobs are not well paid (Hinrichs, 2013). Therefore, several countries (e.g., Austria, Germany, Poland, Sweden or Finland) have established a lower eligibility age (without penalty) for workers with a long employment career or for certain occupations (Natali, Spasova, & Vanhercke, 2016). The latter variant, however, often provokes "me-too demands" from workers excluded from such "privilege."

(b) It is undeniable that, *on average*, today's retirees receive their pension for more years than 50 or 60 years ago. However, the more recent gains in life expectancy have mainly accrued with the well-educated, high-income people. An increased normal retirement age therefore affects the low-skilled, low-income workers more negatively than their counterparts at the other end of the social stratum when they receive a lower pension for a shorter period (Mackenbach, Kulhanova, Menvielle, et al., 2015; Mosquera, González-Rábago, Martín, & Bacigalupe, 2019; OECD, 2017b, chap. 4).

3.3 | Building multi-pillar pension systems

While the "old" multi-pillar countries (e.g., Denmark, the Netherlands) have pursued reforms within the given structures of their pension system, the countries with a Bismarckian-type pension system have all put into effect a *structural shift*. International organizations—the International Monetary Fund, the OECD and notably the World Bank—have pressed for such changes. The World Bank's (1994) seminal publication founded the "new pension orthodoxy," and the Bank became a most influential player in pension reform worldwide (Béland & Orenstein, 2013). In particular, it pushed for a new (or extended) mandatory, employment-related, and pre-funded component within the pension system that was supposed to be less vulnerable to population aging than PAYG schemes and to provide for a better distribution of risks inherent in both PAYG and pre-funded schemes. The strengthened role of pre-funding was also meant to increase national savings as a vehicle for enhanced economic growth in emerging welfare states (Holzmann & Hinz, 2005, pp. 42–4, 80–3), and the World Bank became directly involved in the reform process in some Latin American and CEE transition countries which set up mandatory funded second-pillar schemes (Orenstein, 2008).[8]

Although the World Bank's advice was less directed towards developed welfare states with mature PAYG schemes it, nevertheless, contributed to weakening the prevailing pension policy paradigm in Bismarckian countries. Until about the 1990s, this paradigm had rested on cognitive and normative beliefs in the superiority of the social insurance approach *vis-à-vis* multi-pillar arrangements. It was widely shared among political and social actors. The apparent exhaustion of this single-pillar approach in light of long-term financial problems, however, has allowed the competing multi-pillar concept to gain ground in these countries. Real path departure took place when private funded pillars were introduced or substantially expanded in order to compensate for public schemes' lower replacement ratios caused by the parametric reforms mentioned above. Participation in those supplementary schemes became either *mandatory* (Sweden and numerous CEE countries – Wang, Williamson, & Cansoy, 2016) or remained *voluntary* but was stimulated by tax advantages or subsidies, like in Belgium or France. In Germany, the structural reforms concluded in 2001 and 2004 made private provision an integral part of the retirement income package at a level as before (Hinrichs, 2005).

One general trend of pension reforms in all developed welfare states has been a shift from defined-benefit (DB) type schemes towards a larger role of defined-contribution (DC) schemes. The *partial privatization* of pension provision and stronger reliance on pre-funded pension schemes goes along with a "risk shift" (Hacker, 2006): future pensioners will bear as individuals the risks of exposure to financial markets and increasing longevity because accumulated assets have to be "stretched" over a longer period of retirement and imply a lower annuity. The risks of private, pre-funded DC schemes became painfully clear in 2008 when financial markets (almost) collapsed. The financial market crisis and the subsequent *Great Recession* meant a serious backlash for the protagonists of pre-funded pensions. It "fed the perennial debate about the suitability of funded schemes as a mechanism for funding old-age security and (…) brought to the fore the risk that pension systems face when cash benefits of individuals are linked to the fluctuations of financial markets" (Pino & Yermo, 2010, p. 7). Despite the "perfect storm" for the protagonists of funded pensions, they were anxious that individuals and policymakers "overreact" and dismiss the idea of diversification, or concede to demands for abrupt policy change. Instead, they asked for better governance, improved regulation, portfolios that increase conservative investments with the individual proximity to retirement (life-cycle funds), and better minimum protection (World Bank, 2008; European Commission, 2010, pp. 134–9; Holzmann, 2013).

