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Markets, Welfare States or Welfare Markets? Normative Models and Real-World Varieties of Embedding and Regulating Funded Pensions Between Individual and Collective Responsibility

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Markets, Welfare States or Welfare Markets?

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Thorsten Hippe

January 2006

`In the end, life is still risky.
We have to realize that
we cannot eliminate all the risks in our long life completely.
What we can do
is to make greater efforts
to control these risks at a minimum level.´

(Noriyuki Takayama 2005)

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1. Tilting away from Unfunded towards Funded Pensions: Replicating, Retrenching or Restructuring the Welfare State ?

At the beginning of the 21st century, unfunded parts of national pension systems in OECD countries are faced with a huge challenge: increasing financial liabilities expressed in (projected) contribution and/or tax hikes because of demographic ageing contrast with endangered coping capabilities of the welfare state because of economic and financial globalization (Scharpf 2000b; Alber 2002), de-industrialization and the shift to the service economy (Iversen & Wren 1998; Schettkat 1998; Häußermann & Siebel 1995), high(er) unemployment as well as the individualization of human identities (Streeck 2001; Ebert 2001) and the concomitant increase in the size of the Shadow Economy (Schneider 2000; Reindl 2001). The central response of the great majority of governments in Western developed democracies and elsewhere to the thereby triggered political pressure on unfunded pensions was a – depending on the country – more or less pronounced shift in the overall pension mix from unfunded pensions to capital funded pensions[1].

This development is often depicted as a process of *„privatization"* (Gilbert 2002, 103; Bonoli, George, Taylor-Gooby 2000, 46). While many social policy analysts view it as problematic as it seems to imply a silent surrender of public responsibility (Gilbert 2002; Ganßmann 2000, 134 ff.) and a concomitant polarization and unsettling of living standards in old age leading us back to the 19th century (Schmähl 2002 & 2006), almost all mainstream economists welcome it as welfare-enhancing. According to the latter, the provision of social security via private insurance markets would be much more reliable (Homburg 1997, 78) (see Marschallek 2005a for a critique of this viewpoint) and overall welfare-enhancing despite the well known transition costs that a (partial) shift from an unfunded to a funded pension system necessarily incurs (Börsch-Supan 2002). However, whereas these two different positions tacitly assume that the transition from an unfunded to a funded pension system automatically implies a clear-cut shift from the \`public´ (state) to the \`private´ (market) sphere, a new theoretical approach contends that such dualistic conceptions are not able to adequately capture the ongoing welfare state change in the pension policy arena.

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[1] It is not the task of this paper to examine the alleged (de)merits of this shift. See – among many others - Barr (2001), Börsch-Supan (2000), Marschallek (2002), Thompson (1998) for different estimations of this issue. See also Werding (1998 & 1999) and the Scientific Advisory Board of the German Ministry for Families, Senior Citizens, Women and Youth (Wissenschaftlicher Beirat für Familienfragen) (2002) for a quite interesting, although hardly publicly discussed third paradigm of pension financing called \`Human Capital Funding´.

1.1. The Compensation Hypothesis: Restructuring towards Welfare Markets ?

Instead, this analytical approach supports the thesis that etatist structures and market mechanisms are increasingly hybridised so that pension system change is about a transformation, that means a ***restructuring*** of social policy rather than about outright retrenchment of the welfare state (Leisering 2005, 1 & 4). Etatist structures are expected to be partially replaced by market mechanisms as a result of economic and cultural pressures on welfare states, but at the same time legitimatory pressures on political actors in democracies concerning the issue of economic security in old age would be so high that governmental actors could not merely resort to sheer private markets. Instead, these markets are predicted to become increasingly politicized (ibidem, 9). According to this position, the *fact* of collective responsibility for citizens` welfare does not disappear, but merely the *form* of this collective responsibility changes. It is asserted that *less* state via reducing unfunded pensions on the one side goes hand in hand with - and thus seems to be (at least partially) compensated by - *more* state via *socially* regulating funded pensions on the other side (ibidem, 1 & 7), with social regulation meaning market constraining regulation opposed to economic regulation referring to market fostering regulation. Hence, according to this approach, we should not speak of privatization, but rather of the hybridisation of pension pillars, which means the blurring of the boundaries between public and private (Berner & Leisering 2005) in the funded pension sphere. This can be called the ***compensation hypothesis***, expecting that funded pension systems are increasingly *socially* regulated, resulting in a new hybrid form of social policy that some authors call ***`welfare market´*** (Nullmeier 2001; Leisering 2005, 8).

1.2. The National Homology Hypothesis: Replicating Ingrained National Welfare Cultures ?

Of course, it can be suspected that the degree to which we can observe hybridisation in funded pension systems is likely to differ between different welfare states. With reference to the institutional (Paul Pierson) and cultural (Franz-Xaver Kaufmann) traditions of welfare state analysis, Leisering (2005, 13) hypothesizes that national welfare cultures will ***replicate*** themselves: states with a traditionally strong emphasis on redistribution will display a rather

intense degree of social regulation of funded pensions (some perhaps even offsetting market mechanisms completely, thereby retaining the character of a (funded) ***welfare state***), whereas national welfare states with a traditionally low emphasis on redistribution will rather show a fairly weak degree or even complete absence of social regulation of their funded pension systems, thereby assuming the character of a ***conventional market***. The reason for such possible path dependencies could be explained with reference to Rothstein (1998, 138 f.), who argues that the specific structure of existing welfare state institutions shapes the way people think about social issues, thereby promoting corresponding convictions, conventions and norms influencing what the people and (political) actors regard as rational and morally appropriate. Leisering (2005, 12) calls this the ***national homology hypothesis***. This hypothesis has important implications for the debate about the convergence vs. divergence hypothesis (Seeleib-Kaiser 1999) in comparative social policy analysis. According to the homology hypothesis, we can expect persistence of divergence of national pension policies – albeit in a new, namely regulatory, sense. In accordance with this view, Hyde, Dixon & Drover (2003, 196) came to the conclusion that the preoccupation of a number of social policy analysts with the neoliberal privatization model in funded pension policy would be completely *„misguided, even irrelevant"* in the Western European Context because the distinctively collectivist values of the European Continent had shaped / will shape regulatory styles in pension policies in a special way. Is such a provokingly stark estimation of European funded pension policy justified ?

1.3. The Global Diffusion Hypothesis: Retrenchment in favour of Conventional Markets ?

However, regulation is not necessarily socially oriented, but can simply remain on the level of sheer economic regulation. Mainstream economists often argue that economic globalisation functions as a selection process that will further ***(conventionally regulated) private insurance markets*** because they would be the most efficient ones (Berthold & Thode 1998, 334 & 354). Even if this efficiency argument can be called into question, neoliberal conceptions of social policy, distrustful of state intervention in the economy, have nevertheless gained much ground internationally since the early 1980s and they have probably influenced funded pension regulation policy according to their principles in all countries. This can be called the ***global diffusion hypothesis***, expecting a ***retrenchment*** of the national pension state. Pension policy is seen here as a *global* policy process, in which global social policy actors with a broadly

neoliberal ideological stance like the IMF, the OECD and the World Bank and others play an important role in shaping national pension policies (Orenstein 2005) in (almost) *all* countries - regardless whether members of these organizations are directly involved in the pension reform process (f.e. Poland) or not (f.e. Sweden). Influence is not only exerted by providing direct policy `assistance´, but even more by producing and diffusing certain liberal thinking styles, conventions, norms, ideas and cognitive frames, thereby *“revolutionizing the social contract”* (Orenstein 2005, 175) through promoting ***conventional markets*** regulated like any other sort of commodity market.

Hence, the `compensation hypothesis´ and the `national homology hypothesis´ set out above confront a `global diffusion hypothesis´. Whereas the first is convinced that the shift to funded pensions will generally be accompanied by increasing *social* regulation of these systems because of ubiquitous concerns of democratic legitimacy, the second predicts persistent or even increasing divergence of national pension policy regimes because of the replication of overall traditional characteristics and norms of the respective national welfare culture in the regulatory style of funded pension systems. Contrary to that, the third expects to see increasing convergence between national pension policies because of a global neoliberal normative hegemony – convergence not only in the sense of more funding, but also in the sense of the diffusion of similar liberal regulatory styles for funded pension systems across formerly different welfare states.

Behrendt (2000, 25) has empirically shown that the kind of regulation of funded pensions is crucial as regards distributional outcomes. So, how is this emerging social policy field of funded pension regulation policy institutionally shaped in OECD countries ? And which normative social policy paradigms and values (`Wertideen´) (Leisering 2004) do these shapings reflect ? Is regulation influenced by some new sort of third way philosophy trying to balance solidaristic and liberal values in a new, socially regulated institutional system often called ***`welfare markets´***, thereby compensating (at least partially) the lost or swaying promise of secure unfunded pensions ? Or is it formed according to the respective ingrained norms chrystallized in traditional national welfare state institutions, so that at least some pension systems may have retained their ***welfare state*** character despite the shift to funded pensions ? Or is the regulation of funded pension systems dominated by globally spreading neoliberal convictions and ideas treating pensions as just another commodity exchanged in a ***conventional market*** ?

What does the shift to funding and the concomitant inclusion of regulation as a new field of social policy analysis mean for the traditional welfare regime typology ? Do we indeed need a

revised, more complex typology of welfare regimes than that the classical one of Esping-Andersen (1990), as Leisering (2005, 20) claims ? Or can – like Natali`s (2004) typological approach implicitly suggests - regulatory issues still be ignored when pension regime typologies are constructed ? Or do we get a different regime typology with different country sortings depending on whether we include regulatory issues in the analysis or not ?

1.4. Normative Models and Real-World Varieties of Regulating Funded Pensions between Individual and Collective Responsibility

These questions will be treated here in five steps:

1) In order to be able to say whether national pension systems (and which of them) are to what extent on the way to conventional markets or welfare markets or retain their welfare state character, it is indispensable to exactly specify what these terms could reasonably mean in the context of a funded pension system and how their meanings differ one from another. Therefore, ***three corresponding different ideal-types (normative models)*** of regulatory regimes in the funded pension arena will be developed (Chapter 2). This refers to what Leisering (2005, 11) calls the *gestalt* of social policy regulation. Based on Kohl`s (2000, 116 ff.) recourse to Weber`s (1968, 235) conception of ideal-types[2] as normative-institutional utopias for the use in comparative social policy analysis, an ideal-type of funded pension regulation here is defined as a theoretical construct representing a specific pattern of regulation compiled as an internally consistent, normatively streamlined, monistic configuration of regulatory instruments and institutions based on a single social policy ideology and its core values, ideas and convictions. It will be differentiated here between

a) the ideal-type model of **Neoliberal Voluntarism**, corresponding to a pure **conventional market** of funded pensions,
b) the ideal-type model of **Social Liberalism**, corresponding to a pure **welfare market** of funded pensions

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[2] „Er [der Idealtypus] wird gewonnen durch einseitige Steigerung eines oder einiger Gesichtspunkte und durch Zusammenschluss einer Fülle von diffus und diskret, hier mehr, dort weniger, stellenweise gar nicht, vorhandenen *Einzel*erscheinungen, (…), zu einem in sich einheitlichen Gedankenbilde. In seiner begrifflichen Reinheit ist dieses Gedankenbild nirgends in der Wirklichkeit empirisch vorfindbar, es ist eine *Utopie*, und für die *historische* Arbeit erwächst die Aufgabe, in jedem *einzelnen Falle* festzustellen, wie nahe oder wie fern die Wirklichkeit jenem Idealbilde steht." (Weber 1968, 235; stressings in the original). Taken from Weber`s treatise „Die `Objektivität´ sozialwissenschaftlicher Erkenntnis", published in 1904.

c) the ideal-type model of **Social-Democratic[3] Collectivism**, corresponding to a pure **welfare state** of funded pensions

These normative-institutional models are compiled by issues and related, differing normative views derived out of a thorough analysis of current funded pension policy literature. They must be clearly distinguished from empirical country-specific cases (Kohl 2000, 120) of funded pension regulation, which are usually not normatively streamlined and monotheistic, but often mix regulatory elements stemming from different social philosophies, albeit often displaying some more or less intense overall tendencies towards a specific normative model. Although reform models established by social scientists engaged in policy advice are normally more similar to ideal types than are country cases, most of these reform models are also usually not completely identical with ideal-types, because most scientific advisors are so open-minded and/or under legitimatory pressure that they (have to) mix regulatory elements stemming from different normative principles in their thinking and try to balance their different values, ideas and concerns more or less.

So, why establish such an ideal-typology of funded pension regulation if no country and almost no social scientist represent these ideal types in their pure form ?

Firstly, such an ideal-typology is useful as this theoretical construct serves as an instrument to come to grips with the (in)dependent variable of `regulation´ in funded pension research at all. How is it possible to thoroughly structure the - on the first sight - seemingly endless variety of different single regulatory issues, forms, subvariants, policies etc. ? How can this complexity transformed into an adequate simplicity so that we get a single variable called `regulation´ ? The ideal-typology presented here reduces the complexity of the social world of funded pension regulation in a useful manner, that is in a manner that enables social theory to generate testable hypotheses concerning the relationship between social forces and regulation as well as regulation and welfare outcomes, which is an important criterion for appropriate ideal-typologies (Kohl 2000, 117). Having discussed the different preferred regulatory styles of ideal-types in an extensive manner in chapter 3.1. to 3.11., I will show in chapter 3.12. that such a testable hypothesis relating funded pension regulation intensity and social outcomes can be established. However, as many countries just even have erected their funded systems

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[3] The attribute Social-Democratic in this term is to be understood in the *classical* sense, not in any of the modernized versions. One could say that it refers to the programmatic principles of `Old Labour (Rhetoric)´ instead of `New Labour (Rhetoric)´, but without the negative normative connotations that the term `Old Labour´ usually evokes: the ideal-type of Social-Democratic Collectivism describes a basically viable institutional arrangement of funded pension regulation that has as many advantages and disadvantages as the other two ideal-types.

in recent years, it has to be tested in the coming decades. My task here is instead to make the logically preceding step to that contained in the following argument.

