

THE POLITICS OF PUBLIC PENSION REFORM

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Public old-age pension programs are the largest single item of public expenditures in most advanced industrial countries. These pension systems have been buffeted by a number of pressures for change in recent years, however, notably an aging population and uneven economic growth. Thus it is hardly surprising that pensions have received much attention from policymakers, both in the United States and abroad.

Policymakers have three very broad sets of options for responding to the increased funding demands of their pension systems. First, they can cut back on the generosity of specific provisions of their pension programs through what will be referred to here as *retrenchment* in benefits and/or eligibility. Retrenchment options may include increases in the retirement age, cuts in indexation of benefits for inflation, and targeted reductions in benefits to upper-income recipients. Second, governments can *refinance* their pension programs by, for example, increasing contribution rates, broadening the contribution base (e.g., by requiring contributions above ceilings for which no pension rights are accrued), adding more general revenues to finance the pension system, or devoting other dedicated taxes to the financing of pensions. Third, they can attempt to *restructure* their pension programs in fundamental ways. For example, governments may phase out a universal flat-rate pension financed by general revenues or add a “defined contribution” pension tier, in which workers each have their own individual pension account, and final benefits depend on contributions made to that account over the entire course of their working lives as well as the return on investments accrued on that account’s funds over time.

While the advanced industrial countries draw on a common repertoire of reform options, very significant differences are visible in individual countries’ *policy agendas* (the subset of options they actively consider) and in the *policy changes* they actually adopt.

Broadly speaking, pension policy agendas across the OECD—the range of options that individual countries seriously consider—can be described as *overlapping but distinctive*. Some options, like changes in retirement ages and changes in benefit formulas, have been considered in almost all countries, while others, like increases in payroll taxes and a partial shift to a system of

“defined contribution” individual accounts, have been considered in some countries but not others.

Patterns of policy change across the rich industrial countries show five interesting patterns. First, and not surprisingly, there are some commonalities in sequencing: most countries have begun their responses to austerity pressures by relying initially primarily on refinancing measures, followed by a mixture of retrenchment and refinancing, and only then turning to more fundamental restructuring. Second, there have been great differences across countries in the amount of policy change; some advanced industrial countries have restructured their pension systems quite substantially over the past two decades, while others have mostly tinkered at the edges and still others have made very few changes. Third, virtually all of the advanced industrial countries have built on their current pension systems when making changes rather than—as in some developing and transitional economies—discarding their old pension systems and starting fresh with a new set of programs.¹ In short, continuity in pension policy is a strong theme as countries institute policy change. Fourth, there has been movement in many (but by no means all) wealthy countries toward an increased role for individual accounts on defined contribution principles. But this movement has taken many different forms, ranging from increased tax concessions for voluntary accounts to several types of mandatory accounts. This movement should not be overstated, moreover: a fifth characteristic of pension system change is that overall “convergence” in the pension systems of the advanced industrial countries has been very limited.

The United States shows some distinctive traits on each of these dimensions of pension policymaking. Some aspects of the United States pension reform agenda have been surprisingly broad in recent years. For example, the United States has considered both proposals for collective investment of Social Security funds in equity markets (under the Clinton administration) and individual “defined contribution” pension accounts. But in other respects—

¹ For a comparative analysis of countries making more fundamental reforms, see by Katharina Müller, *Privatising Old-Age Security: Latin America and Eastern Europe Compared*, Cheltenham, Gloucestershire: Edward Elgar, 2003.

notably the virtual absence of payroll tax increases from serious debate by policymakers—the pension policy agenda in the United States has been quite limited. The United States is also distinctive in the virtual absence of major policy changes since passage of a major Social Security reform package in 1983.

This paper attempts both to make sense of cross-national patterns of pension policymaking—overlapping but distinctive agendas and variability in the amount of policy change but a high overall level of policy continuity in most countries—and to understand distinctive U.S. patterns in terms of the general forces shaping pension policymaking.

In examining these patterns, the paper will make use of three models of pension policymaking. These models are not alternatives to one another, but rather additive. Each subsequent model brings more variables to bear in understanding the politics of pension reform, and is therefore better equipped to explain its complexity. The first model, which can be called the *economic-demographic* model, emphasizes broad social changes, notably an aging population and slower and uneven economic growth, that have caused a shift over the past thirty years from what can be called “enrichment politics” to what Paul Pierson has labeled “the politics of permanent austerity.”² A second, *politically-mediated* model recognizes the importance of the forces in the first model, but suggests that the impact of demographic and economic forces is heavily influenced by political calculations by politicians and by political actors such as labor unions and senior citizen organizations as well as by the structure of pension programs and by political institutions and policy ideas.

A third, “*beyond austerity*,” model builds on the first two models, but recognizes that pension politics in recent years has not just been about managing a shift from enrichment to austerity. At least three additional issues that cut across the enrichment-to-austerity pattern have also appeared regularly in the OECD, although to varying degrees across countries: *investment politics* concerns how pension savings (either in collective or individual accounts) are invested,

² Pierson, “Conclusion,” in Pierson, ed., *The New Politics of the Welfare State*, Oxford: Oxford University Press, 2001

labor market politics concerns how pension policies are used to affect the supply of labor, and *gender politics* concerns issues of pension access, entitlement and adequacy for women.³ Each of these issues has the potential to mobilize a distinctive set of constituencies that might otherwise be only tangentially involved in pension politics, and to raise a set of issues that may make resolution of conflicts over pension policy more or less difficult.

The first section of the paper briefly outlines different types of pension systems that are found in the advanced industrial countries. It then reviews overall patterns of pension policy change in those countries, with a special focus on the United States. The second section of the paper outlines the increased pressures for austerity encapsulated in the economic-demographic model and points out the shortcomings of that model in explaining patterns of change. The third section discusses how the politically-mediated and “beyond austerity” models can improve explanations of pension policy choices in the complex, democratic political systems of the wealthy industrial countries. The concluding section of the paper assesses the arguments suggested by the three models of pension politics, with a focus on explaining why United States pension policy is distinctive in some aspects of its pension policy and politics and less distinctive in others.

CROSS-NATIONAL PATTERNS OF PENSION REFORM

There are virtually endless permutations of pension programs. But national pension systems have traditionally been categorized into a small number of systems or “pension regimes” that share broadly similar patterns of provision. The classic formulation of “pension regimes” contrasts countries with essentially flat-rate universal or “citizenship” pensions (e.g., New Zealand and until the 1960s, Canada) versus those in which pension benefits are linked to earnings and contributions (also known as social insurance or “Bismarckian” pension systems,

³ This list of cross-cutting issues is not exhaustive. For example, immigration politics involves debates over the degree to which persons who have moved to a country during or after their working lives (and hence do not have a complete history of contributions to a public pension system) should be eligible for universal and means-tested benefits.

such as Germany and Italy) versus “residual” pension systems that rely exclusively on income- or means-tested pensions (Australia).⁴ However, most countries now feature a mixture of systems. Both Canada and until recently Sweden, for example, have had a contributory tier on top of a universal pension and a significant income-tested tier as well. Moreover, the “Bismarckian” category includes both a number of countries, mostly in western Europe, where replacement rates are quite high, as well as the United States and Canada, which will here be considered as a distinct “Bismarckian Lite” category because of their modest replacement rates and contribution rates.

Table 1 shows the evolution of pension regimes in a number of wealthy countries at three points--around 1950, 1974 and 1995. As the table suggests, there is significant movement among pension regimes over time, but in specific directions. Reliance primarily on universal flat-rate pensions, quite common in the 1950s, became less common in later years, as a number of countries responded to pressure for more generous, and income-related, pensions. As Table 1 suggests, the dominant trend in most public pension systems throughout most of the first thirty years after the end of the Second World War was toward enrichment. Benefit levels were frequently raised in real terms. Countries like Canada and Sweden added contributory earnings-related tiers to flat rate and means-tested pension systems. New benefits, such as early retirement and disability benefits, were added to existing programs. And when contributory pension systems were created or enriched, current or soon-to- retire seniors who had contributed little or nothing toward enriched benefits were often given those benefits anyway. Those that made the move to earnings-related pensions prior to the 1970s, like Sweden and Canada, tended to add public earning-related tiers, moving to the “Bismarckian” or “Bismarckian Lite” categories. Those that

⁴ Esping-Andersen originally formulated this tripartite distinction in terms of overall well state regimes. See Gøsta Esping-Andersen, *Three Worlds of Welfare Capitalism*. However, Hinrichs and others have pointed out that pension regimes are often quite distinct in their orientations from other welfare state programs. Most notably, the United States, characterized by Esping-Andersen as a residual welfare state, has a primarily social insurance focused pension system. See Karl Hinrichs, “Elephants on the Move.”

added mandatory earnings-related tiers later, like Australia and Denmark, tended to do so through some type of individual accounts, creating a sort of “mixed” pension regime.⁵

Pension Retrenchment

Cutbacks in public pension eligibility and benefits have clearly been on the agenda in many countries in all types of pension regimes. Moreover, the range of retrenchment options that has been considered in the United States is generally similar to those that have been considered in other OECD countries with a variety of pension regimes. These options include temporary cuts in indexation, restrictions on early retirement, and a lengthening of years of employment used in calculating initial benefits.

U.S. EXPERIENCES. The first major cutbacks in the U.S. Social Security program were prompted by an impending trust fund crisis (that is, insufficient reserves from present and past contributions to finance payment obligations), in 1977. This crisis resulted from a combination of stagflation that lowered revenue inflow to the fund and a faulty indexation mechanism that gave newly retiring workers benefits higher than had been predicted. Change was widely perceived as necessary, but neither the administration nor the Congress was willing to impose substantial short-term losses on persons already receiving benefits. Policymakers relied almost exclusively on injecting new revenues into the system through increases in payroll taxes and the wage base (the amount of wages subject to the Social Security tax) to produce short-term improvements in the program's financial status. These tax increases were phased in after the next (1978) congressional election to reduce political blame.⁶ Long-term savings were produced

⁵ For cross-national overviews of recent pension reforms, see Weaver, “The Politics of Pension Reform: Lessons from Abroad,” Karl Hinrichs, “Elephants on the Move. Patterns of Public Pension Reform in OECD Countries” *European Review*, vol. 8, no. 3(2000) pp. 353-378, and Klaus-Jürgen Gern, “Recent Developments in Old Age Pension Systems: An International Overview,” pp. 439-478 in Martin Feldstein and Horst Siebert, eds., *Social Security Pension Reform in Europe*, Chicago: University of Chicago Press, 2002. On the continental European systems, see especially Martin Schludi, *The Reform of Bismarckian Pension Systems*, Berlin: Humboldt University Ph.D. Dissertation, 2002.