Nevertheless, the declined appeal of a shift towards funded pensions has triggered a next wave of pension reform (European Commission & Social Protection Committee, 2015, pp. 169–92). Some countries which envisioned funded schemes as a core component of a modernized pension arrangement have completely abolished this pillar (Hungary, Poland, Bulgaria), shifted to voluntary participation (e.g., Slovakia, Croatia, Estonia), or (temporarily) reduced the contribution share diverted for individual accounts (Latvia) (Wang et al., 2016). Apart from the experience of actual financial market risks, reasons for the (partial) *reversal* were twofold: Welfare markets for pensions which should partly take over the income smoothing function of the pension system have not worked as efficient as expected. The products offered were hardly transparent for large numbers of financially illiterate workers, returns on investment were lower than expected and further diminished by high administrative charges. Moreover, especially the CEE countries discovered that they could not escape the "double payment problem": Contributions for the new pre-funded second pillar were diverted from the regular contributions hitherto completely flowing into the public PAYG schemes that now ran into the red because the entitlements of the present retirees were to be satisfied as before. The shortfalls had to be balanced out of the state budget, ultimately leading to an increase of public debt.[9]

While mandatory funded individual accounts no longer rank high on the reform agenda, the multi-pillar approach as such has not been dismissed. It is only Finland that sticks to a one-pillar system, whereas all other EU member states bank on voluntary participation in private funded schemes that supplement public pensions or compensate for less generous benefits from public schemes. However, on a strict voluntary basis a high or even 100% coverage can hardly be attained and, thus, income inequality in old age would be furthered. Therefore, some countries have arranged for *auto enrollment* which is an instrument that was first applied in New Zealand and the USA and that

makes use of findings of behavioral economics: Employees are automatically enrolled in employer-sponsored pension plans and have to *explicitly* object their participation in a retirement savings plan (and then possibly forego matching contributions from the employer and the government). Auto enrolment has been introduced in the United Kingdom, Italy and Poland, and is debated in Ireland and Germany.

3.4 | Non-standard employment patterns meeting reformed pension systems

As pension reforms progressed the *distribution* of old-age retirement income came to the fore. The stricter contribution-benefit link of public pensions and the larger role of private components, which regularly operate without any social redistribution made inequality an issue in the international reform debate (see for example, OECD, 2017b). It is thus no coincidence that non-contributory ("social") pensions have been largely exempted from retrenchment efforts. Rather, in a number of European countries, these tax-financed basic security instruments were even expanded (Goedeme & Marchal, 2016; European Commission, 2018, pp. 103–7).[10] Due to their employment careers interrupted more often, women are disproportionately affected by the reforms mentioned above. Their heightened poverty risk in old age is meant to be mitigated by the incorporation of *unpaid family work* into the benefit calculation, so that raising children and/or taking care of frail relatives now results in (higher) pension entitlements. The applied procedures and the produced benefit increases vary widely (Möhring, 2014, 2015; Blank & Blum, 2017; OECD, 2015, pp. 106–8).

The costs of these improvements are mostly covered by tax revenues, as are further redistributive features when "contributions" are actually transferred to the public pension scheme which increase individual entitlements that have not been earned through contributions out of own earnings, for example, for periods of schooling/studying, military service, unemployment or sickness (Germany, Sweden). Myles and Pierson (2001, pp. 324) call such relief of the community of insured through subsidies out of general tax revenues as "rationalising redistribution."