Secondly, the ideal-typology functions as a clearly structured theoretically informed backdrop with the help of which the empirical variety in total, but also single elements of it can be better understood in their normative and political significance. So, it can be examined which regulations in which country are near to which ideal-type representing which kind of normative convictions. Alterations of regulatory policies in a country can then be analyzed whether they indicate continuous hegemony of already formerly dominant normative principles or whether they represent a shift of what extant in the direction of which ideal-type:

„The idealtypical construction forms so to speak the coordinate system with the help of which the place and the movement of an object of analysis can be represented and followed.“ (Kohl 2000, 119; my translation, T.H.)

It can also be analyzed whether politicians` talk, that is claiming legitimacy by referring to certain normative, melodious concepts, is in line with the actual policy content of their actions or not. A related question that can be better treated then is whether parties` funded pension regulation policy program is in accordance with the traditional values of these parties or whether the funded pension regulation policy stance can be taken as an indication for value change within party ideology concerning social policy (Seeleib-Kaiser 2002): f.e., does funded pension regulation policy of Labour Parties in Europe follow traditional social-democratic values (Social-Democratic Collectivism), so that their modernized, but balanced social policy party rhetoric is just party competition talk to attract middle-class voters unfollowed by relevant action, or have they abandoned their former values completely by promoting a neoliberal regulatory style (Neoliberal Voluntarism), so that their declared commitment to the principle of social justice is just talk to keep former staunch supporters going to elections without being followed by relevant action, or do they really combine liberal and solidaristic values in policy practice like their modernized rhetoric suggests (Social Liberalism) ?

To sum up: with the help of an ideal-typology, it gets possible to go beneath the surface of a pile of single regulatory phenomenons in order to carve out the basic normative structure and direction inherent in reform processes in a reliable way. This is a crucial point for the investigation of funded pension regulation because only then it is possible to systematically treat the questions raised here concerning 1) whether regulatory policies reflect norms and

values of the overall traditional social policy culture in a certain country (**national homology hypothesis**), 2) whether regulatory policies follows the alledgedly most efficient neoliberal path resp. reflect social policy ideas diffused by global policy actors with a neoliberal social policy stance (**global diffusion hypothesis**) or 3) whether socially regulated welfare markets compensating the retrenchment of unfunded pensions by balancing the values of social solidarity and individual liberty in funded pension systems are on the move (**compensation hypothesis**).

In particular, if we are keen on examining whether pension systems are currently on the way to *welfare* markets or not and if the use of this term should represent more than some well-sounding, but rather diffuse scientific fashion, the semantic substance of this often used, but as often only loosely defined ideal-type has to be as *extensively* as *exactly* specified: What is a `welfare market´ ? The scientific usefulness of such a term is not that straightforward as its increasing use suggests. For neoliberals, the term is an unnecessary doubling of the same thing: here, markets are always the coordination mechanism producing the highest aggregate sum of welfare for all participants. Competitive markets are said to be inherently welfarist, so they do not need an institutional or semantic attribute to produce welfare.

So, before using the term `welfare market´, it must be established what are the decisive social policy elements that clearly differentiate a *welfare* market from a *conventionally regulated* market on the one side, and from a welfare *state* on the other side. Using the term `welfare markets´ instead just in order to denote the result of the process that social policy fields formerly organized according to classical welfare state principles are now being transformed completely (or mainly) into conventional markets, is not much more than fashionable juggling with terms. In such a case, there would be no reason to speak of *welfare* markets and we should be so upright to speak of (predominantly) *conventionally regulated* markets[4]. If we do otherwise, we misleadingly give the scientifically interested public the impression that these markets would exhibit some solidaristic features of whatever sort which they do not possess in reality, so that our writing – albeit unintentionally – runs the risk of assuming a somewhat affirmative character, especially if these conventional markets would produce some (hidden) problematic outcomes. This is especially so as politicians not seldom try to seek legitimacy for their recent reforms by referring to well-sounding norms, concepts and terms stemming from a diffuse Social-Liberalistic vocabulary favouring *welfare* markets, while at the same

[4] Of course, as country-specific real worlds of funded pension regulation usually tend to mix elements from different ideal types, we would have to say that f.e. a specific country is rather a welfare market than a market, or that welfare market and market elements are of roughly equal importance in a certain country, or that welfare market elements are mixed with some welfare state elements in a country and so on.

time the actual institutional structure of their reforms mainly or perhaps even exclusively follows principles of Neoliberal Voluntarism promoting *conventionally regulated* markets.

2) Having presented the three ideal-types, a problem-oriented perspective (Scharpf 2000a, 33) will be taken to specify which indicators are relevant for determining the character of a funded pension system and which different preferences the ideal-type-ideologies have concerning the institutional shaping of each of these indicators. Therefore, ***11 crucial social policy dimensions*** of regulatory pension policy will be identified which represent those (potential) problems most intensily discussed in the current scientific literature which (may) endanger the constitution and conservation of a retirement capital sum sufficient for status maintenance and / or concern its distribution across different social strata. To each of these dimensions, **three different preferred institutional shapings** will be determined (Chapter 3). This helps to standardize the systematic investigation of the different national real-world systems of funded pension regulation so that meaningful qualitative, but nevertheless systematic comparisons can be established. Needless to say that, the attempt presented here is not seen as a finished issue, but may serve as a first aisle through the regulatory jungle which other researchers can use, extend or change.

The 11 problem-oriented dimensions concern

a) (financial) market risks endangering the constitution of a retirement capital sum during the accumulation phase which is sufficient for the continuance of former living standards in old age (*defined and operationalized here as a minimum net replacement rate of 65% for the average earner*) and related institutions to handle these risks (6 dimensions): myopia risk, early withdrawal risk, volatility risk, self-investment risk, choice risk, and administration charge risk.

b) (financial) market risks endangering the continuous existence of a pension during the retirement phase high enough for the continuance of former living standards in old age and related institutions to handle these risks (2 dimensions): longevity risk and inflation risk.

c) (re)distributive issues impacting on the different financial possibilities of different social strata and groups to save and related institutions to handle these (re)distributive issues (3 dimensions): lifecourse transtion support, poverty of means, and the funded pension tax system.

Thus, extending Leisering`s definition (2005), regulatory pension policy here means those regulatory measures instituted by collective actors and actor constellations (the state, tripartism, corporatism) that frame funded pension provision by legal, organizational,

financial and normative means, while more or less abandoning, constraining or preserving the autonomy of private and non-state actors (savers, insurance companies, unions, employers) in these dimensions to different degrees. These institutional shapings concern the handling of risks endangering the constitution and continuous existence of a retirement capital sufficient for continuance of former living standards in old age as well as the distribution of the saving means necessary for the building up of that retirement capital.

3) Institutional shaping is inherently associated with what Leisering (2005, 11) calls the *intensity* of a regulatory institution, instrument etc. The definition of regulatory intensity here leans

a) on Girvetz`s (1968) definition of the core of social policy as a *society`s* acceptance of responsibility, that means ***collective responsibility*** for the welfare of *all* of its citizens (see also Berner 2005, 9 for this crucial point) and

b) on Leisering`s (2005, 5) concept of ***regulation as a response to (actual or anticipated) failure of financial markets***, which can be interpreted as a new particular task of one of the three general missions of the welfare state defined by Briggs (1961), namely to reduce the extent of insecurity experienced by people against certain social contingencies. Financial market failures are interpreted here as a new sort of such contingencies.

So, the degree of Social-Policy-Regulation-Intensity (SPRI) of an institutional shaping of a regulatory dimension in a certain funded pension system is determined here by the ***degree of collective (versus individual) responsibility for a) the handling of (financial) market risks / failures and b) the appropriate distribution of personal saving capabilities as regards the achievement of continuance of former living standards in old age (status maintenance)*** which is im- or explicitly assigned to individual citizens resp. collective actors by this institutional shaping. The criterion of status maintenance is used here to subject the analysis of country systems to a common standard, so that the regulatory intensity of countries are fairly compared and estimated[5]. On this way, it gets possible to examine whether the partial shift from unfunded to funded pensions in a certain country implies an outright decline of the intensity of collective responsibility for the welfare of individual citizens (**global diffusion hypothesis**) or whether it rather constitutes a transformation of the form of that responsibility,

[5] We have to account for the overall tendency among funded pension systems that the more demanding the benefit level to be achieved, the less intensily regulated the schemes are. Hence, f.e., it would be totally inappropriate to compare a heavily regulated funded scheme in country A which just aims at the moderate goal of status maintenance with a loosely regulated funded scheme in country B which aims at the demanding goal to provide means for top-up luxury like world cruises and then conclude that regulation in country A would be higher. Therefore, we need a common benefit standard to make just comparisons.

at least partially trying to compensate the lost promised security of unfunded pensions (**compensation hypothesis**) and if and how this differs between countries (**national homology hypothesis**).

Thus, an overall composite measure called SPRI-Index will be established (Chapter 4), composed of all regulatory dimensions, with the help of which the overall intensity of the social policy regulation of funded pension provision in a certain country can be empirically measured. The SPRI of a certain country is constituted by adding values assigned to the regulatory dimensions according to the institutional shaping of these dimensions in that country. ***Whereas low SPRI-values mean that regulation intensity in a funded pension system of a certain country is low and that it is mainly the responsibility of the individual to secure the continuance of former living standards in retirement via the funded pension system, high SPRI-values mean that regulation intensity in a funded pension system of a certain country is high and that it is mainly society (via the state, tripartistic or corporatist institutions), that takes over the collective responsibility for securing that individuals achieve continuance of former living standards in retirement. Intermediate values indicate that this responsibility is shared between the individual and collective actors.*** So, low regulatory intensity means a low degree of collectivisation of responsibility; high regulatory intensity means a high degree of collectivisation of responsibility. Individual and collective responsibility say at the outset nothing with regard to \`good´ or \`bad´: both markets and collective actors can fail, but none does so necessarily, as ideologies suggest. However, it will be interesting in the coming decades to investigate whether systems with low, intermediate or high collective responsibility are more prone to achieve high performance levels with regard to outcomes like pensioners\` wealth, economic security, equality etc.

In chapter 5, the SPRI-Index will then be used to specify the degree of regulatory intensity (= degree of the collectivisation of responsibility for continuance of former living standards during retirement) of the legal and organizational framework of the funded pension system in 20 different OECD-countries. The value estimations will be justified by a detailed and standardized description of the respective regulatory shapings of the 11 dimensions of the 20 systems, so that everyone will be able to re-evaluate these estimations and perhaps criticize them. Another strategy to measure and compare the intensity of regulation is hardly possible as regulation chrystallizes in qualitative structures which can hardly be numerically measured like unemployment insurance durations, replacement rates of sickness benefits etc. So we have to rely on value estimations exposed to scientific discourse as a test of adequacy.

4) Having estimated the SPRI of all 20 countries, the national homology hypothesis will be tested, that is, whether countries traditionally displaying a certain kind of general welfare culture have also developed a corresponding degree of regulatory intensity, that is of individualisation / collectivisation of responsibility as regards their system of funded pension provision. This hypothesis will be tested in Chapter 6 with the help of a simple correlation analysis, with the SPRI (dependent variable) being used as indicator for regulatory intensity in a country and the GINI Coefficient (independent variable) as indicator for the overall general welfare culture in a country. The use of the last indicator here is in line with the fact that Leisering refers explicitly to „*redistribution*“ when he explicates the national homology hypothesis:

*„According to the homology hypothesis welfare states with a strong emphasis on **redistribution**, could simultaneously display a very deep and intensive regulation since these countries are characterized by the idea of a state that actively shapes society. Conversely, in welfare states with less emphasis on **redistribution** we would have to expect a less intensive involvement of government in regulating private pensions. (…) It will be interesting to explore how different sides of the welfare state are related, e.g. if certain types of **redistribution** go hand in hand with certain types of regulation.“ (Leisering 2005, 13 & 20; my stressings, T.H.)*

The GINI-Coefficient is the best indicator for redistribution in our research context, because it catches not only direct redistribution through the state, but also other forms of redistribution, especially those through corporatistic institutions, which is very important because the SPRI also catches regulatory activities not only by the state, but by the social partners, too (especially in the case of the Netherlands and Denmark).

The higher the correlation between the SPRI and the GINI Coefficient, the more this can be interpreted as a hint that the national homology hypothesis at least remains a permissible statement - although one naturally has to be cautious when equating correlation and causation, so it has to be kept in mind that other factors may play a role, too, if such an association could be verified.

However, even if such a relationship could be established, it would be also important to investigate whether not only countries with liberal welfare states and high inequality, but also countries traditionally exhibiting a rather solidaristic welfare culture are displaying a tendency to reform regulation of funded pensions in the direction of a lower degree of collective

responsibility, that is in the direction of conventional markets. The more this is the case, the more the global diffusion hypothesis is confirmed. Another possibility to be examined is that countries formerly dominated by Paygo pensions but maybe also countries with a traditional liberal welfare culture and an already rather small unfunded part are forced to compensate a (further) retrenchment of the unfunded pillar by social regulation of the funded pillar traditionally of particular importance in the latter sort of countries. Such general reform processes leading in the direction of `welfare markets´ would represent an indication for the compensation hypothesis.