⁶ For a detailed description of the 1977 legislation, see John Snee and Mary Ross, “Social Security Amendments of 1977: Legislative History and Summary of Provisions,” *Social Security Bulletin*, vol. 41 (March 1978).

largely by reducing the initial benefit of most future beneficiaries. Rather than attempt to retroactively lower the real purchasing power of workers who had already retired or those who were about to become eligible to retire, policymakers phased in a new initial benefit formula for future retirees.

More dramatic changes occurred during the Reagan administration. President Reagan had promised in the 1980 presidential campaign that Social Security would be exempt from budget cuts, and the new administration initially proposed only minor changes in Social Security when it came into office in 1981. But a deteriorating budget outlook led the president to agree to a Social Security reform package proposed by his advisors that contained a large dose of immediate political pain.⁷ After a huge political uproar, the Reagan administration backed away from the proposals and settled for relatively modest program cuts in 1981. But another impending trust fund crisis led the White House and congressional Democratic leaders to agree on a bipartisan commission to address Social Security's financial problems. After a long stalemate, the commission did provide a political cover allowing negotiators for the president and congressional Democrats to come to an agreement that was eventually approved, with some additions, by Congress.⁸

The 1983 Social Security rescue legislation made major changes in the program on both the tax and benefit sides. In the short term, there was a six month “delay” in inflation adjustments for benefits that really amounted in a permanent benefit cut for current recipients. In the longer term, the legislation imposed a gradual increase in the standard retirement age (the age at which full Social Security retirement benefits are received) from 65 to 67. This increase was

⁷ Proposed cuts including a three month delay in cost-of-living adjustments a change in calculating future retirees' initial benefits that would eventually lower the percentage of a retiree's prior earnings replaced by Social Security benefits significantly, and a severe and almost immediate cut in benefits for future early retirees. On this period, see Paul Light, *Still Artful Work: The Continuing Politics of Social Security Reform* (New York: McGraw-Hill), 1995.

⁸ See Light, *Still Artful Work*

phased in gradually, beginning in the year 2000 and ending in the year 2021. Workers can continue to retire at age 62, with an greater actuarial reduction in their benefits. However, the long delay between 1983 passage of the Social Security rescue package and the initial “bite” of its retirement age increase, along with its gradual phase-in, lessened near-term blame associated with the cuts. And while Republicans accepted an acceleration of previously scheduled payroll taxes as part of the rescue package, they adamantly opposed further increases in payroll tax rates.

The 1983 Social Security rescue package dramatically altered the short- and medium-term financial condition of OASI. The trust funds are currently generating surpluses, which made it politically very difficult to either raise Social Security taxes or cut benefits over the next twenty years. Continued concern over the budget deficit and the recognition that large expenditure reductions were unlikely without a contribution from Social Security led Republican politicians to propose pension cutbacks on several occasions in the final years of the Reagan and George H.W. Bush administrations, but in the absence of a trust fund crisis, each attempt fizzled.⁹ Indeed, these retrenchment initiatives suggest that efforts to use cuts in Social Security benefits and eligibility in the battle to shrink the federal deficit in the absence of a looming trust fund crisis are almost certain to fail. Increasingly, as Martha Derthick has noted, “central to deficit politics was a ritual of declaring Social Security to be off the table.”¹⁰

FOREIGN EXPERIENCES. The repertoire of retrenchment instruments that has been considered and adopted in other wealthy countries is generally similar to that in the United States. In particular, cutting post-retirement indexation provisions for pension benefits has been a staple of pension retrenchment.¹¹ Many countries have changed their indexation mechanisms

⁹ For a description of these episodes, see Paul D. Pierson and R. Kent Weaver, "Imposing Losses in Pension Policy," pp. 110-150 in R. Kent Weaver and Bert A. Rockman, eds., *Do Institutions Matter?: Government Capabilities in the U.S. and Abroad*, Washington, D.C.: The Brookings Institution, 1993.

¹⁰ Martha Derthick, “The Evolving Old Politics of Social Security,” pp. 193-214 in Martin A. Levin, Marc K. Landy and Martin Shapiro, eds., *Seeking the Center: Politics and Policymaking at the New Century*, Washington, D.C.: Georgetown University Press, 2001, at p. 197

¹¹ See Daniel Wartonick and Michael Packard, “Slowing Down Pension Indexing: The Foreign Experience.” *Social Security Bulletin*. vol. 44. (1983) pp. 9-15; Henk Vording and Kees

by, for example, shifting from gross to net (post-payroll tax) earnings, or from wages to prices. Temporary ad hoc indexation cutbacks have been used as well. Sweden, for example, put in place a mechanism to lower pension indexation when budget deficits exceeded a target level, and did not adjust benefits fully for the effects of a devaluation of the *krona*. Governments have rarely attempted de-indexation or even partial de-indexation of existing pension programs on a permanent basis, however.

Other wealthy countries have also joined the United States in revisiting--and raising--standard retirement ages. Raising standard retirement ages for women where they had been lower than those for men has been especially common, propelled in part by a directive from the European Union on gender equality that required equalization of retirement ages by gender. Unlike the United States, however, none of the other countries has moved to increase their standard retirement age higher than 65 (two countries already had a retirement age of 67). A few governments have simply done away with standard retirement ages, using instead a flexible retirement age with actuarial reductions for early retirees. The reality, of course, is that early retirees will get significant benefit reductions, but flexible retirement ages make this fact less visible. A number of wealthy countries have also increased the number of years over which earnings period over for which benefits are calculated. Italy and Sweden have made the most dramatic change in principle, including earnings over the entire course of a worker's earning life in the calculation of initial benefits.

In designing and implementing these reforms, policymakers have been heavily influenced by a desire to minimize blame from constituents, especially retirees and near retirees. Thus cutbacks have usually had long phase-in periods. Use of highly technical changes in formulas for years included in calculation of benefits and in indexation procedures also help to minimize the visibility of policy changes. Some changes, notably the Swedish policy of making future

Goudswaard, "Indexation of Public Pension benefits on a Legal Basis: Some Experiences in European Countries," *Social Security Bulletin*, Vol. 50, no 3 (1997) Pp. 31-44.

pensions contingent on future changes in life expectancy and economic growth, also have the potential to reduce future blame because they make it impossible to predict exactly how big (if at all) cutbacks will be.

COUNTERTRENDS ABROAD. There have also been some important exceptions in the general trend toward incremental retrenchment of pension policy commitments in other wealthy countries. First, as noted above, a number of countries have moved to include explicit recognition of years spent in care-giving. The United States has not joined in this trend, however.¹²

Trends in provisions for early retirement and retirement under disability have also been somewhat ambiguous in direction. Many OECD countries have relatively generous early retirement policies. Several also have more generous unemployment provisions for older workers; indeed in twelve OECD countries, it was possible in 1995 to receive unemployment benefits from age 55 until the standard retirement age.¹³ Countries also differ dramatically in the extent to which disability pensions are available: in the early 1990s, for example, less than 10 percent of U.S. and Canadian males aged 55-64 were receiving disability pensions in 1990, compared with 27 percent in the Netherlands, 40 percent in Finland, and 58 percent in Austria.¹⁴ In recent years, early retirement provisions of pension programs have been expanded in some countries and contracted in others. This pattern reflects conflicting pressures on governments. Continued high unemployment in many parts of Western Europe leads governments to try to

¹² See Heidi Hartmann and Catherine Hill, "Strengthening Social Security for Women," Report from the Working Conference on Women and Social Security, Warrenton, VA., July 19-22, 1999, pp. 15-16.

¹³ Sveinbjörn Blöndal and Stefano Scarpetta, "Early Retirement in OECD Countries: The Role of Social Security Systems, *OECD Economic Studies*, 29 (1997) pp. 7-53, and Sveinbjörn Blöndal and Stefano Scarpetta, "The Early Retirement Decision in OECD Countries," Paris: OECD Economics Department Working Papers No. 202, February 1999, chapter 4. On the interaction between the German unemployment and pension systems, see Alex Börsch-Supan, "The German Retirement Insurance System," pp. 13-38 in Börsch-Supan and Meinhard Meigel, eds., *Pension Reform in Six Countries: What Can We Learn from Each Other*, Berlin: Springer, 2001, at pp. 23-25.

¹⁴ Blöndal and Scarpetta, "The Early Retirement Decision in OECD Countries," p. 66.

open up work opportunities for younger workers. Opposition from both unions and employers to cutbacks in early retirement leads governments has also inhibited policy change. On the other hand, budget deficits and competitiveness concerns cause governments to try to cut back on social commitments and encourage increased labor supply among older workers.¹⁵

A third counter-trend to the overall trend toward retrenchment in pension policy concerns the movement of a number of countries toward liberalizing income and means-tested minimum pension programs to adapt them more effectively to the needs of low-income citizens. In Sweden, for example, the transformation of the former flat-rate *folkpension* into an income-tested (or more accurately, “public pension-tested”) benefit will also provide a more generous benefit to those with modest rights to an income-related pension. Germany also adopted a minimum pension independent of the social assistance for the first time as part of its recent pension overhaul. The United Kingdom has converted its Minimum Income Guarantee for seniors into a Pension Credit that both increases the minimum guarantee and rewards pension savings by seniors.