Whether such redistribution goes along with *refinancing* or not, the consideration of unpaid family work in the benefit calculation is obviously not very effective in reducing the "gender pension gap" which is largest in Germany and least in Estonia (OECD, 2019a, pp. 21–2). It is more influenced by the operation of the labour market and insofar a continuation of the "gender pay gap" (Hammerschmid & Rowold, 2019; Möhring, 2015). These "gaps" raise fears about heightened income inequality and inadequate pensions in future: (1) In both Bismarckian-type as well as (traditional) multi-pillar pension systems, effective poverty alleviation and true wage replacement are based on the expectation of long-term, continuous covered employment providing a living wage and performed up to the normal retirement age. (2) It is exactly this type of employment career that is diminishing in all European countries, whereas flexible, non-standard work patterns are on the rise. Employees working (marginal) part-time, holding temporary jobs (and thus facing an increased unemployment risk), false/solo self-employed persons, low-wage workers or those with recurrent spells of non-employment face an increased risk of old-age poverty. In contrast, employees in "good jobs" and a good chance of a long occupational career will cope much better with reformed and altogether less generous pension systems (Hinrichs & Jessoula, 2012; OECD, 2019a, chaps. 2 and 3). They are in much better position to individually save for retirement or being covered by occupational pension plans.

4 | WHAT ARE THE TRENDS AND COMMONALITIES OF PENSION REFORM POLICIES?

In the preceding section, the spectrum of parametric pension reforms has been delineated. Peter Hall (1993) calls them "first" and "second order" changes whereby either *levels* are adjusted (e.g., the benefit ratio) or an *instrument* shift takes place (e.g., the method of indexing benefits). Furthermore, there have also been radical ("third order")

changes as an outflow of a preceding paradigm shift by which *new goals* were assigned to the pension pillars. Will those reform trends imply that pension systems have (or will) become more similar? The answer depends on the criteria defined for convergence and whether one is able to identify one or several common forces that cause such a process (Greve, 1996).[11] If one focuses on instruments and their setting, it is obvious that public pension schemes have become more similar because comparable changes of instruments have taken place and their concrete setting has been narrowed. In a few cases, one has clearly borrowed from the "tool box" of neighbour countries (e.g., Finland, Norway, and also Poland and Latvia, which have adapted elements from Sweden's innovative pension reform of 1994/1998—Hinrichs, 2007). In general, however, the adoption of similar reform elements was less the result of transnational learning and deliberate emulation of other countries' reform efforts, but rather the result of an internally *finite menu* of institutional adjustment options that could be applied in contributory, earnings-related PAYG schemes. Such a limited menu of reform options thus favoured *parallel developments* when predominantly cost-containing changes were at stake (see also Bennett, 1991, pp. 220–1, 231).

Since about the mid-1990s, the dynamics of pension reforms in Europe has obviously increased, contradicting earlier notions of welfare state resilience and especially of old-age security as the most immovable object (Pierson, 1996). Such notions stem from the unique nature of pension schemes. They bridge extended time spans—from starting to earn first entitlements until receipt of the last pension before decease. At the same time, individual capabilities to adjust to institutional change decrease with proximity to retirement age and drop to zero once employment is terminated. Moreover, public schemes have created large constituencies for whom pensions are of vital significance: current pensioners are interested in ensuring their accustomed standard of living, and people of employable age want to be relieved from directly providing for their elderly parents and, ultimately, seeing their own earned entitlements materialize. Thus, politicians had to reckon with the people's special attachment to this welfare state branch when no longer expansion, but rather, foremost retrenchments were on the agenda.

After 2008, in the wake of the Great Recession, in a number of European countries being plagued with high budget deficits and mounting sovereign debt, pension policy alterations came to the fore that were different in two aspects (Hinrichs, 2015): (1) Their magnitude was large, particularly when the sequel of changes is added up. Sometimes even the hitherto pursued policy direction was removed, and the reforms caused a substantial and immediate negative impact on the living conditions of present and future retirees. (2) The political process that brought about these changes deviated from previous, pre-2008 attempts to retrench, refinance or recalibrate old-age security systems. Although governments tried to avoid a unilateral approach, there was no lengthy process of consensus-seeking and compromise-building. Rather, the post-2008 reforms in the crisis-shaken EU countries swiftly passed the legislative process and were implemented with no or short transitional period. Hence, they can be considered as "rapid policy change" (Rüb, 2012).