5) Finally, it is examined what are the consequences of the inclusion of the regulatory domain in social policy analysis for regime typologies (Chapter 7). Subsribing to the view of Ullrich (2003, 18) that overall welfare state typologies are rather problematic, because different social policy fields (pensions, health care, labour market etc.) in a country not seldom can be assigned to *very* different ideal-types[6], a regime typology will be developed here only for the overall welfare mix in *pension* policy. Therefore, the analysis basically draws on the four-fold pension system typology developed by Palme (1990, 87) but modernised by accounting for recent shift towards funding and integrating regulatory issues. Chapter 8 concludes.

2. An Ideal-Typology of funded pension systems: The Three Gestalts of Regulating Funded Pensions

Analysing and organizing the scientific and public discourse in the literature concerning the regulation of funded pensions, three categorically different approaches to funded pension regulation stemming from different normative convictions can be distinguished, giving rise to three normatively streamlined, internally coherent ideal-types (`gestalts´) of funded pension regulation. These three ideal-types are related to three different general distributional principles of social policy carved out by Kersting (2000, 46 ff.).

Firstly, Neoliberal[7] Voluntarism follows the concept of structural egalitarianism, whose egalitarian aims are directed at a basic *legal framework* ensuring equal legal rights to individual freedom, but which is not concerned about different actual capabilities of different individuals to use freedom in a successful way.

[6] Take f.e. Great Britain, Canada and New Zealand whose health care systems are fairly similar to the social-democratic ideal-type, but their labour markets are nearly identical with the liberal ideal-type.

[7] `Neoliberalism´ is not used here as a leftist swear word, but as an analytical concept as it is commonly defined in economic encyclopaedias, f.e. in that of Gabler publishers (1993, page 2097).

Secondly, Social Liberalism follows the concept of resource egalitarianism, whose egalitarian aims are directed at the equality of actual basic *individual and situational preconditions of actions* of different human actors, so that all actors have equivalent resources / capabilities to successfully use the potential freedom they enjoy. However, divergences in the outcomes of actions are nevertheless tolerated, because trying to equalize these is seen as a too harsh intervention in personal freedom.

Thirdly, Social-Democratic Collectivism follows the concept of welfare egalitarianism, whose egalitarian aims are directed at the equivalence of individual economic welfare *outcomes*. In order to prevent misunderstandings provoked by the term welfare egalitarianism, it has to be differentiated here between a communist and a social-democratic subvariant of welfare egalitarianism: whereas the former strives to a rigorous form of massive redistribution incompatible with a democratic system in order to reach *equality* of outcomes, the latter, subscribing to democratic values, strives to *reduce* the *inequality* of outcomes (especially those forms of inequality based on unearned[8] (dis)advantages), but does not aim at the elimination of inequality. What concerns funded pension regulation, nowadays only the social-democratic subvariant is relevant.

2.1. Neoliberal Voluntarism

Neoliberal Voluntarism[9] is a market *fostering* gestalt of funded-pension-regulation, which has its ideational roots in German Ordoliberalism and Anglo-American Public Choice[10]. The normative funded-pension-model worked out by Littlewood (1998) comes very near to this approach. Core values of this approach are *liberty* and *self-responsibility*; its view of man is the rational, self-interested actor who should be freed from the reign of collective actors. Its overall conviction is that a competitive market is the best way to produce welfare for all, because this coordination mechanism would produce `social´ outcomes by itself: `markets are (inherently) social´ is the central message here. The task of the state is just to ensure 1) an appropriate degree of competition in the market, 2) security of private property rights (f.e. reasonable vesting rights), 3) a reliable legal framework (f.e. to guarantee that providers have the necessary basic technical expertise), 4) poverty prevention (by means-tested unfunded

[8] Unearned advantages mean f.e. luck in the `lottery of birth´ (Rawls) by being born in certain social strata, wealth based on inheritance or – of utmost importance in this context here – luck in the financial market lottery as concerns the cohort to which an individual belongs (see Chapter 3.3. for details).

[9] This ideal-type corresponds to the ideal-type `Separability position´ of Berner (2005 b,17 f.)

[10] Of course, there are some issues in which these normative schools of thought hold different points of view – not seldom overlooked by proponents of neoliberalism themselves. However, these do not matter in our context here.

social assistance) and 5) that market participants on the demand side have enjoyed basic financial education in school. This social policy is a `social policy through and for the market´. Instead of markets being adapted to individuals and their possible weaknesses, individuals have to be made fit for vibrant markets:

„It is decisive not to protect people against the market, but instead to do all that he or she has the chance to bring in his or her capabilities and to improve these. Today, good social policy today has first and foremost to mean: Give people the chance to participate in the market."[11]

Thus, compared with the other two gestalten, ***the degree of collectivisation of responsibility of Neoliberal Voluntarism is low***, because the main source of responsibility for achieving status maintenance in old age is the individual. The relation of the regulatory system regards the individual could thus be termed *`releasing´*, reflecting the old liberal belief that individuals should be totally freed from collective paternalism and learn to help themselves. Taken together, `Neoliberal Voluntarism´ amounts to a *conventionally regulated market* for funded pensions.

2.2. Social Liberalism

Social Liberalism is a market *shaping* gestalt of funded-pension-regulation. Social Liberalism was broadly defined by Hebel (2005, 3) as a style of thinking that abhors and restricts direct governmental paternalism, but accepts an upright, direct responsibility of the state to enable citizens to become capable to live a self-determined life. Social Liberalism has its ideational roots in behavioral economics and the Third-Way-approach of Amartya Sen (not: Giddens) with its stress on targeting help on the most disadvantaged by enabling them to cope autonomously with life challenges. The normative social philosophy of what its founders unfortunately[12] called `Libertarian Paternalism´ (Thaler & Sunstein 2003) and the various applications of this approach to funded-pension-regulation (f.e. Mitchell & Utkus 2003; James 2005; Loewenstein 1999; Cronqvist & Thaler 2004; Binswanger 2005), taken together, amount to an overall picture which comes very near to the normative model of Social

[11] Taken from an interview in the Neue Ruhr Zeitung with Nils Goldschmidt, member of the Walter-Eucken-Institute. See http://www.eucken.de/veranstaltungen/kapdeb_nrz.htm. Walter Eucken was the main founder of Neoliberalism. Viewed on 13th November 2005. My personal translation.

[12] Unfortunately because it sounds as if the worst of both worlds would be combined: the trembling insecurity of Libertarianism and the suffocating oppression of Paternalism. However, this philosophy strives to promote exactly the contrary.

Liberalism. Core values of this gestalt are civic responsibility (for own welfare as well as those of others), self-determination and individuality – the latter not understood in the libertarian sense of complete freedom but in the liberal sense meaning that individuals are helped and enabled to `become themselves´ by putting them in a reliable, manageable institutional framework with some, albeit not unrestricted space for own movements. The relation of the regulatory system regards the individual could thus be termed *`enabling´*.

Social Liberalism can be seen as an implicit answer to concerns expressed early by Taylor-Gooby (1999) that rational choice theory is an inappropriate guide for constructing markets in social policy fields. As Social Liberalism`s view of man is that of a heavily bounded rational actor, its overall conviction is that competitive markets in which complex products are traded can easily fail because many people often make choices that are not in their best interest even when the stakes are high, because they are systematically misled by cognitive biases: often, they do not have well-defined personal preferences, suffer from problems of self-control, are subject to status-quo bias, are heavily influenced and mislead by institutional or advertising frames, or are overwhelmed by a myriad of options, leading them to apply naive strategies (see Mitchell & Utkus 2003 for an overview) – and all this can hardly be cured by educational efforts alone, but instead is said to require some restrictions on unfettered choice (James 2005). At the same time, this regulatory gestalt is nevertheless a liberal one that is normally not in favour of totally blocking freedom of individual choice by the state (Thaler & Sunstein 2003, 13). A central reason for that lies in the fact that the issue of individual self-determination is linked to the question whether acquired pension rights are experienced as assets personally owned and actively managed by oneself or perceived as passive entitlements promised by some abstract entity (the state). Social Liberalism argues that enhancing personal self-responsibility with regard to asset management creates important spill-over effects to concerns of mental health. With reference to a wide range of empirical studies, self-responsible asset holding is said to be empirically related to long-term health, individual well-being, marital stability, higher educational attainment and so on - even when controlling for other intermediate variables like income, race and education (CSSS 2001, 28 f.).

Thus, instead of paternalistically blocking personal freedom and choice completely, Social Liberalism prefers cleverly designed institutional arrangements that steer people in welfare-promoting directions and thereby (rather than by financial education) enable them to take care for themselves (ibidem, 30) - with the support of the regulator, who is so to speak virtually `holding their hand´. Totally abolishing freedom of choice is not completely outruled, but is seen as an absolute ultima ratio, restricted to those few cases when certain individual choice

options are demonstrably inconsistent with individual welfare (ibidem, 51). Compared with the other two gestalten, ***the degree of collectivisation of responsibility of Social Liberalism is intermediate***, because responsibility for the continuance of former living standards in old age is shared between the individual and the society and its regulators. Thus, Social Liberalism is best understood as a sort of enlightened liberalism, convinced that the optimal development of individual identity needs on the one hand agency, so that the individual sense of self does not get liquefied in the addictive atmosphere of seductive nannyism, but on the other hand also needs structure, so that the sense of self does not get drowned in an overwhelming ocean of questionable possibilities within asymmetric power relationships[13]. Hence, Social Liberalism amounts to a *genuine welfare market* for funded pensions – market mechanisms are (mainly) preserved, but the market is socially (rather than competitively) regulated.

2.3. Social-Democratic Collectivism

Social-Democratic Collectivism[14] is a market *neutralizing* gestalt of funded-pension-regulation, which has its roots in traditional Social-Democratic, universalist welfare philosophy as described by Tawney (1952), Titmuss (1974), Esping-Andersen (1990), Rothstein (1998) and other social policy analysts. The central starting point of this ideology is that people are considerably risk-averse and therefore prefer security and the stability of their living conditions (Meyer 2005, 130). Although I guess that Modigliani & Muralidhar (2004) are probably no advocates of a comprehensive classic social-democratic welfare state in general, the normative funded-pension-model worked out by these authors – explicitly smashed against the doctrines of the World Bank[15] – is surely a model that comes very near to that which would be favoured by all those who subscribe to the core values of Social-Democratic Welfare Universalism (solidarity and security) – as long as they would accept the thesis that the instrument of capital funding is nowadays a better (or at least as good) financing-technique to secure the sustainability of the pension system than is Paygo. Hence, this gestalt aims to realize central features of a pay-as-you-go-pension scheme within a funded scheme and consequently amounts to a welfare state for funded pensions. Therefore, it can be seen as a technically modernized form of `politics against markets´ (Esping-Andersen). Not in

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[13] The British, and even more so, Scandinavian kind of welfare-to-work policy is a further expression of this Social Liberalism: requiring agency (to be active, to work) while at the same time providing structure (a meaningful minimum wage as protection against asymmetric power relations in the low-wage-labour market in Britain and a personal right on meaningful qualification measures in Scandinavia, too).

[14] This ideal-type corresponds to the ideal-type „Appropriation position“ of Berner (2005 b, 17 f.).

[15] Whose members were not especially delighted by this so that Muralidhar was heavily insulted by them, and, according to his own words, „ran the risk of being thrown off the plane“ (Modigliani & Muralidhar 2004, XI)

the socialist sense that markets are completely abolished but in the social-democratic sense that `evil´ market effects and mechanisms are neutralized: while Social-Democrats in the late 19th and early 20th century strived for establishing bilateral monopolies in labour markets to prevent welfare losses as a result of what they feared as harmful wage dumping, this Social-Democratic gestalt of funded-pension-regulation developed by Modigliani & Muralidhar (2004) strives to prevent what they perceive as the

„welfare costs of Defined Contribution Schemes" (ibidem, 71)

This is to be done by establishing (amongst other things) a monopoly agency on the *supply* side of the market for *pension* capital[16]. This institutional structure can be put into practice as a single public agency on a national basis or in the form of several corporatistic agencies on a sectoral basis - like it is currently the case in the Dutch occupational pension pillar.
As one central aim of this regulatory gestalt is to (try to) neutralize the insecurity inherent in volatile capital markets, the relation of the regulatory system regards the individual could thus be termed *`ensuring´*. This strategy is due to the Social-Democratic view of man that stresses that persons need absolute safety and relief of stress in areas of basic needs to be unexploitable by more powerful social actors (corporations) and to be able to develop their individual capabilities. Compared with the other two gestalten, ***the degree of collectivisation of responsibility of Social-Democratic Collectivism is high***, because state/tripartistic actors on a national level resp. corporatist actors on an industry-wide level carry out nearly all that has been done for a wage earner to achieve continuance of former living standards, thereby assuming a somewhat technocratic stance. However, to diminish the probability of the abuse of power by the administrators in such monopolized and centralized, technocratic structures, individual citizens or workers and employers are given `voice´ through the possibility to elect representatives of their interests equipped with some relevant legal rights on the boards of these agencies and / or through granting qualified minorities of workers / employers the right to interfere, f.e. to appeal to the regulator if investment performance of the fund is regarded as too weak (as it is the case in the new Belgish occupational pension pillar, see chapter 5.3., subsection choice risk regulation for this). Hence, Social-Democratic Collectivism amounts to a *(social-democratic) welfare state* for funded pensions.

[16] More exact would be to say a monopoly with regards to pension capital invested for the purpose of the continuance of former living standards – but not those individual retirement investments aiming at achieving more than this.