In the United States, on the other hand, Supplemental Security Income has not been modernized to make it into a more effective income floor for the low-income elderly. Both benefit levels and take-up rates remain extremely low. Conversion of Supplemental Security Income into a more adequate retirement income source for the low-income elderly has been inhibited by the fact that the program serves two relatively unpopular clienteles--the low-income disabled and elderly immigrants. Indeed, the major legislative change in SSI over the past two decades was the restriction included in 1996 welfare reform legislation restricting its receipt by non-citizens. Moreover, the sidelining of Social Security from the governmental agenda after 1983 meant that there was no detailed legislative consideration of safety net income support for the elderly. Discussions of income support for the aged over the past two decades outside

¹⁵ For a comprehensive review of early retirement policies in rich nations, see Bernhard Ebbinghaus, *Exit from Labor: Reforming Early Retirement and Social Partnership in Europe, Japan and the USA*, Köln: University of Köln Habilitationsschrift, October 2002.

government was almost monopolized by discussions of individual accounts and investment practices of the Social Security trust funds (outlined below).

Refinancing Reforms

Increasing demographic pressures have led a number of advanced industrial countries to consider both increasing contribution rates for pension-related payroll tax rates and alternatives to doing so. As noted above, increases and/or accelerations in previously scheduled payroll tax increases in payroll taxes were included in the 1977 and 1983 Social Security reform packages. But the United States is very unusual among advanced industrial countries in that significant payroll tax increases have essentially been off the agenda in the U.S. since 1983. The only substantial (and still relatively modest) change made since that time is an increase in the taxation of Social Security benefits of upper-income recipients in 1993—which is probably better seen as a cut in benefits for those recipients rather than as a tax increase.

Financing arrangements in other countries vary widely. Australia and New Zealand, for example, have no earmarked pension revenue source. In the United Kingdom, the social insurance contribution covers a number of programs and is only very loosely linked to expenditures. In Germany, social insurance contributions pay a defined share of pension program costs. In Canada, the Canada Pension Plan and Quebec Pension Plan expenditures are, as in the United States, expected to cover all program costs, but unlike the U.S., the CPP/QPP operate on top of an essentially flat rate benefit financed out of general revenues.

These different financing mechanisms make generalization about refinancing more difficult, but a few conclusions can be drawn. First, most countries have experienced strong upward pressures on pension contribution rates over the past thirty years. Blöndal and Scarpetta, in a survey of 18 OECD countries, found that pension contribution rates rose from an average of 9.3 percent in 1967 to 16.5 percent in 1995; the average contribution rate was 1.88 times its 1967 level in 1995.¹⁶

¹⁶ See Blöndal and Scarpetta, “Early Retirement in OECD Countries,” at pp.17-18.

A second trend is that many countries have in recent years tried to stabilize contribution rates through a variety of mechanisms. In Canada, projections that the current legislated contribution rate will be inadequate to finance benefits within a specified projection period will automatically trigger a combination of benefit cuts and contribution rate increases.¹⁷ Sweden's adoption of a combined Pay-As-You-Go "notional defined contribution" account and individual account system for future retirees is perhaps the most dramatic of these changes—in the future, contribution rates are expected to remain fixed at 18.5 percent of earnings, and benefits will be adjusted to meet this target. Germany, where pension contribution rates peaked at over 20 percent of earnings in recent years, has also acted to try to stabilize contribution rates at no more than 20 percent through the year 2020.¹⁸

Restructuring Reforms

Restructuring can be defined loosely as the addition, deletion or fundamental change in the relative roles of one or more pension tiers. Restructuring may or may not alter the overall "pension regime" that characterizes a country.

U.S. EXPERIENCES. The United States has not adopted any fundamental restructuring reforms in its public pension tiers over the past thirty years (the last major innovation was the federalization of the means-tested Supplemental Security Income in 1972). The United States continues to rely heavily on a contributory earnings related program (Old Age and Survivors Insurance, commonly known as Social Security) and tax incentives to employers and individuals and employers for provision of adequate pensions. Calls for fundamental reform of Social Security have grown over the past decade, however, spurred by critiques from conservative

¹⁷ A finding of a future deficit in the CPP's triennial review process sets in motion a process under which Ministers from Ottawa and the provinces are supposed to agree on any needed changes to keep the plan viable; if they do not agree, contribution rates will increase automatically to meet half of the anticipated deficiency (phased in over three years), and indexation of the CPP will be frozen for the next three years unless cabinet ministers agree to override these procedures. See David W. Slater and William B.P. Robson, *Building A Stronger Pillar: The Changing Shape of the Canada Pension Plan*, Toronto: C.D. Howe Research Institute, March 1999, pp. 6-7.

¹⁸ Gern, "Recent Developments in Old-Age Pension Systems," p. 457.

policy intellectuals like Martin Feldstein and think tanks like the Heritage Foundation and Cato Institute. by declining public confidence in the long-term ability of the current system to make good on its promises; the fact that the federal government was borrowing Social Security surpluses to perceptions by many younger workers that the system will not pay them a rate of return on their contributions equal to what they could earn through private sector investments. A general perception on the part of political elites (especially Republican elites) that controlling entitlement spending was essential to controlling deficits and limiting government more generally also helped to generate more interest in Social Security reform.¹⁹

Debates on Social Security restructuring have largely focussed on two alternative sets of proposals. Democrats have generally been more sympathetic to broadening the range of investment options for the Social Security trust fund, including investing in equities, to increase trust fund returns, while Republicans and conservative critics have called for varying degrees of “privatization” of Social Security through mandatory or optional contributions to personal pensions.²⁰ Privatizers have in particular focused on the lower returns to contributions by younger workers, arguing that Social Security is a bad deal for this group. Critics of individual accounts, on the other hand, have argued that because of stock market volatility, individuals who retire a few years apart after contributing over their working lives to a broad stock index fund could end up with dramatically different earnings replacement rates--and those who pulled out their funds in a stock market trough would end up with very inadequate benefits.²¹

The last two presidential administrations in the United States have taken very different approaches to restructuring Social Security. Bill Clinton proposed broadening the range of allowable Social Security trust fund investments, while using anticipated federal budget

¹⁹ On this period, see Martha Derthick, “The Evolving Old Politics of Social Security” and Teles.

²⁰ For an outline of major alternatives, see 1994-96 Advisory Council on Social Security, *Report*, vol 1. *Findings and Recommendations*, Washington, D.C.: The Council, 1997.

²¹ See Gary Burtless, *How Would Financial Risk Affect Retirement Income Under Individual Accounts?*, Center for Retirement Research at Boston College, Issue Brief No. 5, October 2000.

surpluses to subsidize supplementary retirement savings accounts as complements to Social Security. But the sense of urgency weakened with the strong economy of the late 1990s as the projected date of Social Security insolvency moved further away--from 2029 estimated in 1997 to 2034 in 1999 and 2041 in 2002. Strong opposition from congressional Republicans and from Federal Reserve Board chairman Alan Greenspan has stymied investment of Social Security trust funds in the stock market.²²

In the 2000 presidential election campaign, George W. Bush proposed allowing workers to divert part of their Social Security payroll taxes to individual accounts. After the election, President Bush decided to appoint a commission on how best to implement an opt-out plan.²³ Unlike the 1981-83 Social Security reform commission, however, President Bush appointed all of the (bipartisan) members of the Commission, and all appointees had to agree in advance to support a set of principles established by the White House, including no increase in Social Security payroll taxes, voluntary individual accounts, and no erosion of benefits for current retirees and near retirees. The commission eventually decided to present a menu of policy options rather than a single plan, in part to shield the administration from criticism over the benefit cuts that would be required to fund a Social Security opt-out.²⁴ Stock market declines in 2001 and 2002 also appear to have dampened, at least temporarily, support for partial privatization of Social Security, while the quick post September 11 disappearance of federal budget surpluses made financing a transition to opt-out advance-funded individual accounts more difficult.²⁵ Indeed, Republican candidates in the 2002 congressional election were

²²Greenspan argues that no mechanisms to insulate investment managers from political pressures would be adequate. For Greenspan's views, see Richard W. Stevenson, "Fed Chief Warns of Painful Choices on Social Security," *New York Times*, January 29, 1999, p. A1.

²³ For a discussion, see Amy Goldstein, "Bush Plans Panel to Study Overhaul of Social Security," *Washington Post*, February 27, 2001, p. A1, and Sara Fritz, "Proof of Bush's Social Security Intentions Will Be in the Panel," *St. Petersburg Times*, April 2, 2001, p. 3A.

²⁴ President's commission to Strengthen Social Security, *Strengthening Social Security and Creating Wealth for All Americans*, Washington, D.C.: The Commission, December 2001.

²⁵ Richard Morin and Claudia Deane, "Poll Shows New doubts on Economy; President's Tax Cut, Policy Are Questioned," *Washington Post*, March 27, 2001, p. A1.

encouraged by the party to distance themselves from the notion of "privatization" because of its perceived political risks.²⁶ The overall pattern in the United States, in short, is that while Social Security privatization is clearly now on the public agenda, it is likely far from enactment, even with George W. Bush as an advocate and Republican control of both chambers of Congress.

While the United States has not created a mandatory individual accounts tier, it has substantially expanded the role for individual defined contribution pensions in two ways. First, there has been a major increase in the role played by non-compulsory employer-sponsored 401(k) pension plans. Second, federal policy has facilitated change by not intervening to prevent what Jacob Hacker has called "policy drift" among occupational pensions away from defined-benefit toward defined contribution plans.²⁷

²⁶ Jim Vanderhei and Juliet Eilperin, "Bush's Plan for Social Security Loses Favor," *Washington Post*, August 13, 2002, p. A1; Amy Goldstein, "Action on Social Security Debated," *Washington Post*, November 15, 2002, p. A16.

²⁷ See Jacob Hacker, "Privatizing Risk Without Privatizing Benefits: U.S. Welfare State Reform in Comparative Perspective," paper presented at the 2002 annual meeting of the American Political Science Association, Boston, MA., August 29-September 1, 2002 and Hacker, *The Divided Welfare State*.