This new reform pattern sprang from the pressure exerted by financial markets and international actors (IMF, European Commission) which urged governments to neglect vote-seeking objectives within the well-known credit-claiming/blame-avoidance framework for the sake of attaining short-term savings on public expenditure (Bonoli, 2012). However, when the policy space for domestic actors again expanded, the then incumbent governments in several Southern European countries considered the past reforms partly as having "gone too far", reversed or at least attenuated them, and attempted to claim credit for the "benefaction" (Branco, Cardoso, Guillen, Sacchi, & Balbona, 2019; Moury & Afonso, 2019).[12]

Such opportunistic behaviour also happened with regard to "automatic government." It has been shown above that rule-based, permanent changes have spread widely (e.g., linking normal retirement age to life expectancy changes, incorporating demographic factors into the benefit calculation or indexing formulae). The advantage is that, once established, such automatism takes out a sensitive issue from otherwise recurrently arising political struggles. Then, incumbent governments may not be hold accountable for impairments and possibly benefit from the blessing of opacity, as those balancing or adjustment formulae are quite complex (e.g., the sustainability factor in the German benefit formula). However, policymakers often do not refrain from ad hoc interventions and thus impede the aspired stability or sustainability of the pension system (Weaver, 2016).

Somehow raising *normal retirement age* has entered the pension reform agenda in nearly all European countries despite it is the most disliked reform element. Nevertheless, sharing future life expectancy gains between a prolonged working life and an expanded retirement phase will be the prime measure to cope with population aging in future, and hitherto implemented measures show effect (see also Kuitto & Heldag, 2021). Until the millennium about half of the people had finally terminated employment when they turned 60 years of age and drew benefits from different transfer systems. Although there are considerable differences between EU countries, nowadays more people stay in full-time employment until reaching normal retirement age. Also, employment beyond normal retirement age is on the rise, and this development is not only spurred by financial necessity. Rather, very often it is an individual program for active aging (Scherger, 2015). For further progress in lifting the retirement age, supportive policy efforts are essential—among others, measures that keep up employability and those making gainful work more "competitive" as against the promises of a work-free retirement (OECD, 2019b).

5 | CONCLUSIONS

In very blunt terms, the general direction of pension reforms in Europe has been to contain the *rise* of public pension spending. Realizing this objective means lower benefits and a retirement phase that does not increase in parallel to average gains in life expectancy. The various measures have not yet taken full effect and impaired all (future) pensioners' old-age income. The tightened contribution-benefit ratio will most severely affect future generations of pensioners with an atypical employment career—interruptions due to unemployment and care work, periods of part-time employment, long stretches of low-waged work, and enforced early exit—and heightens their risk of poverty in old age (Hinrichs & Jessoula, 2012).

In view of changing life courses and growing income inequality, preserving an effective instrument for poverty alleviation in old age becomes more important than before. However, there is a tension between the generosity of non-contributory pensions and the objective of Bismarckian-type old-age pension schemes. They rest upon a (nowadays tightened) equivalence principle that ensures the income smoothing function. This principle might become delegitimized when paying contributions is not worthwhile, that is, generous non-contributory pensions are available and previous contribution payments were obviously made in vain.

It is possible to arrive at a system change by a sequel of incremental reform (Hinrichs & Kangas, 2003). That actually happened in a number of EU countries (e.g., Germany, Finland or Italy), but only Sweden (1994/1998) and Norway (2009) have legislated large pension reforms, including substantial parametric and structural changes, in one stroke. That happened after a long discourse, consideration of expert commissions' recommendations, and comprehensive participation of societal actors (labour unions, employers, senior organizations) in the political process. Finally, a broad consensus was achieved. In contrast, between 1989 and 2017, the German population has seen *eleven* pension reform acts, each with significant impact. It is quite obvious that such a series of reform acts is not suitable for upholding the public's confidence in the pension system and perceptions of its fairness and reliability.