The following table gives a summary of the *general* characteristics of the three different gestalts. The next chapter will explore the respective *particular* institutional shapings preferred by the three ideological ideal-types in the following 11 regulatory dimensions: Myopia Risk, Early Withdrawal Temptation, Volatility Risk, Self-Investment Risk, Choice Risk, Administration Charges, Longevity Risk, Inflation Risk, Lifecourse Transition Support, Poverty of Means, and the Funded Pension Tax System.

Table 1: The Three Gestalts of Funded Pension Regulation

	SOCIAL-DEMOCRATIC COLLECTIVISM	**SOCIAL LIBERALISM**	**NEOLIBERAL VOLUNTARISM**
Coordination Mechanism	Welfare State	Welfare Market	Conventionally regulated Market
Relative Weight of Agency & Structure	Institutional Structure dominates	Balancing of Agency and Structure	Individual Agency dominates
Core Values	Solidarity, Security	Civic Responsibility, Self-Determination	Liberty, Self-Responsibility
Relation of the regulatory system to the individual	Ensuring	Enabling	Challenging
Dominant Distributional Principle	Welfare Egalitarianism	Resource Egalitarianism	Structural Egalitarianism
Ideational Roots	Social-Democratic Welfare Theory, Non-Mainstream economists (Modigliani & Muralidhar; Stiglitz; Orszag[17])	Behavioural Economics, Amartya Sen, \`Libertarian Paternalism´	Neoliberalism, Public Choice

[17] Of course, what concerns the approach to funded pension policy of these authors, not their preferred overall welfare state ideology.

Responsibility for achieving Status Maintenance	State, Collective Actors	Shared Responsibility (Individual & State)	First and foremost the Individual
Degree of Regulatory Intensity (Collectivisation)	High	Intermediate	Low

3. The 11 Dimensions of Social-Policy Regulation of Funded Pensions

Pension system institutions can be examined and evaluated in relation to two central goals: poverty prevention and the maintenance of living standards achieved during working life in old age (Döring 2002, 17 ff.). Even nowadays, all 20 countries examined here still strive (at least officially) to accomplish the first aim with the help of the unfunded part of the pension system. But in contrast to that, since the beginning of the 21st century, almost all 20 developed democracies examined here now rely explicitly or implicitly - to a greater or lesser extent – on funded pensions *what concerns the goal of status maintenance after retirement*. While some countries moved relatively early (that means not (much) later than 1990) to secure continuance of former living standards in old age partially or fully by funded pensions – be it rather implicitly by more or less restraining or early curtailing the expansion of the unfunded part (United States, Canada, New Zealand, Ireland, United Kingdom – what can be called the `Traditional Liberal Funders´) or be it rather explicitly by promoting it fairly actively (Finland, Netherlands, Iceland, Switzerland, Denmark, Australia – what can be called the `Early Funding Movers´), another set of countries (Japan, Sweden, the former communist countries Poland and the Czech Republic and especially the so called `Bismarckian´ countries like Austria, France, Germany, Italy and Belgium – what can be called the `Late Funding Movers´) moved relatively lately, partially and often quite reluctantly from PAYGO towards funding with regard to the goal of the continuance of former living standards in old age[18]. The result is that people in almost all these countries now have to rely fully or partially on funded

[18] To be sure, countries like Japan, Sweden, Germany and Belgium all had non-negligible funded pensions before this shift occured in the late 1990s resp. early 21st century. But according to official language at that time, at least for the average earner these were not deemed necessary to accomplish status maintenance (however defined) in old age which was explicitly claimed to be achievable alone by relying on the unfunded PAYGO-part.

pensions if they want to maintain their accustomed living standards in old age (here defined as a minimum net replacement rate of at least 65% for the average earner).
But despite this common ground, funded pension systems differ heavily with regard to their coordination mechanisms, institutions, instruments which implicitly or explicitly, alledgedly[19] or really should ensure that people are able to provide for the maintenance of their achieved social status in old age or at least help them to get rid of this task. By investigating the funded pension system regulation literature under a problem-centered perspective, I have identified 11 central challenges of crucial importance for the adequacy, affordability, sustainability and equity of funded pension provision on which system designers must find an answer as how to shape them.

3.1. Myopia Risk

Myopia refers to two related (alleged) phenomenons: a) short-time horizon, that is the tendency of humans to undervalue future needs in relation to present satisfactions or to disregard the former completely and b) bounded self-control, that is the lack of individual will power to execute more or less diffuse savings intentions.
Three different approaches to handle myopia risk with regard to funded pension policy are possible: voluntary participation, automatic enrolment, and mandatory participation.

3.1.1. Voluntary Participation (Neoliberal Voluntarism)

The first approach, preferred by `Neoliberal Voluntarism´, favours covering individuals against poverty risk by a (means-tested) unfunded part but to make participation in funded pension provision for status maintenance voluntary by relying on the self-reflexive capacity of autonomous human individuals and their consumer souvereignity. Some authors justify this approach by questioning or even denying the existence of myopia completely (Homburg 1997, 65). Individuals are said to be rational actors:

„Man is a creature oriented towards the future. His current dispositions are strongly determined by pressing concerns for his own well-being in the future. He is a creature with a high aversity against risk. This reinforces his squirrel-drive, taking actively precaution

[19] It can be claimed by governments that certain regulations are there for helping people in reaching status maintenance, but such regulations can at the same time be motivated by completely different concerns, f.e. self-interest of bureaucracies, pleasing providers, ideological convictions and so on.

against the vicissitudes of life on his own. (…) In short: Man acts oriented towards the long-term, as long as he acts for himself.“ (von Weizsäcker 2003, 30 f.; my translation, T.H.)

In contrast to individual action, collective action is action delegated to the state which is said to be inevitably dominated by short-term concerns because of notorious principal-agent problems in politics as elections would be not so efficient selectors than markets (ibidem, 25 ff.). Consequently, it is argued that nothing has and should be done by the state or collective actors with regard to saving for status maintenance in old-age. Action by governments in this regard is seen as a paternalistic violation of the principle of subsidiarity, because there would be no convincing reason for society to care whether someone has the means to consume well above the subsistence level during retirement (Willmore 2000; Whelan 2005). Governments would like to see people making sport, eating plenty of vegetables, abstain from smoking etc., but do not mandate these laudable virtues – so why mandate status maintenance in old age ? Beyond that, it is far from sure that governments are wise, far-sighted and identical actors and may f.e. choose the \`wrong´ contribution rate, suggesting that a certain percentage level of salary to be saved may be enough although it is not, thereby misleading people (Australia being an example for this, see chapter 5.1., subsection Myopia Risk Regulation).
Moreover, a mandated system neglects individual needs and preferences by forcing all people to make the same amount of savings albeit this may not be appropriate for some: f.e., young couples may wish to spend first for their children, an own home or other important issues and may need to take out expensive credits for these things when forced to save so early for old age. Even if myopia, bounded self-control and all that would indeed exist, individual autonomy is held to be a sacred principle more important than direct welfare consequences: people should be entitled to make their own choices even if they err – individuals should be free to fail (Littlewood 1998). The procedural utility of liberty outweighs possibly greater outcome utilities.
Other opponents of mandated status maintenance within the same school of thought argue that although the problem of myopia may perhaps exist for some individuals, mandatory contributions will be seen – despite the (alleged) narrower relation between contributions and benefits in a funded system - as a tax (Börsch-Supan 2004, 17), thereby deepening the black economy, which produces welfare losses (Littlewood 1998, XXX). Therefore, the task of government should just be to provide individuals regularly with correct information about the need to save for themselves via education and about the declining level of their future PAYG

pensions, their actual personal pension saving levels and their expected total income levels in old age (Börsch-Supan 2004, 31; Littlewood 1998).

3.1.2. Automatic Enrolment (Social Liberalism)

The second approach to the possibility of myopia, preferred by `Social Liberalism´, points to research showing that the empirical evidence for myopia at least in voluntaristic regimes like the US and UK is strong (Davis 2004; Mitchell & Utkus 2003), relating to the savings decision as such and contribution levels as well. People are said to have behavioural barriers concerning rational long-term savings decisions (Pensions Commission 2004, 3), because they would have a high discount rate (Munnell & Sunden 2004): they put too much value on immediate satisfactions than on those in the future. Hence, Thaler & Benartzi (2004) find that if left to choose, people save less than their optimal life cycle savings rate would predict. Many workers in these countries experience a sharp decline in living standards after retirement. Furthermore, failing to save cannot be remedied by sheer education and information according to this research tradition: immediately following a seminar, all individuals indicated that they will join a pension savings plan, but over the next six months, only 14% of them really did so. Thus, merely `throwing information and education at the problem´ does not seem to be very helpful (Mitchell & Utkus 2003; Pensions Commission 2005, 3). In particular, especially individuals with low educational status are – ceteris paribus - more prone to myopia than are others (Munnell & Sunden 2004, 58).
Of further concern is that even relatively thrifty people seemingly start too late to save for old-age than is prudent. Because of the strong effect of compound interest, contribution rates can be much lower when regular savings start early in life to achieve a certain capital as when regular savings start lately in life. Blake (2004, 38) shows that a British male would need to save 10,9% of his salary to reasonably expect a pension of two thirds of his final salary if he begins to save at age 25, but would need more than the double amount of that (21,6%) if he begins just 15 years later (at age 40). Many people do not seem to take this appropriately into account and start too late to save for retirement purposes.
However, Social Liberalism nevertheless dislikes mandating pension savings contributions, not only because of its deep respect to individual decision autonomy, but also because of labour market distortions with compulsory savings being regarded as a tax (Pensions Commission 2004, 3). Instead, this approach resorts to the instrument of automatic enrolment, which is extensively investigated by behavioural economists. Here, every (working)

individual is automatically registered in a savings plan and contributions of a certain level are automatically deducted. However, if the worker is not willing to save, he is free to opt out of the plan. By this way, Social Liberalism strives to avoid classical welfare paternalism (which it abhors) and to retain individual decision autonomy while at the same time institutionally strengthening and equalizing the different individual mental preconditions of retirement savings, that means the basically different individual resources concerning personal capabilities of self-control and long-term planning.

From a traditional rational actor perspective, automatic enrolment is predicted to be without any consequences, because individuals are said to have well-defined savings preferences independent of institutional frames. However, several studies of behavioural economists show the contrary: participation rates jumped enormously as occupational pension plans switched from pure voluntaristic plans to automatic enrolment (Munnell & Sunden 2004, 64). For one large company in the US, rates rose sharply from 37% to 86% for new hirees (Mitchell & Utkus 2003). Behavioral economists explain this phenomenon by pointing out that a significant part of humans do not possess well-defined individual preferences but is instead inert and heavily influenced by institutional frames. Hence, from the viewpoint of Social Liberalism, it is a central task for governments to provide for automatic enrolment in the pensions arena, especially to protect persons with low educational status.

3.1.3. Mandatory Participation (Social-Democratic Collectivism)

The third approach to the danger of myopia, favoured by Social-Democratic Collectivism, is to legally mandate contributions to funded pension systems. Besides the fact that the majority of (European) workers are in favour of a compulsory system (Boeri, Boersch-Supan & Tabellini 2001 & 2002; van Rooij; Kool & Prast 2004, 11 f.), mandatory funded pensions are held to be indispensable by Social-Democratic Collectivism, because humans, especially those with low education, would be prone to myopia, and automatic enrolment cannot be a satisficing cure for that because it leaves gaps and cannot ensure that all individuals save continuously instead of being tempted by current consumption preferences provoked by heavy advertising and status competition in capitalistic, unequal societies (Kawachi & Kennedy 2002). A further advantage especially relevant from a Social-democratic standpoint is the fact that mandating obviates the need to establish market-like incentives, that is to admit tax concessions for funded pension savings (Davis 2004), which are said to be heavily inequitable because they favour high-income-earners and deprive the treasury of financial means (for

further details on this see chapter 3.11.) to invest appropriately in other concerns traditionally of high Social-democratic importance, like public education or health care, thereby violating the principle of solidarity, deemed to be more important than that of subsidiarity by classical Social-Democratic Welfare Theory. Moreover, only a mandatory funded pension system effectively prevents market failure because of adverse selection in the annuities market (Davis 2004, 18): those saving for retirement in a voluntary system are expected by insurance companies to be those knowing they will be long-lived, leading to actuarially unfair (more expensive) rates for saving people with below-average or average life expectancy (which are overrepresented in the already disprivileged under- and middle-classes) who save and seek the retirement security of annuities despite of a low probability of getting very old (Orszag & Stiglitz 2001). Also very important is the fact that the considerable efficiency gains from solidaristic intergenerational sharing of financial market risk in a collectively funded DB-system in contrast to individual DC-systems can only be fully reaped if such a collective DB-system advocated by Social-Democratic Collectivism (see chapter 3.3.) is mandatory.
Social-Democratic Collectivism doubts the claim that mandatory contributions are necessarily perceived as taxes which people tend to evade. Social-Democratic Theory rejects the libertarian notion which assumes that humans necessarily automatically act as pure Homines Oeconomici. Instead, the Theory of Social Democracy (Meyer 2005, 127 ff.) assumes that people in collective action problems are better understood as Homines Reciprocantes (Falk 2001) who display a `Dual Utility Function´ (Rothstein 1998). This means that they do not like to be exploited by defectors, but are in principle willing to cooperate with others as long as others cooperate, too. Hence, individual expectations about how others will behave are decisive. Therefore, political institutions, discourse and moral culture[20], enabling the diffusion of information about the considerable efficiency gains resulting from mandatory collective DB schemes with mutual, intergenerational risk-sharing in particular are of importance to prevent contribution evasion in such a system.