FOREIGN EXPERIENCES. A variety of fundamental pension restructuring reforms have been considered in recent years across the world. In particular, there has been significant growth in the number of countries that have adopted systems of mandatory individual accounts, featuring varying degrees of state, employer and individual management and control. Moreover, restructuring reforms have taken place after a series of refinancing and retrenchment reforms have already been undertaken and have proven insufficient to address countries' financing problems in the short or long-term.

Restructuring reforms have taken different reforms in different regions, moreover. A complete substitution of mandatory individual accounts for state system has been adopted in a number of Latin American countries, while mixed systems (individual accounts on top of state system) are more common in Eastern Europe.

The wealthy industrialized countries have mostly undertaken less fundamental restructuring reforms. For example, New Zealand and Canada have added collective investment "buffer" funds added to their Pay-As-You-Go pension systems. Sweden has adopted mandatory individual accounts on top of (and partially supplanting) a still- dominant state system, while Germany has adopted a complex system of quasi-mandatory system of individual accounts.

While these reforms have more frequently taken the form of addition of addition of new tiers and the diminution rather than abolition of others, but the latter is not completely unknown. Universal flat-rate pensions have been especially vulnerable to abolition (Sweden, Finland). They have also been subjected to income-tests at the upper end (Canada and, temporarily, New Zealand).²⁸ But there has also been substantial resilience. For example, the Chrétien government in Canada proposed but ultimately backed away from a proposal to merge the quasi-universal and income tested tiers of Canada's pension system when Canada started running budget surpluses.²⁹

²⁸ On the abolition of basic pension tiers, see Hinrichs, "Elephants on the Move."

²⁹ See Edward Greenspon and Anthony Wilson-Smith, *Double Vision: The Inside Story of the Liberals in Power*, Toronto: Doubleday Canada, 1996, especially chapter 16, and R. Kent Weaver, "Pensions," in Leslie Pal and R. Kent Weaver, eds., *Government Taketh Away: The*

In the wealthy countries, large mandatory individual account tiers have been adopted only in countries with no prior public earnings-related pensions, such as Australia and Denmark. Only one OECD country, the U.K., has allowed an opt-out from public earnings-related pension system in a fashion roughly comparable to that suggested by the Bush administration. It is in these "mixed" systems that never developed a large public earnings-related tier, but instead added a mandatory occupational tier in the post-World War II era, that private pensions are expected to provide the highest percentage of total pensions once privatized tiers are fully mature. Estelle James and Sarah Brooks estimate that mandatory private pensions will produce 57% of the public/mandatory private pension total in Australia and 56% in Denmark, 50 percent in the Netherlands and Switzerland, and 49% in the U.K., but only 21% in Sweden, for example. These are far less than projections for many Latin American countries, where privatized pension tiers have frequently supplanted rather than adding on to public pension tiers.³⁰

Overall, there is little evidence of any "convergence" around a single pension regime. There has been an emptying out of the residual and universal categories in Table 1, as well as a growth in the number of countries with mixed systems, and increased experimentation with supplemental individual accounts in some Bismarckian countries. But there has also been substantial stability in the "Bismarckian Lite" group. Changes in public pension programs still more often take the form of incremental retrenchment and refinancing rather than fundamental restructuring in most OECD countries, and important differences remain among countries with varying pension regime types.

Politics of Pain and Loss Imposition in the United States and Canada, Washington, D.C.: Georgetown University Press, 2003.

³⁰ See Brooks, "Social Protection and Economic Integration," and Estelle James and Sarah Brooks, "The Political Economy of Structural Pension Reform," pp. 133-170 in Robert Holzmann and Joseph E. Stiglitz, eds., *New Ideas About Old Age Security*, Washington, D.C.: The World Bank, 2001. Individual account systems have problems of their own, moreover. Where administration of individual accounts is decentralized to employers and individuals, high administrative costs--especially for low-earners--has been a particular problem. See for example Estelle James, James Smalhout, and Dmitri Vittas, "Administrative Costs and the Organization of Individual Account Systems: A Comparative Perspective," pp. 254-307 in Holzmann and Stiglitz, eds., *New Ideas About Old Age Security*.

FROM ENRICHMENT TO AUSTERITY IN PENSION POLITICS

Three economic and demographic forces have stimulated the push from enrichment to austerity as well as substantial restructuring activity in pension politics that are outlined above (see Figure 1 for a schematic representation).

A first source of pressure for change in pension schemes in the advanced industrial countries is an aging population. Most OECD countries operate their pension systems on a pay-as-you-go (PAYG) basis, even where there is a dedicated payroll tax for pensions and (as in the United States) some form of “trust fund” that links revenues and expenditures. When birthrates decline or life expectancy increases—and both have been ubiquitous in the industrialized countries in the post-war era-- the ratio of retirees to workers increases, and existing policy commitments became financially unsustainable unless new revenues are committed. Currently, both the percentage of population over retirement age and the ratio of the elderly to those of working age are increasing dramatically throughout the developed (and developing) world. Increased life expectancy, and dropping fertility rates throughout the industrialized world after the post-war baby boom, have left fewer workers to support the elderly population—with even fewer expected in the future. Particularly large rates of increase are occurring among the very elderly (those over age 75).

Demographic challenges vary significantly across the industrialized countries, however. The United States is expected to have only modest near-term increases in its modest elderly support ratio (i.e., the population aged 65 and over as a percentage of the population aged 20 to 64) of 21 in the year 2000. That figure will rise to 25 the year 2020 and to 37 by the year 2030. Germany, on the other hand, faces a much more immediate and severe demographic crisis. Its elderly support ratio is expected to increase from 26 in 2000 to 33 in 2020 and 46 in 2050.³¹ The European Union recently estimated that the costs of Germany’s pension scheme are expected to

³¹ Kevin Kinsella and Victor A. Velkoff, U.S. Census Bureau, Series P95/01-1, *An Aging World: 2001*, Washington, D.C.: U.S. Government Printing Office, 2001.

rise from an already high 11.8 percent of GDP in 2000 to 16.9 percent of GDP by 2050, while Italy's pension scheme is expected to peak at 15.7 percent of GDP around 2040 before declining.³²

A second source of pressure for austerity in public pension systems is increased *fiscal concerns*. Government deficits were common and debt/GDP ratios increased throughout the advanced industrial countries from the 1970s through the end of the century. Pension and health care costs for the elderly were a major contributor to these trends. In Europe, prolonged high unemployment in the 1990s further strained social insurance systems both by inflating the number of claims made against the system and by lowering the flow of contributions into the system. Indeed, government debt was a less serious issue in the U.S. than in many other OECD member countries at the dawn of the 21st century, although federal budget surpluses in the late 1990s were very short-lived.³³

Governments can respond to budgetary pressures by raising taxes as well as cutting expenditures. That they have been reluctant to do so is due in part to a third, and related, source of pressure for austerity: *concerns about economic competitiveness*. Many business leaders and conservative politicians argue that the high payroll taxes associated with generous pension and other welfare state programs make firms in the countries providing those benefits unable to compete with firms in lower cost countries. Labor leaders and politicians on the left, on the other hand, worry about second-order effects of competitiveness concerns, notably the possibility of migration of jobs to low cost-countries and/or a "race to the bottom" in social benefits.³⁴ Academic observers and commentators remain quite divided on how much autonomy nation-

³² European Union, Economic Policy Committee, *Budgetary Challenges Posed by Ageing Populations*, Brussels, EPC/ECFIN/655-EN-fin, October 24, 2001.

³³ In 1997, the United States was very close to the OECD average in gross general government liabilities as a share of GDP and slightly above the average in net liabilities, but both OECD averages had increased substantially in the 1990s. See Organisation for Economic Cooperation and Development, *Reforms for an Ageing Society*, Paris: OECD, 2000, chapter 3.

³⁴ See the discussions in Paul D. Pierson, "The New Politics of the Welfare State," *World Politics*, 48 (January 1996) pp. 143-179, and Leibfried and Pierson, "Semisovereign Welfare States."

states retain in the generosity of their welfare states in the face of economic globalization,³⁵ but at a minimum, concern among politicians about tax rates is very real. Once again, however, the United States is in the lower half of OECD countries in terms of its overall payroll tax rates as a percentage of payroll and payroll tax revenue as a share of GDP.

The shift from enrichment to austerity politics is clearly a central force in pension policymaking in the advanced industrial countries, and the economic-demographic model is useful in explaining many of the patterns of recent pension politics outlined above. First, the model is helpful in explaining the ubiquity of pension reform issues on governmental agendas among the advanced industrial countries over the past quarter century. Second, the timing of fiscal crises is useful in helping to explain the timing of pension reform initiatives in some countries. And third, the relative weakness of demographic, fiscal and competitiveness pressures in the U.S. help to explain why there has not been major change in Social Security over the past two decades, while awareness of a looming long-term Social Security funding problem helps to explain why Social Security reform remains on the government agenda despite the absence of an immediate funding crisis,

The economic-demographic model is clearly insufficient as an explanation of patterns of policy change, however. First, as Giuliano Bonoli has noted, there is no one-to-one correspondence between the degree of fiscal and demographic pressure in a country and the degree of welfare state policy change that has been adopted.³⁶ Indeed, Sarah Brooks argues in a quantitative study of 57 developed and developing countries that countries with a high public

³⁵ On the impact of globalization, see for example Joseph Stiglitz, *Globalization and Its Discontents*, New York: W.W. Norton, 2002, Elmar Rieger and Stephan Liebfried, *Limits to Globalization*, Oxford: Polity Press, 2003; Paul Pierson, "Post-Industrial pressures on the Mature Welfare States," pp. 80-104 in Pierson, ed., *The New Politics of the Welfare State*, and Sven Steinmo, "Globalization and Taxation: Challenges to the Swedish Welfare State," *Comparative Political Studies*, vol. 35, no. 7 (September 2002) pp. 839-862. See also the review in Gøsta Esping-Andersen, *Welfare States in Transitions: National Adaptations in Global Economies*, London: Sage, 1997.