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ENDNOTES

[1] *Bismarck* model denotes an earnings-related type public pension schemes with contributions based on actual wages and the level of benefits somehow related to the former contribution/employment record. Employer-sponsored and individual pensions play a varying but altogether ancillary role. In contrast, the *Beveridge* model means a flat-rate basic pension that is financed out of taxes or tax-like contributions. Supplementary employer (occupational) pensions and individual pension provision are expected to ensure appropriate wage replacement in old age. The UK, Ireland, Denmark, Switzerland, and the Netherlands belong to the latter type operating within a multi-pillar framework.

[2] http://www.ssa.gov/policy/index.html.

[3] Regularly, public pension entities dispose of reserve funds (PPRFs), sometimes very small or almost non-existent (e.g., Germany, Italy or Austria), quite sizable in other countries and sufficient to cover pension payments for several years without levying any contributions (e.g., Norway, Sweden or Finland) (OECD, 2015, pp. 190–191).

[4] Only in the UK indexation rules are presently used to *improve* the still meager Basic State Pension relative to average earnings. The so called "triple lock" ensures an annual increase by a minimum of either 2.5%, the rate of inflation or average earnings growth, whichever is highest.

[5] Within the spectrum of reform trends there was another variant of *harmonization* when there were differences within or between public pension schemes – either by unifying hitherto fragmented schemes in order to save on administrative costs (e.g., in Southern Europe or Romania) and/or by removing existent privileges for certain occupational groups (such as a lower normal retirement age or higher accrual rates – see also Natali & Stamati, 2014). Predominantly, those equalizing reforms focused on public service employees who often tried to defend their vested rights, as in France 2019/2020.

[6] Less than 30% of EU citizens agreed when asked about raising retirement age as a necessary instrument to ensure sustainable pension systems – approval highest in Ireland (45%), lowest in Latvia (15%) (Eurostat, 2019, pp. 107).

[7] In winter 2019/2020, large numbers of French workers went on strike for several weeks against government plans to lift normal retirement age from 62 to 64 years. In Ireland, demands for and promises of a return to age 65 became an issue during the election campaign in 2020.

[8] Originally, the Central and Eastern European (CEE) states had shaped their pension systems according to the *Bismarck* model, and certain elements remained intact during communist rule. The social insurance approach was revitalized after 1990, before a number of countries (among others, Hungary, Latvia, Poland, and Romania) departed from the dominant-pillar approach and turned to the new multi-pillar pension system.

[9] On the reversal of pension privatization in CEE countries see Naczyk & Domonkos, 2016; Altiparmakov, 2018; Adascalitei & Domonkos, 2018; Ortiz, Duran-Valverde, Urban, Wodsak, & Yu, 2018.

[10] For example, Finland introduced a "guarantee pension" (over and above the pre-existing national pension; in Sweden the guarantee pension will be wage-indexed instead of being tied to consumer prices and thus keep the benefit ratio constant; in Germany the government parties' long struggle for a basic pension benefiting long-term insured workers with low earnings was finally settled in 2020; similarly, in France the pension reform package (2019/2020) included a minimum pension of € 1,000 for workers showing a complete insurance record.

[11] A decreasing variance of European countries' public pension spending would hardly be a sufficient indicator for convergence. If there have been changes in expenditure (as a percentage of GDP), they reflect the balance of political decisions on program expansions and restrictions reached (very) long ago; furthermore, recent reforms will only produce their full effect with an extended time-lag. Likewise, the income situation of today's retirees is the result of institutional arrangements and individual behavior oriented to those rules, incentives, or obligations when they were of working age.

[12] Re-expansion as an austerity backlash happened in other EU countries as well: For example, Poland revoked normal retirement age rising from 65 to 67; Germany made certain birth cohorts of long-term insured workers eligible for retirement at age 63 without penalty; Spain postponed the implementation of the sustainability factor until 2027.

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