3.1.4. The Real World

How did governments regulate myopia risk in the face of the fact that unfunded pension systems alone will in the future not guarantee the continuance of former living standards here defined as a minimum net replacement rate of 65% (any longer)?[21]

[20] See Torgler (2004) for the importance of country-specific tax morale with regard to tax compliance.
[21] Austria and Italy with their still high replacement rates are exceptions. Here, the goal of the funded systems is to compensate the cuts made to the formerly extremely generous retirement income levels.

The majority, namely 10 of the states examined here currently rely on the Neoliberal Voluntarist approach (Australia, Canada, the Czech Republic, France, Germany, Ireland, Japan, New Zealand, the United Kindom and the United States). It is true that Australia has a mandatory program and that New Zealand is planning to introduce Automatic Enrolment, but the contribution rates here (9% resp. 4%) are by *far* too low to achieve continuance of former living standards even together with the unfunded parts in both countries (VDR 2005, 83 & 120). The necessary top-ups are voluntary. 7 countries apply the Social-Democratic Collectivist approach to Myopia Regulation, with five of them relying on the state (Finland, Iceland, Poland, Sweden and Switzerland), one on actually effective tripartism (the Netherlands) and one on actually effective corporatism (Denmark), with contribution rates everywhere high enough to secure status maintenance – provided that reasonable return assumptions assumed by the OECD will realize. Only one country, namely Italy resorts to Social Liberalism`s technique of automatic enrolment in this dimension. Finally, there are two mixed cases combining Social-Democratic Collectivism and Neoliberal Voluntarism: firstly, Austria, having established a small mandatory as well as a small voluntary funded pillar as a reaction to the cutbacks made to the unfunded pillar. Secondly, Belgium, whose government follows a Social-Democratic Collectivist strategy by trying to emulate the Netherlands and Denmark, triggering corporatistic quasi-universalism by giving social partners financial incentives as well as legal powers to enforce mandatory funded pension coverage *even on those employers and employees not organized*. However, Belgish social partners were far from being painstaking until now with regard to this governmental suggestion, thereby exhibiting an Neoliberal Voluntarist stance.

3.2. Early Withdrawal Temptation

Early Withdrawal Temptation is just another form of Myopia Temptation, concerning the possibility for the individual of premature access to (part of) the capital accumulated for retirement purposes and spending it for consumption during working life. Three different regulatory approaches to handle Early Withdrawal Temptation in funded pension system design can be distinguished: allowing, financially disincentivising or forbidding the possibility of early withdrawal.

3.2.1. Allowing it (Neoliberal Voluntarism)

Neoliberal Voluntarism prefers the first approach because of the same normative principle as set out above: that of subsidiarity, postulating that individuals are rational actors with well-defined preferences and appropriate foresight, at least knowing better than state regulators and their self-interested ministry officials what is good for themselves and what not. Only individuals know when education, housing, health care, overindebtedness or consumption for whatever needs are so pressing reasons that they justify to fall back on their retirement capital. Why should they be forced to take out expensive loans instead ? Hence, humans should be given the highest possible flexibility in adjusting their savings and spending decisions. Another advantage of such a free access is also seen in the fact that it helps to keep state expenses for social assistance down, because savings accumulated by individuals can then be included in the means-test.

3.2.2. Financially disincentivising it (Social Liberalism)

In contrast to that, Social Liberalism regards simply allowing early withdrawals as problematic, because it regards myopia as a serious problem and (even temporarily) withdrawing funds from an retirement savings account can reduce retirement wealth in a funded system substantially, not at least because of the effect of compound interest. And again, individuals with low incomes are said to be the group most likely to use early withdrawals for questionable consumption purposes, thereby depleting their retirement resources (Munnell & Sunden 2004, 142). Because of the reasons mentioned, early access to retirement capital is considered to be problematic also in seemingly justified cases of financial hardships, for which relief instead should be provided through a combination of an appropriate level of social assistance and a personal right as well as duty on qualifying welfare-to-work measures (`rights with responsibilities´).

On the other hand, Social Liberalism nonetheless dislikes abolishing individual choice, which should only be considered as an ultima ratio when individual choice is demonstrably inconsistent with individual welfare (Sunstein & Thaler 2003, 51). More advisable is to impose costs on those who are tempted by questionable concerns (here: myopia) and seek to do what does not seem to be in their best interest (ibidem, 32).

This would mean that early withdrawals for reasonable needs with a long-term-investment-character like housing and further education are allowed, whereas prematurely cashing in

one`s retirement account for sheer consumption needs would be financially disincentivised by requiring those individuals who make early withdrawals for short-term consumption purposes to pay a surcharge in addition to the usual withdrawal income tax and / or to pay back granted state subsidies. This is firstly justified by the fact that the state wants to use subsidies to promote retirement savings and to support thrifty people, but not consumption. But even more important is that those financial disincentives are conceptualized as an implicit advice that indirectly teaches the individual to consciously reflect his/her spending intentions well. Thus, the financial disincentive fulfils the function of an educational, enabling tool, aiming at the equalization, strengthening and stimulation of individual deliberative capabilities and autonomous self-control as regards financial issues.

3.2.3. Impeding it (Social-Democratic Collectivism)

For Social-Democratic Collectivism, such a strategy does by far not suffice. Authors influenced by this tradition refer f.e. to the French jurist Jacques Barthélémy, for whom a complete exclusion of the possibility of early withdrawals is an indispensable criterium for that one can speak of a pension at all (Chanu 2004, 21). Hence, early withdrawals for non-retirement purposes should be completely forbidden and, at the same time, their necessity should be eliminated by public provision resp. strong subsidization of (further / higher) education, health care, sufficient income support in case of financial hardships and by low income inequality as it is the case in an ideal universalistic Social-Democratic welfare culture. Besides myopia, proponents of this social philosophy stress that individual retirement accounts should never be allowed to compensate for a state that is not able to provide its citizens with basic social human rights which are essential for equal life chances like health care, education and a decent income. It is feared that allowing individuals to cash in their retirement capital for these reasons would mean to provide the treasury with an incentive to underfinance essential public welfare services (Diamond 1997) and pave the way for an autistic and unequal `tax-exempt-individual-savings-account-society´. At best, from a strictly Social-Democratic point of view, the only worthy purpose for that individuals can be allowed to cash in a part of their retirement capital is housing as this is a good way to prepare for a decent living standard in old age.

3.2.4. The Real World

The majority of the countries examined here, namely nine of them, prefer the Social-Democratic Collectivist approach to Early Withdrawal Regulation. These are Belgium, Denmark, Finland, Iceland, Ireland, the Netherlands, Poland, Sweden and Switzerland. The second most populated group of countries mixes Social-Democratic Collectivist and Neoliberal Voluntaristic elements: Whereas Canada has two different funded schemes with differing regulations, Australia`s scheme generally displays a Social-Democratic Collectivist stance but exhibits Neoliberal Voluntaristic leakages at the same time (exceptions for medical expenses and financial hardships). The other three countries belonging to this group, France, Japan and New Zealand, mix Social-Democratic Collectivist elements and Neoliberal Voluntaristic elements both within schemes as well as through different schemes with different dominant regulatory stances. Austria and Germany use the approach of Social Liberalism by applying financial disincentives to premature access to pension capital. Whereas the US mixes elements of Social Liberalism and Neoliberal Voluntarism, Italy and the Czech Republic are the only countries in this dimension pursuing a Neoliberal Voluntaristic strategy.

3.3. Volatility Risk

Volatility Risk refers to the fact that financial market developments are very volatile and hence difficult to predict, not only in the short-term (5 years or so), but even over retirement saving periods of round about 40 years. And, according to recent arguments made by French Regulation School Theorists, they may become even more volatile in the future as a consequence of the world-wide shift to Shareholder-Value-Capitalism (Aglietta & Rebérioux 2004). But even with past volatility levels, the consequence is that different birth cohorts *with equal contribution sums and identical investment strategies* can get (tremendously) different retirement capital sums and annuities depending on asset prices and interest rates at the time they retire and convert their capital into an annuity. Several studies have shown this.

For example, Burtless (2000) has considered the hypothetical pension benefits of 89 cohorts of employees in the US that would have been obtained by them by retiring between 1911 and 1999, if they had steadily accumulated retirement savings in individual accounts. These employees were assumed to work 40 years in full employment from the age of 22 and to invest a fixed percentage (6%) of their wages in assets over this period. At the age of 62,

employees converted their accumulated assets into a single-life annuity fixed in nominal terms. As all employees were assumed to follow identical career and earnings paths, the returns on investment and thus the pension benefit levels of the contributors differed only because of different stock market returns, bond interest rates and price inflation rates in their life-time, so that effects of financial market fluctuations alone could be analyzed. At first, two potential financial market risks can be identified: a) rates of return of a cohort can fall significantly below historical average returns and b) cohorts differ with regard to the price for purchasing annuities which depends on the specific interest rate at the time they retire, because the interest rate determines the gains of investing their reserves which back these annuity payments. For example, in the US, an accumulated capital of $ 1000 would have purchased a monthly annuity of $ 9,50 in 1989, but only of $ 6,69 in March 2003 (Munnell & Sunden 2004).

If the contributions of employees were invested solely in stocks[22], the gross rate of return (without accounting for administration costs) at the retirement age of 62 varied from 9,7% for cohorts retiring in the mid-1960s and 1,5% for cohorts retiring in the years after World War I. Moreover, fluctuations of realized returns are quite large even over short periods: from 1,5% for cohorts retiring in 1921 to 8,4% (1929) or from 8,5% for cohorts retiring in 1973 to 5,0% (1975) or from 3,6% for cohorts retiring in 1982 to 9,3% (1999). Replacement rates, measured as a percentage of career high earnings consequently ranged from a minimum of 18,2% to 100,2% at the beginning of retirement with the age of 62. The replacement rate was 100% for employees retiring in 1969, but only 42% for the cohort retiring 6 years later. The difference between the last replacement rate in the first quartile and the third quartile of the replacement-rate-distribution was nearly 30 percentage points.

A similar empirical ex-post-investigation by Alier & Vittas (2001) found that the max-min-ratio, that is the ratio of the maximum replacement rate for the luckiest cohort to the minimum replacement rate for the unluckiest cohort was a staggering 4,06 (if everybody wanted to reap the `equity premium´ and invested 100% in a diversified stocks-only- portfolio) resp. a still staggering 2,96 (if everybody chose a fairly conservative portfolio – with, of course, a considerably lower return potential - investing 30% in stocks, 60% in bonds and 10% in commercial papers).

[22] If part of the contributions were invested into bonds, variability of returns is reduced, but this came to the cost of the amount of these returns. Not surprisingly, this clearly shows the trade-off between average real return to be expected on the one hand and investment risk on the other. This holds true also for all other possible strategies to reduce pension benefit volatility examined in detail by Burtless.

As a consequence, an individual saver cannot just count on the historical average very-long-term-rate of return (say, the average rate of return over the past 100 years or so) to determine the approximate amount of savings (his personal contribution rate) necessary to achieve a specified personal replacement rate of his earnings. This was also demonstrated by an empirical ex-post investigation of Thompson (1998, 138), who showed that a personal 40 years-savings plan designed in such a way that - based on the assumption that the long-term historical average return on investment in the past will be gained - a certain pension benefit level will be achieved would have led to pension benefits which ranged from three times more (oversaving) to three times less (undersaving) than the personal benefit goal dependent on the relevant cohort. Hence, there is a great uncertainty about how much of monthly wages should be saved because there is a great risk to save far too much or far too less. The consequence would be that risk-averse individuals with a high preference for security - and humans are highly risk averse in this sense, as Kahneman & Tversky (1979 & 1984) have shown – would have to take this downside risk into account and would have to save more, and, consequently, work more than would be necessary under the assumption that the historical average long-term rate of return prevails (something which is only feasible under a well-designed funded DB plan – see Chapter 3.3.3.).
Three different regulatory approaches to handle Volatility Risk in funded pension system design can be distinguished: 1) a pure Defined Contribution (DC) system, 2) a system that tries to cushion investment risk by instituting Life-Cycle-as-Default-Accounts and 3) a system in which benefit levels are (almost) completely defined and (almost completely) neutralizes investment risk through intergenerational sharing of financial market risk.

3.3.1. Defined Contribution Accounts (Neoliberal Voluntarism)

Neoliberal Voluntarism prefers a pure DC plan. Some proponents of this approach to funded pension regulation just completely deny – contrary to the empirical evidence set out above - that financial market volatility can be a problem for funded pension systems at all because for long term investments, volatility would play no role. For example, in the mid of the heated pension reform debate in Germany in the summer of 2000, a soothing newspaper article with the title `Financial market volatilities are not relevant for the security of capital funded pensions´, written by the German pension economist Börsch-Supan (2000), was published in

a national German newspaper[23]. Besides, other Neoliberals see no good reason for the state to protect individuals against volatility risk as they are insured against poverty via an unfunded first pension pillar. Individuals are simply advised to assume cautious return expectations and increase their contribution rates (which means working more or consuming less) to hedge volatility risk. Others refer to the old liberal argument that the market automatically would provide benefit guarantees if people want these, so there would be no need for collective intervention (Hellwig in DIE ZEIT 44/2005).