³⁶ Giuliano Bonoli, *The Politics of Pension Reform*, Cambridge: Cambridge University Press, 2000, p. 33.

debt to GDP ratio are *less* likely to privatize their pension programs (at least when pension liabilities are low or moderate), because they cannot afford the transitional costs associated with moving from a public PAYG to fully-funded individual accounts.³⁷ Second, the economic-demographic model does not do a good job of explaining either the strong continuity of pension regimes in most OECD countries or the specific patterns of restructuring where it has occurred. Third, the economic demographic model does not explain counter-trends toward selective expansions of pension programs, notably in relation to child-care credits. Nor does it so a good job of explaining the resistance of early retirement provisions to cutbacks.

SUPPLEMENTING ECONOMIC-DEMOGRAPHIC EXPLANATIONS

The demographic-economic model's stress on population aging, budgetary stringency and economic competition needs to be supplemented with additional variables to provide an adequate explanation of pension policy agendas and changes in the advanced industrial countries. Two types of variables, which will here be called politically mediating variables and "beyond austerity" variables, are especially useful.

A Politically-Mediated Approach

Several kinds of political mediating variables affect pension politics. First, there are two additional forces--ideology and supra-national institutions--that strengthen pressures for pension austerity, but are felt differentially across countries. Second, there are political processes, incentives, and feedbacks from established programs that mediate pressures for pension austerity.³⁸ Third, there is a potential for cross-national learning, especially among from countries that national policy elites consider to be their "peer countries" most likely to offer

³⁷ Sarah Brooks, "Social Protection and Economic Integration: The Politics of Pension Reform in an Era of Capital Mobility," *Comparative Political Studies*, vol. 35, no. 5 (June 2002) pp. 491-523, at pp. 513-515.

³⁸ For an earlier and more extensive treatment of some of the themes in this section, see R. Kent Weaver, "The Politics of Pension Reform: Lessons from Abroad," in R. Douglas Arnold, Michael Graetz, and Alicia Munnell, eds., *Framing the Social Security Debate: Values, Politics and Economics*, Washington, D.C.: Brookings Institution Press, 1998, pp. 183-229.

applicable policy lessons. This expanded set of causal variables is shown by the pink boxes in Figure 1.

IDEOLOGY. Ideologically-based critiques of current pension systems have been important in moving the debate on pension reform away from simply making incremental cuts in pension programs toward more fundamental restructuring. Conservative policy intellectuals in many nations argue that relying on public Pay-As-You-Go pensions rather than advanced funding in individual accounts reduces national savings and investment (and thus economic growth), because households no longer see savings as necessary to obtain a viable retirement income stream. Public pension programs may also be susceptible to politicians' desire to win elections by pledging more generous benefits rather than being governed by what is sustainable in the long run. The tendency of governments to rely on state pension funds as sources of borrowing at below-market rates may also reduce the amount of money available to pay pension benefits. These critiques suggest an increased role for personal and occupational pensions that are managed by private fund managers.

Ideologically-grounded critiques of public Pay-As-You-Go pensions and calls for an increased role for pension privatization have been heard almost everywhere, but whether they have advanced to serious consideration, let alone adoption, depends heavily on (1) a fertile ideological climate in the host country, (2) a policy "window of opportunity," usually furnished by the combination of having sympathetic politicians in office and the apparent exhaustion of incremental retrenchment and refinancing options. Thus a focus on the role of ideology can help to explain why privatization remains on U.S. discussion agenda despite absence of immediate pension crisis, since proponents of pension privatization are well-financed and institutionalized and have close ties to Republican Party. The adamant opposition of Republican policymakers and conservative policy intellectuals and activists to putting any more money into the Social Security system also helps to explain why payroll tax increases have been off the agenda in this country.

SUPRA-NATIONAL PRESSURES. Pressures for pension austerity may also result from what can call “supra-national pressures”—pressures from institutions such as the European Union (for member countries) as well as from international lending agencies such as the World Bank and International Monetary Fund. Recent work by Sarah Brooks suggests that supra-national institutions may influence country's pension policy choice in several distinct ways.³⁹ First is conditionality: a country may have to adopt certain reforms in order to get loan approval from the IMF, for example. Second is anticipated reaction: a country may adopt reforms that it thinks will win favorable action from the supra-national institution even without direct negotiations with that institution. Third, national policy elites may engage in a “two-level game,” utilizing perceived threats of negative actions by the supra-national institution to win support from reluctant domestic actors and weaken veto points for actions that they would like to take anyway.⁴⁰ Fourth, supra-national institutions may act simply as agents of knowledge transfer for “best practices” from other countries. A fifth potential channel is what can be called harmonization, where a supra-national institution tries to get member countries try to develop common practices to lower regulatory barriers to labor and capital mobility.

Several of these channels can be seen in the pension austerity measures taken in European Union member countries. Perhaps most important, in countries such as Italy, pension retrenchment was seen as necessary to meet the three percent of GDP target set for government deficit as a condition for entry into the European Monetary Union.⁴¹ However, these actions by

³⁹ Sarah M. Brooks, “What was the Role of International Financial Institutions in the Diffusion of Social Security Reform in Latin America?,” in Kurt Weyland, ed. *Learning from Foreign Models in Latin American Policy Reform*. Washington, DC: Woodrow Wilson Center Press, and Johns Hopkins University Press, forthcoming.

⁴⁰ See Robert D. Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” *International Organization*, vol. 42, no. 3 (Summer 1988) pp. 427-460. See also Andrew Moravcsik, “Integrating International and Domestic Theories of International Bargaining,” pp. 3-42, in Robert Putnam, ed., *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, Berkeley: University of California Press, 1993.

⁴¹ On Italy and the EMU, see for example Schludi, *The Reform of Bismarckian Pension Systems*, chapter 5. For a detailed discussion of European Union fiscal institutions and their impact on

national policymakers largely took the form of “anticipated reactions” and strategic choices designed to win the acquiescence of domestic opponents of painful pension reforms. The EU has also set other requirements (e.g., requiring gender neutrality in retirement ages) that have an impact on austerity policy choices and led indirectly to modest policy harmonization. But the EU has not even attempted to harmonize most aspects of the disparate pension systems of its member countries, and where it has tried to harmonize policies directly, notably in the area of supplemental pensions, it has had little success. The weakness of broad harmonization pressures within the EU helps to explain the absence of overall policy convergence.

The economic-demographic pressures for pension austerity, reinforced by ideological critiques and supra-national institutions, might be expected to produce massive changes in public pension systems. But change has, as noted above, mostly been incremental, because pressures for austerity are mediated in critical ways by political and policy characteristics of countries.⁴² Most generally, politicians have sought to respond to austerity pressures in a way that minimizes the blame and electoral retribution that they encounter from organized groups and individual voters. Both the strategies and policy choices that they make to avoid blame and the opportunities that their political opponents have to generate blame are in turn influenced by feedbacks from current policies, political institutions, and political support coalitions.

BLAME-AVOIDING INCENTIVES. Austerity pressures on public pensions pose a common set of challenges for politicians, notably pressures to avoid or diffuse blame and the limited opportunities for claiming credit. Politicians who are interested in seeking re-election must be particularly sensitive to avoiding blame because voters are generally more sensitive to

Germany, see Martin Hering, *Major Institutional Change in a Frozen Welfare State: The Politics of Privatizing Public Pensions in Germany*, Johns Hopkins Ph.D dissertation in progress.

⁴² As Paul Pierson put it, austerity politics is different from enrichment politics not just because resources are constrained while there are more elderly to be served, but also because “austerity creates a quite distinct set political problems, empowers different actors, and dictates new strategies.” Pierson, “Investigating the Welfare State at Century’s End,” in *The New Politics of the Welfare State*, p. 2.

losses that are imposed on them (e.g., cuts in pension benefits) than to equivalent gains that they have made.⁴³ Pension cutbacks are especially risky because losses are perceived as particularly salient by the target group and because in many countries, the elderly are disproportionately likely to vote.

Each of the three broad options that politicians have for responding to austerity pressures--retrenchment, refinancing and restructuring--poses distinctive opportunities and strategies for policymakers concerned with avoiding blame. And the universality of politicians' seeking to avoid blame for unpopular actions is helpful in explaining some aspects of the national cross-national patterns in pension policy change that we observe. For example, policymakers frequently attempt to reduce the blame-generating potential of retrenchment by delaying the initial onset of changes for several years into the future, phasing them in gradually, or targeting them on politically weak clientele (e.g., non citizens). Existing beneficiaries are often "grandfathered," that is, protected from any cutbacks. Similarly, in choosing refinancing options, increases in payroll tax rates and tax bases are often delayed and phased in. Policymakers may also increase use of general revenue or create new sources of dedicated revenue that diffuse costs broadly and are less visible. In restructuring pensions, policymakers generally phase out the universal flat-rate pensions that some countries make available to all citizens over time, or make them subject to a gradually escalating income test. Similar strategies can be used to replace a public defined benefit pension with a "defined contribution" pension based on individual accounts.

The universal pressures for avoiding blame and generating blame in democratic politics are not felt equally in all political systems, however. Instead, they are interwoven with features

⁴³ This does not mean that politicians do not pursue other objectives at the same time. They may for example have "good policy motives" as well as electoral objectives, and seek election and re-election through credit-claiming and by generating blame against political opponents as well as through blame-avoiding. But avoiding blame is likely to be a particularly important concern. See R. Kent Weaver, *Ending Welfare As We Know It*, Washington, D.C.: The Brookings Institution, 2000, chapter 2.

of specific features of national political systems: policy feedbacks from existing program structures, political institutions, and the structure of political support coalitions. Together, these national contexts affect the types of retrenchment initiatives that are attempted, the strategies used to sell those initiatives and avoid blame, and the eventual timing and scope of pension reform.⁴⁴

POLICY FEEDBACKS. Perhaps the most important influence on prospects for pension retrenchment and restructuring initiatives is the heritage of past pension policy choices, which Pierson refers to as policy feedbacks and “path dependence.”⁴⁵ Both the overall “pension regime” and what can be called the “micro-rules” of individual programs can shape later pension policy choices. For example, Karl Hinrichs and Myles and Pierson have noted (and Table 1 in this paper confirms) that clear policy feedback or “path dependence” effects are visible in comparing countries that had large public earnings related systems at the beginning of the 1970s and those that did not.⁴⁶ Countries that did not develop a large public earnings-related pension tier prior to the 1970s, notably Australia, Denmark, New Zealand and the United Kingdom, faced continuing pressures to do so. But in the long absence of a state-mandated system, each of these countries developed a substantial occupational pension sector. Proposals for an expanded public pension system had to adapt to these developments, either by creating an opt-out from the state pension system when the latter was created (as in the U.K.), or by mandating universal coverage

⁴⁴ As Pierson puts it, “there is no simple ‘politics of pensions.’ Rather, each country faces the distinctive politics of distinctively constituted systems.” Pierson, “The Politics of Pension Reform,” p. 274.

⁴⁵ See Pierson, *Dismantling the Welfare State*, and Pierson, “Increasing Returns, Path Dependence, and the Study of Politics,” *American Political Science Review*, vol. 94, no. 2 (2000), pp. 251-67.

⁴⁶ Hinrichs, “Elephants on the Move,” Myles and Pierson, “The Comparative Political Economy of Pension Reform,” pp. 305-333 in *The New Politics of the Welfare State*. See also the comparison of Denmark and Sweden in Christoffer Green-Pederson and Anders Lindbom, “Politics Within Paths: The Trajectories of Danish and Swedish Pension Systems,” Paper delivered at the European Consortium on Political Research Workshop on the Politics of Ageing, Turin, March 22-26, 2002.

and increased standardization of private occupational pensions rather than an expanded state system (as in Denmark and Australia). Slower economic growth and higher unemployment after the first oil shock also made governments that did not already have a public earnings-related pension tier extremely reluctant to undertake the huge new spending commitments involved in adding one.⁴⁷ These "mixed" pension systems can be considered a distinctive new form of pension regime.

As shown in the right hand column of Table 1, these different pension regimes are likely to respond to current pressures for austerity in pension policy in very rather different ways. In "Bismarckian" countries with a very large public earnings-related pension tier, pressures to reduce pension costs and reduce rather than just stabilizing pension contribution rates have been especially severe. Bismarckian countries are likely to begin with incremental retrenchment and refinancing measures, but once these have been exhausted, may turn toward more fundamental restructuring reforms to reduce current and future costs. Because the public Pay-As-You-Go tier was already so large, however, proposals for a mandatory occupational or personal pension individual account tier had to adapt or be "crowded out" by the double payment problem. When expanded mandatory or quasi-mandatory individual account tiers have been adopted in these countries, notably in Sweden and Germany, it has been as a relatively small supplement to a still very large public pension tier that faced severe affordability problems. In both countries, the new individual account tier is intended to preserve overall pension replacement rates at or near the levels previously promised while stabilizing contribution rates in the public system.

The "Bismarckian Lite" countries, Canada and the United States, with lesser pension burdens, are likely to be able to maintain their current pension structures with incremental measures somewhat longer. But the emergence of large supplemental pension sectors in the "Bismarckian Lite" countries--in part a reflection of their own modest replacement rates--mean that policymakers may face pressures to expand a parallel tax-subsidized private pension system

⁴⁷ See for example Green-Pedersen and Lindbom, "Politics Within Paths," p. 12.

whose costs may not be as visible as those in the public system. Countries relying primarily on universalistic pensions--a disappearing category by the 1990s--were likely to continue confront pressures for earnings-related pensions but equally strong demographic and budgetary counterpressures against adopting them, at least as a public system. Moreover, although Esping-Andersen has argued that universal pensions are most likely to be resistant to austerity pressures because of their broad beneficiary base, universal pensions are also poorly targeted. In an era of huge pension expenditures and fiscal stress, pressures for some form of income-testing at the upper end are likely to be strong, both in the few countries like New Zealand that rely on them exclusively and in countries where they are one tier of a multi-tier system.

The age of the current pension system in a country can also affect its susceptibility to change. As Pierson has noted, people develop expectations about the level of benefits that they should receive when a pension system has been in place for many years.⁴⁸ These expectations are especially powerful in contributory systems, where a sense of entitlement to a given level of “earned benefits” is likely to arise, even if the ratio of benefits to past contributions is extremely high. Thus the prospects for pension retrenchment and restructuring are likely to be greatest in “immature” contributory systems, where few people have begun to draw benefits, and thus political mobilization against those initiatives efforts is likely to be relatively weak. This is most clearly evident in New Zealand, where a new National government in 1975 quickly abolished an earnings-related pension tier put in place by its Labour predecessor the year before, and in the United Kingdom, where the Thatcher government dramatically reduced the scope of the State Earnings-Related Pension Scheme established by the prior Labour government.

Finally, the prospects for pension policy changes can also be affected by the presence or absence of program micro-rules such as whether a program has “action-forcing” financing mechanisms. If a pension program relies exclusively on a dedicated revenue source (usually a

⁴⁸ Indeed, Pierson has argued that “the likelihood of privatization declines in direct relation to the scope and maturity of a pay-as-you-go scheme.” Pierson, “The Politics of Pension Reform,” p. 286.

payroll tax), as in the U.S. and Canada, pension reform will come to the top of politicians' agenda when fund outflow is about to exceed contributions inflow (or when accumulated funds are about to run out, in partially funded systems). Indeed, the timing of past Social Security reform rounds and the distinctive absence of Social Security refinancing since 1983 can clearly be traced in large part to the way the trust fund operates: payroll tax increases enacted as part of the 1983 Social Security rescue package have proven sufficient to pay out current benefits and accumulate a surplus as well; so payroll tax increases would be almost impossible to sell to the public. If, on the other hand, a pension program's governing statutes permit, or even require (as with most universal or means-tested pensions) general revenue financing, retrenchment and restructuring initiatives are likely to be delayed until a government faces a general budget crisis.

ORGANIZED INTERESTS. The relative power of political support coalitions, especially labor unions and left political parties, has been widely recognized as an important factor influencing both the way that welfare states develop and their susceptibility to austerity initiatives.⁴⁹ Interests are organized in different ways, however. In a number of countries in Europe, centralized bargaining between employers and trade unions, with government as a concerned (and sometimes guiding) third partner, is an important feature of the policymaking process.⁵⁰ Myles and Quadagno have suggested that because leaders of these "social partners" can reach binding agreements and allocate costs among their members, such arrangements may facilitate pension retrenchment and restructuring.⁵¹ Pierson has argued that unions may be less

⁴⁹ Pierson, "The New Politics of the Welfare State," *World Politics*, vol. 48. No. 2 (1996), pp. 143-179.

⁵⁰ On the varieties of relationships between government and social partners and their implications for European social policy, see Bernhard Ebbinghaus, "Reforming the Welfare State through 'Old' or 'New' Social Partnerships?," pp. 103-120 in Carsten Kjærgaard and Åge Westphalen, *From Collective Bargaining to Social Partnerships: New Roles of the Social Partners in Europe*, Copenhagen: The Copenhagen Centre, June 2001.

⁵¹ John Myles and Jill Quadagno, "Recent Trends in Public Pension Reform: A Comparative View," pp. 247-271 in Keith G. Banting and Robin Boadway, eds. *Reform of Retirement Income Policy: International and Canadian Perspectives*, Kingston, Ontario: Queens University School of Policy Studies, 1997.

influential in periods of pension austerity than they were during the construction of the welfare state, but unions clearly remain important players in many countries. For example, Karen Anderson has argued that labor unions that perceive pension policy as part of a broader effort at economic stabilization, and see themselves as essential partners in achieving that stability in collaboration with social democratic governments, may be willing to make greater compromises than unions that are more marginalized in policymaking.⁵² In other countries, unions may have an institutionalized role in administration of the pension system that gives them added leverage to resist changes that they find unacceptable.⁵³

The organization of seniors themselves can also affect governments' willingness to undertake and capacity to carry out austerity initiatives. In the United States and some other countries, seniors groups are a powerful independent political force. In most other countries, seniors organizations are much weaker.⁵⁴ In many countries, trade unions and union confederations quite consciously view public pensions as a form of deferred wage and themselves as the major defenders of the public pension system. However, trade unions have more complicated agendas than seniors organizations; faced with a fiscal crisis in which they are faced to choose between cuts between pensions and cuts in health care or unemployment insurance, seniors groups are probably less likely to choose the former than trade unions. Thus

⁵² See Karen M. Anderson, "The Politics of Retrenchment in a Social Democratic Welfare State: Retrenchment of Swedish Pensions and Unemployment Insurance," *Comparative Political Studies*, vol. 34 (November 2001) pp.1063-1091.

⁵³ Daniel Béland, "Does Labor Matter Institutions, Labor Unions and Pension Reform in France and the United States," *Journal of Public Policy*, vol. 21, no. 2(2001) pp. 153-172.

⁵⁴ On seniors groups, see for example Alan Walker and Gerhard Naegle, *The Politics of Old Age in Europe*, Buckingham and Philadelphia: Open University Press, 1999, David Feltenius, "Pensioners' Organizations in The Swedish Policymaking Process: From Lobbying to Corporatism," paper presented at the 30th Joint Session of the European Consortium for Political Research, Turin, Italy March 22-27, and Andrea Louise Campbell and Julia Lynch, "Whose 'Gray Power'? Elderly Voters, Elderly Lobbies, and Welfare Reform in Italy and the United States," *Italian Politics and Society* 53 (Summer 2000), Andrea Louise Campbell, *How Policies Make Citizens: Senior Political Activism and the American Welfare State*, Princeton: Princeton University Press, 2003, and Henry J. Pratt, *Gray Agendas: Interest Groups and Public Pensions in Canada, Britain, and the United States*, Ann Arbor: University of Michigan Press, 1997.

powerful seniors organizations are probably a stronger bulwark against pension retrenchment than powerful trade unions. But senior organizational strength is not an exogenous variable--it is likely to reflect at least in part past austerity initiatives that have mobilized senior opposition.