Whereas Neoliberals often heavily criticize unfunded DB systems for their lacking intergenerational fairness as these systems provide the older cohorts with a much better rate of return on contributions than the younger cohorts in times of demographic ageing, they remain silent on the same issue regards funded pension systems. This is probably so because here, volatilities are not produced by paternalistic politicians, but by the admired play of free markets. The implicit assumption behind this stance seems to be an argument deducted from Public Choice stating that financial market volatility may be regrettable, but having self-interested politicians or other collective actors fiddle with these volatilities would make probably all worse and not better because of insurmountable principal-agent problems inherent in politics. But these sorts of arguments displaying a deep distrust with regards to the capacity of politics to handle risks are by far not restricted to the Public Choice School – they could also be found in sociology.

So, a pure DC system can be *normatively* justified with reference to the sociological theory of risk developed by Anthony Giddens (1994 & 1998). According to Giddens, we live in a society in which the welfare state can no longer anticipate all risks which may arise, no longer protect us from all these risks, and no longer promise security – the state would mislead its citizenry if he would claim the contrary, thereby paradoxically producing much greater risks. Therefore, security must be acquired by individuals themselves, based upon their autonomy and self-responsibility. Thus, the risky challenge should be welcomed because it generates self-actualization. For Giddens, the state has a task concerning risk, but that does not consist of sheltering individuals against this risk directly. Instead, the state`s task is to enable individuals to handle risks of these kinds by themselves by investing in their human capital, thereby establishing a society of responsible and self-conscious risk-takers. By this way, individuals should be made `fit´ so they can see and take possible advantages that are inherent in these risks resp. market volatilities. This would mean that the state should heavily invest in

[23] In the „Frankfurter Rundschau“. Unfortunately, I had not noticed the exact date of the day edition at that time. I think it was the third august of 2000. Requests for copies of the article can be send to me via e-mail: thorstenhippe@uni-bielefeld.de.

providing individuals with financial education and easily understandable information about financial market`s long term volatilities and its inherent risks and advantages.

For example, all individuals could learn that so-called `Life-Cycle-Accounts´, which invest heavily in equities when the investor is young and gradually move more and more into bonds as the investor gets older, are an (alledgedly) sophisticated way of guarding oneself against an unexpected decline in equity prices shortly before retirement. Humans could also learn something about the details of gradually purchasing annuities or about purchasing variable annuities, perhaps even about portfolio insurance and the use of put options a few years before retirement, so that they can evaluate private pension insurance companies whether they provide these valuable services in an appropriate way, that means perfectly suited to his/her`s own individual circumstances and well-defined risk preferences. Hence, for Neoliberal Voluntarism, the state could and should do no more than stating openly that financial markets are risky and teach them what could be done on an individual basis to cushion volatilities.

3.3.2. Life-Cycle-Fund-Default-Accounts (Social Liberalism)

Contrary to that, Social Liberalism is not so confident when it comes to financial education. Similarly to the lack of will-power to put their savings intentions into pratice after a financial education seminar, only few people changed their pension investment styles although they should have done so (Gallery & Gallery 2005). However, delegating choice to a central agency trying to smoothe cohort`s asset returns in order to produce equivalent outcome utility like Social-Democratic Collectivism prefers (see below) is not in line with Social Liberalism`s concern for the procedural utility resulting from individual freedom and personal asset ownership.

Instead, Social Liberalism tries to steer pension savers into an account cushioning volatility risk by instituting a `Life-Cycle-Fund´ as the default option (James 2005, 23; Pensions Commission 2005, 37). Thus, people are automatically enrolled in such a fund which aims to protect against unexpected volatilities in the years before retirement by shifting the equity-bond-mix of the portfolio more and more in favour of the latter with increasing age of the pension investor. Consumers could actively opt out of this fund and choose a different investment option if they explicitly request so and writtingly state that they are aware of the risks that such a step incurs. An important motive behind automatic enrolment in a Life-Cycle-Fund is the intention to strengthen and equalize unequally distributed individual

preconditions of action, that is differening personal resources (cognitive capabilities) to handle volatility risk.

3.3.3. Intergenerational Risk-Sharing (Social-Democratic Collectivism)

Social Democratic Collectivism is as sceptical to the likely success of consumer education (Ring 2005, 70) as it refuses to spend the huge sums of (public) money (and time) that would be necessary for making the whole population `fit´ for the complicated task of handling volatility risk – this money should better be spent for early childhood education, health care and so on. Moreover, the performance of insurance companies in strategies like f.e. gradually purchasing several annuities is both difficult to evaluate for consumers (Davis 2002) and costly (Nöcker 2002). Moreover, such a strategy is subject to `mortality drag´ (Davis 2004, 19), meaning that lower average mortality at a later date leads to lower annuity rates.

Additionally, there is no consent even in scientific circles if strategies like a Life-Cycle-Investment-Strategy are really advisable – renowned pension economists like Bodie (1989) and Samuelson (1995) deny that this is the case. So, people who rely on such a default fund or such financial education maybe perhaps (albeit unintentionally) misled by educators and/or regulators (Shiller 2005, 20). Furthermore, even with the most sophisticated techniques of handling volatility risk like those listed above the ratio of the maximum replacement rate for the luckiest cohort to the minimum replacement rate for the unluckiest cohort can be reduced only to at best between 2,3 and 2,4 (Alier & Vittas 2001).

Proponents of `Social-Democratic Collectivism´ perceive these huge cohort inequalities produced by the financial market `lottery´ as *„repellent“ (Modigliani & Muralidhar 2004, 59)*, because they cannot be justified from a point of view of Rawlsian Justice: they are completely artificial and serve no useful (incentive) function, from which disadvantaged people would benefit, as Rawls` normative theory requires it. Social-Democratic Collectivism finds it striking that Neoliberals just accept these artificial inequalities by simply shrugging their shoulders as they clearly represent a clear violation of a central liberal principle, namely that of meritocracy, established by one of the founders of liberalism, John Locke. According to Locke, inequal distribution of property and wealth are justified by different degrees of individual industry. But the unequal distribution of pension wealth between different cohorts in a funded DC system as that advocated by Neoliberal Voluntarism are not founded by some cohorts being more industrious than others, but are simply the outcome of an arbitrary

financial market `lottery´. This is said to be difficult to reconcile with Neoliberals` stress on self-responsibility. Thus, Wheelan (2005, 9) concludes:

„Pension savings are too important to be left to the capriciousness of the capital markets."

According to Social-Democratic Collectivism, the insecurity inherent in DC systems is contrary to most people`s preference for ontological security (Dean 2000, 67) and guaranteed pension benefits (van Rooij, Kool & Prast 2004). People prefer this sort of security even if they would have to pay a price for it (van Els, van den End & van Rooij 2004).

The institutional alternative to the DC pension `lottery´ pursued by `Social-Democratic Collectivism´ is a DB system like the one drawn up by Modigliani & Muralidhar (2004), established either in a corporatistic fashion on an industry-wide basis or in a tripartistic fashion on a national basis. Other prominent authors favouring such a kind of publicly organized, well-designed, funded DB system are Orszag & Stiglitz (2001, 43), Ingles (2000) and – rather surprisingly – Peter Heller (1998) from the IMF. These authors think that individuals are the least capable unit to bear volatility risk and argue that volatility risks are more easily borne if they are widely distributed within and across cohorts.

The system advocated by Modigliani & Muralidhar (2004) resembles a national Cash-Balance-Plan with a *fixed* guaranteed rate of return (ibidem, 38) and a guaranteed replacement rate. Individuals pay mandatory contributions to a public authority with an independent board consisting of investment managers competitively chosen by the regulator (like the one established for partially prefunding the Canadian Pension Plan in 2000), which invests the money (mainly) in passively managed index funds and pays out the annuities. Crucial for the functioning of such a system are proper and transparent rules concerning the long-term-balance of its assets (the sum of the value of its invested stocks, bonds etc.) and its liabilities (the rights acquired by all living contributors and pensioners equalling their contributions plus the guaranteed rate of return). When the actual rate of return on assets is lower / higher than the long-term-expected, guaranteed rate of return, assets are lower / higher than liabilities, that means the plan is in deficit / surplus. However, contrary to pure DC systems, such short-to-mid-term deviations from the expected longterm trend can be tolerated (without changing the contribution rate) by allowing temporary deficits / surpluses. Only if there are persistent long-term deviations from the expected financial market development, that means assets are

constantly below / beyond a certain threshold – Modigliani & Muralidhar (2004) propose 90% / 110% - contribution rates have to be adjusted, that means have to be risen / lowered[24].

This is meant by inter-generational risk sharing: if asset prices fall unexpectedly deep in a certain time, not only the few cohorts retiring exactly at that time are burdened as in the pure DC system. Instead, either formerly established surpluses (stemming from times with extraordinarily returns above the guaranteed rate) can be used to compensate this or all active cohorts share the risk with the retiring cohorts by raising contributions (in the case that deficits are already too high). Additionally, already retired cohorts could also be required to share some of this risk by partially reducing the inflation- or real-wage-adjustment of their annuities in the case of massive long-term downturns. This would be an application of the well-known Musgrave-Rule favoured by Social-Democratic Welfare Theory (Myles 2003) to a funded DB system: long-term financial market risks (demographic risks in the case of PAYGO) are to be shared equally between all cohorts, especially between the working and the retired part of the population[25], so that the net income relation between the active and retired generation remains stable.

The proposed advantages of this funded DB system are twofold. Firstly, return differences between cohorts could be effectively minimized and the system would be more efficient in the sense that people can achieve a certain replacement rate with a lower risk compared to a pure DC system (ibidem, 201) – because risk is spread across cohorts. According to the Dutch Scientific Council for Government Policy,

„The intergenerational pooling of risks provides benefits for all cohorts. […] The solidarity between cohorts in such a scheme generates a substantial risk reduction in relation to individual saving.“ (Scientific Council for Government Policy 2000, 45/46 & 48)

[24] Requiring short-term matching of assets and liabilities is not an efficient strategy because it leads to a more conservative investment style (moving into bonds), thereby lowering average returns and forfeiting the efficiency gains of intergenerational risk-sharing (Whelan 2005, XX). Short-term matching can be more appropriate for company-based DB funds to prevent an under-funded status when a company terminates its fund because of bankruptcy. But this danger is absent if the fund is organized on a national basis. Industry-wide funds are an intermediate case, because whole business fields of a national economy are surely more stable than single companies on the one hand but can nevertheless experience decline on the other hand, especially in a global economy.

[25] Modigliani & Muralidhar (2004) do not treat this point, although it could be very important as the concentration of risk-sharing only on the working population can create problems because of demographic ageing, which implies a shrinking risk-sharing base and consequently stronger contribution rate hikes in the case of a severe financial market crisis. Instead, with the Musgrave-Rule spreading the risk to all – working and retired – cohorts, the necessary amount of contribution rate increases in such a situation can be minimized.

Secondly, as such a DB system can invest with a longer term horizon (because it is better able to tolerate temporary market shocks) compared with the investment horizon of an individual (Van Rooij, Kool & Prast 2004, 18), managers can invest more heavily and more steadily in equities which display high volatility in the short and medium term but earn higher returns in the long term, so that they are better able to reap the `equity premium´ (Modigliani & Muralidhar 2004, 6). Hence, paradoxically, in this case, there is no `equity-efficiency-tradeoff´ (Okun), but quite the contrary: the collective DB pension system with inter-generational risk-sharing – *as long as it is well administered and regulated, which may be a politically demanding task* – is more equitable and more efficient than a pure DC system without such risk sharing (see also Cui, De Jong & Ponds 2005):

„Intergenerational risk sharing yields important advantages. The associated long-term horizon allows pension funds to take advantage of the risk premium on equity (the so-called equity premium). […] This facilitates the investment of pension saving in high-yield projects in the corporate sector,[…], allows a higher expected return over a long horizon, and makes the return on pension saving less sensitive to unexpected inflation.“ (Bovenberg 2002, 311)

To be sure: some life insurance companies assert that they have already instituted a similar system on a decentralized, single company basis (see the interview with J. Lörper in DIE ZEIT 44/2005). However, as f.e. the British Case of Equitable Life shows, such guarantees and the trust in them can easily be broken (Marschallek 2005), and retirees` expectations be easily disappointed if such systems are not backed by an explicit legal framework. To produce market failure, it suffices that one company fails with such a strategy, because of the well-known domino effects (ibidem). As long as this is not the case, one cannot speak of collective responsibility in the deep sense of the term.

3.3.4. The Real World

The great majority of countries belongs to those in which the Defined Contribution principle is the only option available or at least dominates the funded pension landscape (Australia, Canada, France, Italy, New Zealand, Poland, Sweden, the United States). Japan belongs to this group, too, because its formal `DB´ company schemes (and the related bankruptcy insurance program) have massively reneged on their former promises in the aftermath of the market downturn in the 1990s and DC schemes are now on the rise there. A second group of

countries mixes Social-Democratic Collectivist and Neoliberal Voluntaristic elements by combining the DC principle with certain minimum guarantees (Austria, Belgium, the Czech Republic, Denmark, Germany and Switzerland). Although some of these countries give (nominal) *positive* return guarantees, whereas other give only (nominal) *no-loss* guarantees, it is not appropriate to differentiate this group further because the financial market downturn in the 1990s has shown that positive guarantees were often drastically lowered because these guarantees were not backed by reserves without which such a system cannot function. Only three countries organize funded pensions aimed at status maintenance exclusively or dominantly according to the DB principle with intergenerational risk sharing (Finland, Iceland and the Netherlands). The remaining two countries, Ireland and the United Kingdom, combine a Social-Liberalistic approach in the third pillar (automatic enrolment in a Life-Cycle-Fund) with an Neoliberal Voluntaristic approach in the second pillar (expressed in a strong decline of DB schemes and emerging dominance of DC schemes in these two countries).