Overall, organized interests play an ambiguous role in pension reform. Failure to secure the approval of “social partners” can derail proposed pension reforms of all types (e.g., in France), it is not clear that countries with more organized interest group participation in policymaking have produced more sweeping reforms. Moreover, countries that have instituted major reforms (e.g., Germany, Italy, Sweden) often did so by affording employers and unions a relatively limited consultative role—and less veto power--than they are normally afforded.

POLITICAL INSTITUTIONS. The literature on welfare state retrenchment suggests several arguments about how political institutions structure opportunities for pension policy change. Perhaps the most obvious argument is that systems that concentrate power in the executive, with few and relatively weak veto points where retrenchment initiatives can be blocked--single-chamber legislatures with cohesive, executive-dominated single party majorities and no requirement for a super-majority, for example--are more likely to enact pension retrenchment and restructuring initiatives than those that lack these institutions. Several authors have framed this argument more generally in terms of veto points and veto players and the degree of party fragmentation as influences on governmental capacity for imposing policy change.⁵⁵

As Pierson and Weaver noted in their study of pension retrenchment in Canada, the U.K. and the United States, however, the advantages of concentrated power and minimal veto points are at least partially offset by concentration of accountability in political systems. Voters know that it is the governing party that is imposing losses, and those in power know that they know it, and may therefore to be reluctant to undertake initiatives that are very likely to incur retribution

⁵⁵ See for example Immergut et al. Brooks argues that fragmentation of legislative power makes pension privatization less likely, but it is statistically significant only in some of her statistical models. See Brooks, "Social Protection and Economic Integration," p. 515.

at the next election.⁵⁶ Moreover, even governing parties with extraordinarily strong formal powers may face pressures not to use them to maximize their own preferences: the financial stakes in pensions are so high for employers, unions, pension providers and others that they are likely to view stability and predictability over time as supremely important. Thus even pension policy changes that serve a group's short-term interests may not be desirable if they are seen to as posing a high risk of reversal (with the attendant transition costs) by a later government.

Other aspects of political institutions may also affect capacity for policy change, however. For example, countries that have relatively short electoral cycles may find it particularly difficult to make changes that impose visible losses on retirees and those approaching retirement. In this regard, multiple electoral cycles (e.g., the differing electoral cycles for the president and legislature in France, or for federal and provincial legislatures in Canada and Germany, may also inhibit governmental willingness and capacity to retrench, refinance or restructure their pension systems.⁵⁷

Overall, the role of political institutions in pension reform has been complex, and its contribution to explaining cross-national patterns of pension policy change appears fairly modest. Short electoral cycles have complicated pension reform initiatives in a number of countries that have them (notably Sweden prior to 1994, and New Zealand). Weak governments (Italy) and multiple veto points (the United States) also appear to be associated with unusually long phase-in periods for some austerity-driven pension reforms. And the role of political institutions in contributing to the paucity of Social Security policy change in the United States over the past two decades seems clear: the lack of change is not just the result of short-term economic-demographic pressures and the absence of an immediate funding crisis in the Social

⁵⁶ Paul D. Pierson and R. Kent Weaver, "Imposing Losses in Pension Policy," pp. 110-150 in R. Kent Weaver and Bert A. Rockman, eds., *Do Institutions Matter?: Government Capabilities in the U.S. and Abroad*, Washington, D.C.: The Brookings Institution, 1993.

⁵⁷ See for example Leslie Pal and R. Kent Weaver, *The Government Taketh Away: The Politics of Pain in the United States and Canada*, Washington, D.C. Georgetown University Press, 2003, and Bonoli, *The Politics of Pension Reform*.

Security system. It must also be attributed in part to the combination of multiple veto points and, almost continuous divided government that has kept U.S. presidents from actively pursuing reform agendas that would likely fail to make it through Congress. Alternation of the Democrats and Republicans in the White House and almost perpetual divided government help to explain why the agenda for fundamental reforms has been broad: both parties have been able to put ideas broadly consistent with their political philosophies onto the agenda. And Republican hegemony in the federal government has ensured that broadening investment of the Social Security trust fund is off the agenda for the near term.

Institutional explanations should not be carried too far, however. Concentration of power is necessary but not sufficient explanation of the major pension changes instituted by Margaret Thatcher in the U.K., for example. And major retrenchment and restructuring reforms occurred—and did not occur—both in countries that concentrate power in a single party and those where coalitions—even minority coalitions—held power. It appears that a variety of *ad hoc* mechanisms ranging from technocratic governments with decree powers in Italy to informal cross-party agreements in Germany and formal multi-party working groups in Sweden may act as functional substitutes for concentrated power.⁵⁸

PEER COUNTRY INFLUENCES. In addition to cross-national lesson-drawing or more direct pressures for harmonization that occurs through supra-national institutions, such learning may also occur directly through informal networks of specialized policy elites.⁵⁹ Policymaking elites are more likely to engage in lesson-drawing from specific other countries when (1) the “lesson-offering” and lesson-drawing countries face similar problems in the short- and medium-term because they have similar overall policy regimes and specific program micro-rules, (2) elites in the “lesson drawing” country perceive a potential lesson offering countries to be “like us” in terms of their demographic situation, party makeup of government, etc., and (3) policy

⁵⁸ See especially Schludi, *The Reform of Bismarckian Pension Systems*, chapter 9.

⁵⁹ See Colin J. Bennett, "What is Policy Convergence and What Causes It?" *British Journal of Political Science* 21(1991), pp. 215-233

elites interact on a regular basis through regional organizations like the European Union. All of these factors suggest that lesson-drawing is likely to be heavily regionalized. Thus it is not too surprising that Latin Americans have looked more to the Chilean model of more radical privatization than pension reformers in other regions. Some similar patterns can also be seen in Western Europe, for example with substantial copying of the Swedish “notional defined contribution” pension system in both Italy and Latvia. The tendency of the United States to view itself as unique rather than looking reflexively at “peer” countries may also contribute to the absence of policy change in the United States.

"Beyond Austerity" Politics

Political mediating factors play an important role in explaining how and why countries respond to pressures for pension austerity in ways that show strong similarities in some attributes but great differences in others. Policy feedbacks play a particularly important role in explaining these patterns. But even taking these variables into account, a number of attributes of pension policy remain poorly explained, notably (1) uneven trends in early retirement programs and the continued decline in labor force participation of older workers in most OECD countries; (2) the widespread expansion of some pension policies, notably child care credits; (3) and differing national choices on collective investment funds. In part, these patterns result from the fact that pension politics is not made in a vacuum. Other policies, ideas, and constituencies can also impinge on pension politics, even when their main focus is elsewhere. In the current era of pension austerity, three such forces are crucial, sometimes reinforcing and sometimes inhibiting austerity pressures. (see the blue box in Figure 1)

INVESTMENT POLITICS. Closely related to the move from enrichment to austerity in public pension systems in recent years is what can be called investment politics. The most basic investment politics question is whether dedicated funding sources that are not currently needed to pay benefits should be accumulated in individual defined contribution accounts or in collective public funds. This issue clearly mobilizes ideologically-oriented constituencies. Developing large public investment funds is also likely to provoke strong opposition among

business interests, who may fear that it will lead to increased government influence over corporate decision-making and even “backdoor” nationalizations. Mutual funds and other financial sector players may also become involved in investment politics disputes, seeking to increase business opportunities while limiting intrusive government regulation and requirements that they provide accounts to low-wage, low fund-balance workers on terms that do not allow them to make a profit. Trade unions may also become involved in investment politics, seeing individual accounts provided to their members as a way to build member loyalty and organizational capacity.

LABOR MARKET POLITICS. Many aspects of pension policy have implications for the labor market, notably the standard retirement age, the minimum age at which retirement benefits can be taken and penalty for taking benefits early, and the penalty paid in terms of lost benefits for continuing to work past the standard retirement age. The more generous the conditions under which workers may retire early, the younger the standard retirement age, and the greater the financial the penalties for working past that age, the greater the restrictions on labor supply. In most countries, work effort among older workers has fallen substantially in recent decades.⁶⁰ In the slow economic growth era that followed the 1970s oil shocks, a number of countries adopted policies that encouraged workers to retire, or partially retire, early, opening jobs for younger workers. Both employers and unions may resist cutbacks in early retirement provisions of public pension systems.

GENDER POLITICS. Gender is relevant to pension policymaking in many ways. Women tend to live longer than men, and thus are more likely to outlive any private retirement savings. They also are likely to spend fewer years as full-time workers in the paid labor market, devoting more of their working years to caregiving for children and parents and as homemakers. And when they are in the paid labor market, their earnings are usually lower than those of men.

⁶⁰ Organization for Economic Cooperation and Development, *Reforms for an Ageing Society*, Paris: OECD, 2000, chapter 8.

Thus they may be particularly vulnerable in pension systems that base retirement pensions on contributions. Because they are likely to have limited contributions histories, they are likely to be particularly dependent on the earnings history of their spouse—and particularly vulnerable if they divorce or outlive their husband.

For all of these reasons, elderly women in many OECD countries have higher rates of poverty than do elderly men. And pension policy in many countries has become “gendered”—discussed in terms of differential gender impact, and the focus of interest and lobbying by organizations representing women. Three issues have been at the center of the intersection between pension policymaking and gender politics: differential retirement ages for men and women, pension credits for years spent in care-giving, and splitting of pension credits when marriages break down.. The way that these issues intersect with austerity pressures differs significantly, however. A number of countries have historically maintained lower retirement ages for women than for men, reflecting both attitudes toward the “fragility” of women and the fact that women tend to marry men who are several years older than themselves. These differentials have come under attack on grounds of both equality before the law and fairness (since women live longer than men). Thus harmonizing retirement ages at the higher level previously applied to men has provided an opportunity to accommodate austerity pressures in pension systems.