3.4. Self-Investment Risk

Many people are subject to familiarity-bias, that is, they like to invest a substantial part of their (retirement) money in assets that they are familiar with, because they think their savings would be more secure when they invest in things which they know from personal experience, like the company for which they work. Moreover, some employers like their employees investing in their company stock and encourage (or sometimes even force) them to do so as it may serve as a mechanism for fending off hostile takeovers and may align the interests of their employees with the interests of the company (Munnell & Sunden 2004). However, by this way, people`s investments can become massively underdiversified and subject to severe risk, possibly depleting most of their retirement resources as seen in the case of the US company Enron. Two different regulatory approaches to handle this self-investment risk can be distinguished: 1) granting individuals free choice by forbidding employers to force them to invest in their company, 2) legally capping concentrated investments in single entities at 5 – 10% of personal / pooled retirement capital.

3.4.1. Forbidding employers to force their employees (Neoliberal Voluntarism)

Neoliberal Voluntarism cannot accept that companies use their power to force employees to buy their stocks, thereby interfering with their right of personal freedom. But individuals may be allowed to invest their retirement resources in company stock as they are rational actors and know themselves what is best for them. Hence, government should legally forbid the possibility to force employees to buy company stock but should not meddle in people`s wishes if these themselves want to invest (part of) their retirement savings in company stock. Instead, education and information campaigns should provide people just with the knowledge that underdiversified portfolios may be risky.

3.4.2. Capping self-investments at 5 – 10% (Social Liberalism & Social-Democratic Collectivism)

Contrary to that, Social Liberalism advises to legally restrict individual investments for retirement purposes in stocks or papers of a certain entity by a percentage cap (not above 5-10% of their total retirement portfolio). This is one of the (few) cases in which Social Liberalism thinks that individual choice should be curtailed drastically, because this is a case in which a wrong choice is demonstrably harmful: economic theory clearly shows that concentration of assets in a single entity is a much too risky strategy and empirical research has shown that many employees can be very easily swayed by their employer and very often like holding company stock, sometimes (especially in times of bull markets) endorsing it even enthusiastically (Munnell & Sunden 2004).

Under Social-Democratic Collectivism, people have no choice at all with regard to their pension capital. Underdiversified investments above 5-10% in a single entity by the management board of the national or industry-wide DB plans are legally forbidden because they risk people`s retirement resources and may undermine people`s reliance in the competence and honesty of the administrative and political elite.

3.4.3. The Real World

The huge majority of countries (12) select the careful approach of Self-Investment Risk Regulation advocated by Social Liberalism and Social-Democratic Collectivism: Australia,

Austria, Canada, Denmark, France, Finland, Germany, Iceland, the Netherlands, Poland, Sweden, Switzerland and the United Kingdom. However, 5 countries follow the Neoliberal-Voluntaristic guideline and apply no restrictions (the Czech Republic, Ireland, Japan, New Zealand and the United States). Two countries fall in between these extremes, so-to-speak compromising the three ideologies by capping self-investment at 15% (Belgium) resp. 20-30% (Italy).

3.5. Choice Risk

Choice Risk means that an individual chooses a savings retirement vehicle and/or a pension insurance provider of funded pensions that is not adequate to fulfil his or her needs and hopes. Three different regulatory approaches to handle Choice Risk in funded pension system design can be distinguished: endless personal choice, cleverly restricted personal choice, and no personal choice at all but compensated by voice mechanisms.

3.5.1. Competition (Neoliberal Voluntarism)

For Neoliberal Voluntarism, an open, highly competitive market is all that is needed to ensure that people`s retirement preferences will be reasonably fulfilled. Rational actors, perhaps supported by some financial education at secondary school level, will choose what is best for them. Only a competitive pension market with a wide variety of products allows people to satisfy their well-defined individual risk-return-preferences. Hence, the only task for the state is to provide for competitive market rules, information and education (Littlewood 1998). For Neoliberal Voluntarism, modern social policy is about making people fit for the (pensions) market, so that they are able to enforce competitive pressure on providers.

„Market competition ensures that profit aspirations are leading companies` efforts in that direction in which they create highest welfare for all. This is the reason for the superiority of the market economy over all other institutional options. The task of the state consists in ensuring competition, that is to provide for an adequate legal framework and the rule of competition.“[26]

[26] Taken from an interview in the Badische Zeitung with Viktor Vanberg and Nils Goldschmidt, members of the Walter-Eucken-Institute. See http://www.eucken.de/veranstaltungen/kapdeb_bz.htm. Viewed on 13th November 2005. Walter Eucken was the main founder of Neoliberalism. My personal translation.

3.5.2. Cleverly restricted Choice (Social Liberalism)

Again, Social Liberalism does not share Neoliberal`s unqualified enthusiasm for competitive markets and is rather sceptical with regards to the merits of unfettered choice in the market for a complex and long-term-trust product such as pensions. Proponents of Social Liberalism point to negative experiences like the British `Mis-Selling Scandal´ and to research from behavioural economics showing that individuals are far from being the rational, autonomous microcalculators (Mitchell & Utkus 2003) who exercise independent and unbiased judgement as they are depicted by conventional liberal theory:

„The lesson is that unfettered choice is a mistake in mandatory old age security systems because many workers are inexperienced in assessing financial alternatives. Structured choice is needed to prevent big mistakes and high fees." (James 2005, 9)

Indeed, recent behavioral economic research shows that people`s choices can be heavily influenced by diverse irrational cognitive biases and that these biases could be even intensified by a central feature of a competitive market, namely advertising (Kahneman, Odean & Barber 2005). Cronqvist (2003) provides an interesting and sophisticated theoretical and empirical analysis of those biases and their interaction with advertising in the Swedish Premium Pension Market. Note that the Swedish Government has undertaken intense efforts to secure that people are informed and competition is transparent (especially by distributing an extensive booklet with detailed comparative information on all funds), so that the Swedish market comes very near to the Neoliberal ideal. Despite this, Cronqvist (2003) came to the following conclusions.
Firstly, many people are subject to Familiarity Bias: they prefer to choose those options with which they consider themselves more familiar and are willing to incur additional costs (fees) for that. Zajonc`s experiment (1968) was the first in a row to show that mere repeated exposure to a certain stimulus enhances people`s attitude towards it. Pension funds in Sweden played on this cognitive bias by advertisements which associated the fund with something that is familiar to investors like prominent film-stars, sportsmen etc. or simply by constantly spreading their brandname. These non-informative advertisements, which were by far the majority of all advertisements, indeed attracted Swedish people: they used the naive strategy of allocating relatively more of their retirement savings to funds that spent relatively more on advertisements of those kinds, despite their fees being higher. Especially concerning is the

fact that non-informative advertising had a stronger effect on the portfolio choices of those individuals who estimated themselves the least knowledgeable.
Another form of familiarity bias is the preference of people to invest close to home, f.e. in country-specific funds. This exposes people to highly problematic concentration risks inherent in underdiversified portfolios. Indeed, some Swedish pension funds played on such biases by advertisements stating that they predominantly or only invested in Sweden. As a consequence, 48,2% of the money of active choosers was invested in Swedish stocks, exposing investors to concentration risk.
Secondly, many people are subject to extrapolation bias. Behavioral economic research has shown that people tend to focus on the extremeness of an information, thereby underestimating the importance of predictability (Griffin & Tversky 1992). Hence, pension investors allocate more of their retirement savings to funds that spend more on performance-advertising, that is displaying their high returns in the recent past because they think returns of a particular fund in the past are indications for genuine performance and can therefore be extrapolated to the future. Lay(wo)men may think that this investment strategy called `Reliance on past performance´ is an appropriate one, but research has repeatedly shown that this is not the case (Hendricks et al. 1993; Brown & Goetzman 1995; Malkiel 1995; Carhart 1997; Zheng 1999). This is due to the fact that there is little persistence in fund returns as well as because of the poor signal-to-noise-ratio, whereby genuine ability in fund management gets drowned in the noise of market fluctuations: the good performance of a fund and its managers in the past can be the result of their superior skills, but may also be simply the result of market luck. According to Bodie, Kane & Marcus (1989, 735), 32 years of monitoring would be needed before one can reject the hypothesis (at a 95% level of statistical significance) that a fund with a performance above market average of 0,2 percentage points per month has only luck. Again, Swedish premium pension funds played on this cognitive bias as past performance was a common cue in their advertisements. The result was that Swedish people directed more of their contributions to funds that spend more on this kind of past-performance-advertising, although this is not adviseable from a scientific standpoint.
A more reliable form of performance advertisements which would have really helped people seeking to invest prudently for their retirement would have been clear statements concerning the fees of the funds as economic research indicates that funds with lower fees (which are mainly passively managed) paradoxically tend to outperform funds with higher fees (which are mainly actively managed) (Binswanger 2005). However, only a very small part of all advertisements involved fee-advertising of such kind. Instead, Swedish pension funds used

advertisements consisting of irrelevant information to avoid competition on fees, which would have lowered their profits. By playing on people`s biases, advertising in a highly competitive market steered people towards funds with active management, heavy advertising and their concomitantly higher fees.
Thirdly, many people are subject to status-quo bias (Van Rooij, Kool & Prast 2004, 5). They are inert and make no changes to their fund allocations over time, although their initial choices were often not adequate as shown above and switches would have been advisable. The percentages of Swedish participants who did not reallocate (part of) their portfolios to different funds during the year were 98,3% (2001), 97,3% (2002) and 96,9% (2003). This means that funds with inadequate investment strategies are not punished to that extent which is necessary for a pension market to function appropriately.
Cronqvist (2003, XX) concludes:

„The Swedish experience shows that many individual investors paid attention to non-informative fund advertising, made an active choice, and chose portfolios with the opposite characteristics of those most economists would find attractive."

Kahneman et al. (2005) generalize:

„The combination of investor insensitivity to fees, responsiveness to marketing and eagerness to chase trends encourages mutual fund companies to charge high fees, to spend heavily on marketing and to launch specialized, poorly diversified funds. Thus investors get lower average net returns and greater potential variation in retirement wealth."

Of further concern is a possible bias called `reckless conservatism´. Whereas in financial market booms, some people overestimate their ability to choose the right options, the majority of people are risk-averse, usually displaying an extreme dislike of losses and feel far more anxious about prospective losses than they are pleased by prospective gains of equal size (Loewenstein 1999; see also the comment of the financial market expert Robert von Heusinger on the current irrational investment behaviour of German people in DIE ZEIT 44/2005)[27]. Empirical research performed by Iyengar & Jiang (2004) shows that the greater the number of available choice options, the more people investing for their retirement tend to

[27] He writes: „The mix between equities and bonds [in personal investment portfolios, T.H.] is extremely suboptimal and disregards the knowledge of financial theory. This is neither an indication for competent investors nor for an appropriate culture of investment advice." (My translation, T.H.).

prefer extremely conservative investment options (e.g. pure bond funds) – especially in times of bear markets - which is not an appropriate strategy and comes at the cost of one`s future financial well-being because long-term rate of returns of these options are far too low and therefore necessitate much higher contribution rates.

Last but not least, choice, especially difficult choices like investing for retirement as well as educating oneself for becoming a sophisticated chooser and sorting out inconsistent financial advice is costly in the sense that it absorbs scarce time that people might prefer to spend with other activities, f.e. their family (Gold 2003), because additional time put in these activities might provide a higher marginal value than that put in pension investment choice. Choice is said to be psychologically costly in that it produces anxiety about making decisions under uncertainty and regret if own choices turn out badly. Anxiety is particularly severe when decisions involve difficult trade-offs like those between a safe investment with low returns and an other option with more downside risk but a higher expected average return (Loewenstein 1999). Similarly, Hinrichs (2004) fears that increasing needs for actively organizing personal affairs and making informed decisions in ever more everyday fields in the individualized risk society (Beck 1986) may lead for some people to `decision overload´ and hence a welfare loss instead of a welfare gain. As Arnold Gehlen (1993, 70 ff.) has shown long ago, social institutions are not only constraining in relation to individuals, but also can provide an important relief function for them.

Hence, Social Liberalism thinks it is inevitable for state regulators to take a more interventionist stance than just ensuring competition, information and education like Neoliberal Voluntarism prefers, all the more as well-organized consumer education is costly (Gallery & Gallery 2005) and far from being a convincing remedy for the average individual (Mitchell & Utkus 2003). However, since individual self-determination represents a goal which Social Liberalism does not like to see completely abolished (like Social-Democratic Collectivism does), personal choice regarding pension fund investments shall not be totally extinguished but should be `wisely´ restricted and structured to prevent inadequate individual choices as well as to keep down administration costs (as more choice options result in more administration costs).

Thus, a benevolent state regulator should choose a few passively-managed, well-diversified index funds with clearly distinguishable risk-potentials administrated by a few fund managers chosen by regular competitive bidding (James 2005). Only passively managed index-funds are to be allowed because index funds get a higher net return than the average actively managed fund (ibidem; Shah & Fernandez 2001), thereby sheltering customers from bad

options. The educational motive behind this institutional structure is to enable individuals to take care for themselves by requiring autonomous choice decisions but at the same time simplifying the situational preconditions of individual actions, thereby strengthening and equalizing different individual investment decision capabilities.

An often mentioned real-world example which comes very near to this model is the funded pension system for federal employees in the US, the `Federal Thrift Savings Plan´. In this plan, employees choose between formerly three, nowadays six different index funds options with different risk-return-potentials (a money market fund, a bond fund and a large cap stocks fund – recently added were a small cap stocks fund, a foreign fund and a life-cycle fund) passively managed by just one investment company chosen by the regulator in an auction.