There has been more conflict between austerity pressures and pressures to provide additional pension credits for care-giving. In general, pressures for pension austerity have led to movement in pension policy toward a closer linkage of benefits to contributions, for example by increasing the number of working years that are taken into account in calculating pension replacement rates. Introducing pension credits to care-givers weakens the linkage between labor market income and pension credits; it also weakens the linkage between actual contributions and pension credits unless the state makes contributions on caregivers’ behalf (as has been done in Sweden). And in earnings-related pension schemes, care-giving credits also require putting a value based on the care-giving contribution. Should that contribution be based on a parent’s

previous wage, which is likely to give more money to middle class families who are already likely to have higher retirement incomes than working class families? Or should it instead be paid at a flat rate? Regardless of the specific approach taken, increasing credits for care-givers is likely to increase the cost of a public pension system in both the short-and-long-terms.

The various “beyond austerity” issues intersect with each other and with austerity concerns in a number of ways. Cuts in early retirement provisions and increases in the retirement age for women (where it was previously lower than that for men), for example, can be used to lower the costs of public pension systems. But other issue also cut against austerity concerns. For example, worries about high unemployment rates may lead to an expansion of early retirement pensions, even in the face of strong overall pressures for retrenchment. And successful retrenchment may facilitate increased use of pension funds for savings and investment.

CONCLUSIONS

Pension policy in the advanced industrial countries over the past quarter century exhibit substantial commonalities as well as continued—in some cases, enhanced—diversity. The most commonality is found in pension policy agendas. This commonality, stems largely from a common (but differentially felt) set of economic-demographic forces: the demographic shock of a shrinking ratio of workers to pensioners as life expectancy rose and fertility declined, fiscal pressures resulting in part from slower economic growth, and competitive pressures to restrain payroll taxes and other non-wage-labor costs that finance public pensions. As a result, the wealthy industrialized countries have considered very similar sorts of incremental retrenchment mechanisms and payroll tax increases. Of course, these pressures were felt to varying degrees across countries. The United States, for example, faces both weaker demographic and fiscal pressures than many other wealthy countries, meaning that pressures for immediate reductions in social security spending have not been strong in the U.S. The absence of strong pressure for immediate policy change in Social Security has in turn meant that there has not been a legislative

vehicle that would facilitate changes in provisions involving care-giving and other “beyond austerity” concerns that have become more important over this period in other countries or improvements in the U.S.'s very weak income guarantee for the elderly.

Other, "politically mediated" pressures for policy change continue to be felt both in the United States and abroad. Common incentives for politicians to minimize blame clearly play an important role in explain why governments in all of the rich countries have used delay, obfuscation and other blame-avoiding techniques to reduce the visibility and immediate effects of retrenchment, refinancing and restructuring initiatives. Which options were considered and how they were perceived to play politically was also clearly heavily influenced by the nature of the existing pension regime. Well-established pension regimes are unlikely to deviate from the modal transition patterns outlined in Table 1.

Policy feedbacks also play a major role in how privatization options are framed and how far they advance. Unlike some Latin American countries and transitional economies in eastern Europe, the wealthy industrialized countries have all built even their restructuring reforms on the foundations of their current systems. Differences in the role played by private pensions in these systems can in large part be explained by whether a country already had a robust public earnings-related pension prior to the early 1970s.

Overall, however, convergence of pension policy regimes in the wealthy countries has been limited for a number of reasons. Most important is the fact that change is path dependent: different policy regimes pose distinctive policy problems and opportunities for change. Most notably, countries where a large income-related pension system is already in place are likely to develop both substantial clientele support for such programs and have limited tax room for a mandatory system of individual accounts. This fact has contributed to the failure of the European Union to try to harmonize pension regimes in member countries—which has in turn further limited convergence. Thus while supra-national integration in Europe has sometimes stimulated retrenchment in individual countries, it has not had a significant effect on policy convergence.

FIGURE 1.

Model III: A "Beyond Austerity" Model of Pension Politics

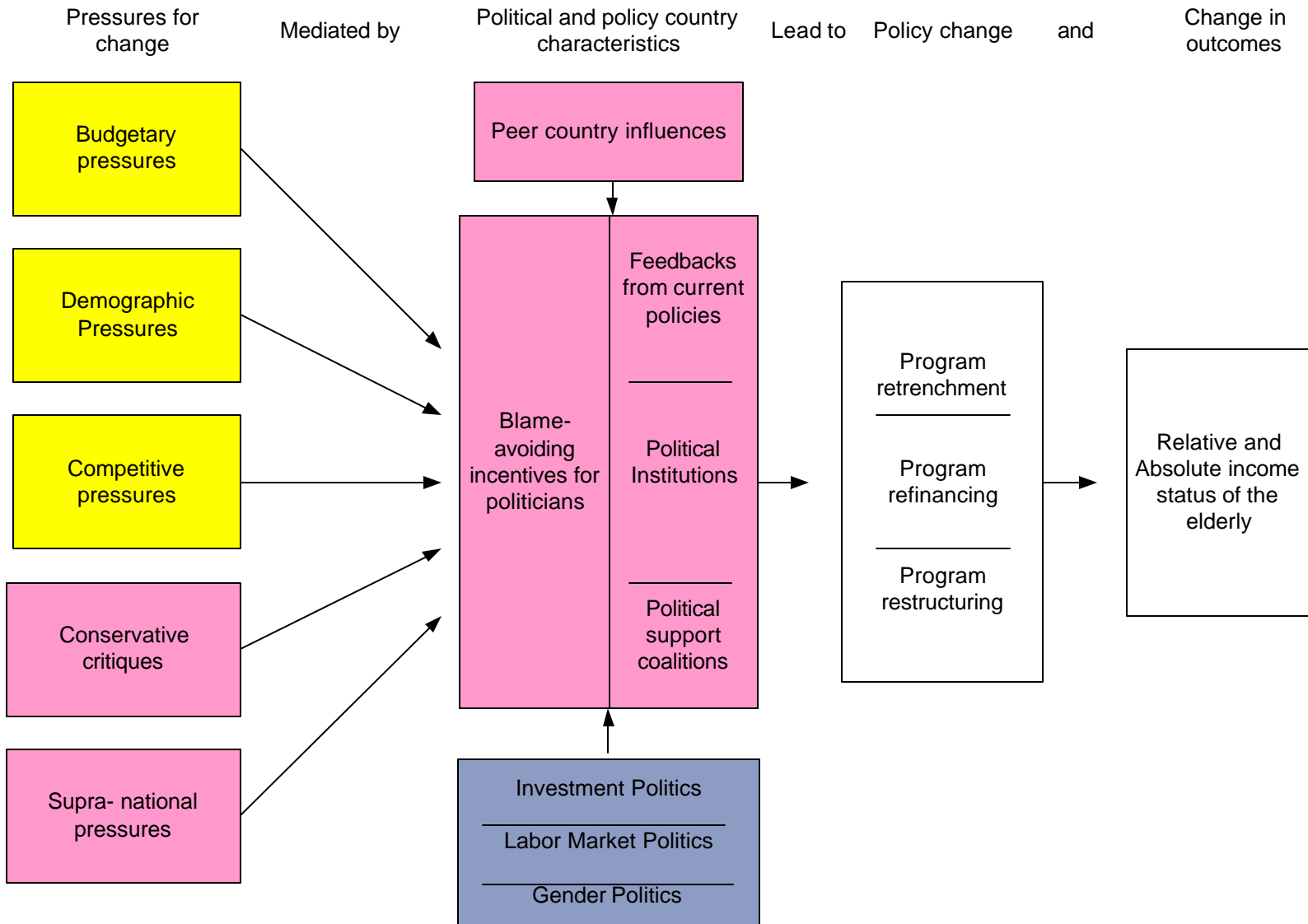


TABLE 2. PENSION REGIME TYPES AND CHALLENGES

Pension Regime Types	Country Examples, c. 1950	Country Examples, c. 1974	Country Examples, c. 1995	Modal Challenges in Period of Pension Austerity
<u>Bismarckian</u> : earnings-related social insurance tier (alone or on top of flat-rate pension) with high replacement rates, is dominant	Austria France Italy Germany	Austria France Italy Germany Sweden	Austria France Italy Germany Sweden	<ul style="list-style-type: none"> ◆ Keep pension payroll taxes at politically sustainable levels (under c. 20% of payroll) through combination of retrenchment and refinancing ◆ Consider restructuring public tiers and adding mandatory private tiers when those options are exhausted
<u>Bismarckian Lite</u> : earnings-related social insurance tier (alone or on top of flat-rate pension) with low replacement rates is dominant	United States	Canada United States	Canada United States	<ul style="list-style-type: none"> ◆ Keep pension payroll taxes at politically sustainable levels (under 10-15% of payroll) through combination of retrenchment and refinancing ◆ Adapt to emerging supplementary occupational and personal pension sectors
<u>Universal</u> : flat-rate pension financed by general revenues and/or payroll tax is dominant	Canada Denmark New Zealand Sweden Switzerland United Kingdom	Denmark New Zealand Switzerland United Kingdom	New Zealand	<ul style="list-style-type: none"> ◆ Respond to public pressures for earnings-related pensions ◆ Adapt to rising costs through retrenchment (including income-testing at upper end) and refinancing ◆ Adapt to supplementary occupational and personal pension sectors where they emerge
<u>Residual</u> : income or means-tested pension is dominant	Australia	Australia		<ul style="list-style-type: none"> ◆ Respond to public pressures for earnings-related pensions ◆ Avoid perverse savings and work incentive effects associated with income and asset tests ◆ Adapt to emerging supplementary occupational and personal pension sectors
<u>Mixed</u> : mandatory or opt-out private tier is integrated with residual or universal pension tier	Netherlands	Netherlands	Australia Denmark Netherlands Switzerland United Kingdom	<ul style="list-style-type: none"> ◆ Integrate public and private tiers and provide transparency, equity and universal coverage ◆ Control administrative costs in private tiers

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