3.5.3. Collective Voice instead of Individual Choice (Social-Democratic Collectivism)

As indicated above, Social-Democratic Collectivism must abandon individual choice because it is not compatible with a funded DB system involving intergenerational risk-sharing and a guaranteed rate of return (Bovenberg 2002, 311 f.) preferred by this normative approach because it is based on collective compulsion. It is not possible to promise a stable guaranteed rate of return and replacement level in a system with personal choice without inducing individual moral-hazard, that is excessive risk-taking by some individuals with subsequent bail outs to be financed by the community of contributors or tax-payers, thereby undermining the moral legitimacy of the system. Moreover, the DB system is based on solidarity between cohorts which cannot survive if an individuals defects and chooses a different pension fund which does not require risk-sharing and can therefore (temporarily) offer a lower contribution rate. Of course, the state could prescribe intergenerational risk-sharing for all funds and insurance companies, but in a competitive system there is no guarantee that every company will attract enough young customers which are the basis for intergenerational risk sharing. This would require difficult and administratively costly balancing payments between these companies and constant political quarrels regarding their adequacy.

However, Social-Democratic Collectivism does not regret having to abolish individual choice at all. It thinks that this is a positive feature of its funded pension system because most individuals do not possess well-defined, personal risk-return preferences as empirical behavioural research itself has shown (Benartzi & Thaler 2002) and are no good decision makers. This was particularly shown by the `Mis-selling Scandal´ in Britain, with

commission-driven salesman misleading half a million people to opt out of occupational into personal pension schemes, although this was not in their objective interest (Marschallek 2005). For Social-Democratic Collectivism, the `no-choice-approach´ and the shift of investment responsibility to experts on a central level chosen by collective actors is the best protection of individuals against aggressive selling strategies of unscrupulous private business agents towards single consumers like the following one:

„The Wall Street Journal recently published an insider`s account of how annuities are marketed to older people, in particular to retirees. The picture was not pretty. The article described some suggested approaches for selling annuities:

- *`Treat them like they`re blind 12-year olds.´*
- *`Toss hand grenades into the advice to disturb the seniors.´*
- *`Show them their finances are all screwed up so they think, `Oh no, I`ve done it all wrong.´*

(…)

These techniques were offered at what the article described as a major training enterprise, one that has involved 7000 agents over the past thirteen years.“ (Kaplan 2004, 86)

Moreover, as Social-Democratic Collectivism is deeply inclined to the normative principle of equality, it is very concerned about the fact that even a system consisting of widespread financial education, completely transparent information and fully comprehensible pension products cannot fully remove unequally distributed limitations to pension decision making (Hinrichs 2004). So, Social-Democratic Collectivism finds it interesting that even an outspoken `Libertarian Paternalist´ like Richard Thaler openly regards a no-choice-system as a feasible and even quite attractive option (Cronqvist & Thaler 2004, 428) not at least because it would incur very low administration costs.

Likewise, Kotlikoff (1999 & 2004) also suggests to base a funded pension system on a single, passively managed global market index fund to be administrated by a public authority in order to reduce transaction costs and prevent choice errors:

„…there is no reason to establish a set of pension companies who compete one with another to `beat the market´. By definition, not everyone can beat the average. So placing workers in pension funds that hold different assets is a prescription for increasing the inequality in their

accumulated pension wealth. The simple way around this problem is to require that all workers` pension be invested in the same portfolio. But in this case, one doesn`t need a pension industry to invest pensions or to pay high fees, bid-ask spreads, and other charges collected by top money managers." (Kotlikoff 1999, 20 f.)

Hence, for `Social-Democratic Collectivism´, the favoured real-world case is not the US Thrift Savings Plan, but the former[28] Danish ATP Fund: this fund was administered and managed by a tripartistic committee (representatives of the social partners and the government) on a national basis and contributors had no individual investment choice. What seems to be the recipe for mismanagement from a Neoliberal point of view, seems to have been sufficiently successful in practice, at least regarding rates of return and does not seem to have suffered from possible agency conflicts which are so heavily stressed by the World Bank with regard to monopolistic public pension funds in developing countries:

„What is particularly special about Denmark is that there has been little evidence of any political interference with asset management decisions as has been common in other countries. As indirect evidence of the independence of the ATP decision making process, ATP returns typically exceed performance benchmarks as well as those achieved by private pension fund managers. This stunning performance has occured despite the lack of any formal rules against political interference." (Herbertsson, Orszag & Orszag 2000, 65)

According to Orszag & Stiglitz (2001), it is a widespread neoliberal myth that public funds are automatically mismanaged. Principles of good governance would be crucial (Modigliani & Muralidhar 2004, 60 f.). According to Social-Democratic Collectivism, a rule-based system with an independent management board, clear legislative mandates to avoid political investing and investment (mainly) restricted to index-funds, where management investment performance can be relatively easily monitored, could protect those funds reasonably well from political pressures. To diminish the probability of the abuse of power by the administrators in such monopolized structures, members would be given `voice´ through the possibility to elect a members` council equipped with some relevant legal rights in order to defend their interests[29]. For Social-Democratic Collectivism, such a centralized, clear and

[28] The ATP fund was recently reformed and transformed into a system with individual choice (see the chapter on Denmark).
[29] Of course, these rights would mainly cover those against misapprobiation of funds, but not rights to change the firm rules of the game (investment policy, contribution policy etc.).

accountable structure would make it also more easy to prevent scandals of misappropiation of citizen`s money like the one of Skandia in Sweden[30] prompted by greedy managers of profit-chasing private companies held to be characteristic for decentralized private for-profit pension systems.

Of course, the flip side of such a system is that collective actors may also choose bad investment managers. Additionally, individuals are not able to directly express their personal preferences – f.e. regarding investments relating to ecological and social concerns. Therefore, some Social-Democratic Collectivists would even like to mandate certain social, ethical and ecological criteria for investment policy.

3.5.4. The Real World

The majority of countries (11) predominantly or exclusively follow the principle of completely free individual investment choice advocated by Neoliberal Voluntarism (Australia, Canada, the Czech Republic, France, Ireland, Italy, Japan, New Zealand, Sweden, the United Kingdom and the United States). Just 4 countries follow the Social-Democratic Collectivist stance and abandon individual freedom of investment choice (Belgium, Netherlands, Iceland) or at least relieve the individual investor entirely from investment choice risk (Finland). No country resorts to the balanced approach of Social Liberalism in this category. Instead, four countries combine elements of Neoliberal Voluntarism and Social-Democratic Collectivism: Austria and Germany by combining two differently organized schemes, Poland by establishing a central reserve system providing a return floor under which no citizen can fall and Switzerland by limiting the possible negative consequences that free employer`s choice may exert on employees account balance. One country, namely Denmark, combines elements of Social-Democratic Collectivism (no free choice of pension fund) with elements of Social Liberalism (limited choice of investment portfolios within the pension fund).

3.6. Administration Charge Regulation

Whereas administrative costs in unfunded public pension systems are usually low (Wagner 2005; Rahn 2000, 387) and hence of minor concern there, they represent a hot topic what concerns funded pension systems (Furman 2005; Murthi, Orszag & Orszag 2001). Here,

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[30] See the newspaper article in Die Welt, October 9, 2003.

contributions must not only be collected, accounts administered, annuities computed, but also must assets be managed, a variety of products developed and marketed, customers attracted, switches of customers between companies dealt with and profit expectations realised – and all this normally on a decentralised basis. Administrative costs are of great importance for individual affordability of funded pensions as a seemingly minor yearly deduction of charges amounting to 0,8 – 1,5% of assets will result in a 15 – 30%-reduction of the accumulated retirement capital sum after 40 years (excluding costs for provider switching and annuitization) (Binswanger 2005, 105). If a reasonable estimation for provider switching costs is included, the amount of reduction rises by further 15 percentage points (Murthi, Orszag & Orszag 2001). Moreover, fixed charges levied in an absolute (non-percentage) form per personal account especially endanger the low account values of saving individuals at the bottom of the income-spectrum. Four different approaches as regards handling the problem of high administration charges can be distinguished: 1) fostering competition, 2a) capping charges at a meaningful level, forbidding charges to be expressed in flat terms and abandoning switching costs, 2b) establishing a centralized, institutional market with individual choice restricted to a few passively managed index-funds which are administered by a few fund managers chosen in an competitive auction for access to this market, 3) exploiting economies of scale by pooling all assets in monopolized non-profit funds on a national or industry-wide scale.

3.6.1. Fostering Competition (Neoliberal Voluntarism)

For `Neoliberal Voluntarism´, competition, that is the sheer possibility of free consumer choice and the concomitant threat of `exit´ (Hirschman) is the central mechanism guaranteeing that pension insurance provision will be efficiently provided and hence administrative costs will be affordable (Gerber 2003). The extent of consumer sovereignity is not examined, but instead its sufficient prevalence is assumed as given:

„A democratic state assumes competent citizens. Consumer sovereignity ***is*** *[instead of: should be, T.H.] a central* ***feature*** *of a market economy.“ (Credit Suisse 2003, 23; my translation and my stressing, T.H.)*

„The assertion that employees are unable to obtain the knowledge to make a rational choice violates the ***presumption*** *of consumer sovereignty." (Drew & Stanford 2003, 105; my stressings, T.H.)*

3.6.2. Building a centralized, institutional market (Social Liberalism)

Once more, Social Liberalism does not share this unqualified faith in competitive markets. Competition can preclude only excess rents, but not high costs as such (Orszag & Stiglitz 2001). Instead, Social Liberalism stresses that it is the structure of the market (that means the degree of decentralization) that matters. In a usual, decentralized retail market, administrative costs are huge and amount to between 0,8% and 1,5% of assets (excluding switching costs) (James, Smalhout & Vittas 2001), which are said to be too heavy a burden for employees on medium and lower earnings (Pensions Commission 2004, 3 & 39). Murthi, Orszag & Orszag (2001) conclude that if administrative, switching and annuitisation costs are taken all together, accumulated retirement capital sums in the UK retail market for pension insurance in the 1990s are reduced by a staggering 43% (Furman 2005, 6). Besides diseconomies of scale and high marketing costs, this is the result of the fact that bargaining power of single consumers via private providers is much lower than that of those actors bargaining on behalf of whole groups (employers on behalf of their workforce, social partners on behalf of workers in a sector or the state on behalf of its citizenry). The cost pressure in decentralized markets is reinforced by the fact that the average consumer reacts quite sluggishly to price or quality differences in markets with products whose benefits are realized only in the far future (Binswanger 2005, 105).
A further important factor contributing to such high costs is, according to the British Financial Service Authority (FSA), that high cost funds are able to represent themselves as low cost funds in marketing, thereby attracting consumers seeking the latter kind of product (Vidler 2003, 37), because it is difficult to infer the actual effective cost level from the usual complicated charge structures (Binswanger 2005, 107 f.):

„The upshot is that most laymen will hardly be able to perform such cost comparisons." (Binswanger 2005, 108; my translation, T.H.)

In accordance with these concerns, Gabaix & Laibson (2004) have recently shown that competition in markets with complex products difficult to understand (like private pensions)

is ailing: here, more competition results in companies making products and their cost structures more complex without other companies having an appropriate incentive to gain market shares by increasing transparency (Binswanger 2005, 107 f.).

Moreover, consumers often pay greater attention to other (misleading) characteristics (e.g. past performance) of providers, f.e. in Sweden as shown above or in Poland, where a representative consumer survey found that charge levels were only the ninth most important factor for consumer`s provider choice although – seen from a scientific point of view - it should be one of the most important (Cronqvist 2004). The problem is particularly serious for (but not restricted to) the significant part of customers that lack basic financial reading and computing skills (Gallery & Gallery 2005). Thus, companies can spend on costly marketing, pointing on the lucky returns of a chosen sample of their funds (past performance) instead of cutting fees, thereby able to charge prices with high mark-ups (Diamond 1999).

Two approaches compatible with Social Liberalism, one of a simple nature exhibiting a rather moderate regulatory intensity and another of a quite sophisticated kind displaying a rather strong regulatory intensity, can be distinguished. The rather weak form of Social-Liberalistic administration charge regulation consists of simply eliminating switching costs, forbidding flat charges and capping the allowed amount of charges at a meaningful threshold. There is some probability that such a simple strategy cannot be sustained in the long run, because the basic institutional structure is not changed and providers will then exit an unprofitable market, so that the allowed maximum fee level must be increased (as was recently done in the UK), thereby reaching quite high amounts not so different from average fee levels in conventionally regulated markets (preventing only `excess charges´).

Therefore, the rather strong form of Social-Liberalistic Administration Charge Regulation requests state regulators to replace the decentralized retail market by a centarlized institutional market like it is the case in the `Federal Thrift Savings Plan´ in the US. Here, administration of payments and organization of individual accounts is centralized in only one institutional, publicly administrated complex (so exploiting economies of scale) and consumer choice is restricted (so lowering switching and marketing costs) to a few well-diversified index-portfolios passively managed[31] (so holding down asset management costs) by one fund management company which is periodically chosen by the state regulator with regard to

[31] Passively managed index-funds simply imitate a market by replicating a benchmark index (e.g. the S&P 500), instead of picking an individual mix of certain stocks, bonds etc. According to several empirical studies (see Shah & Fernandes 2001, XXX), index funds get a higher net return because they do at least as well as the average actively managed fund but incur only a third of their administration costs (James, Smalhout & Vittas 2001, XX). This is so because index funds benefit from low turnover and hence lower brokerage fees.

certain performance criteria[32] in an auction, that is, a competitive bidding process (so avoiding marketing costs by replacing millionfold competition-in-the-market by competition-for-the-market once every two to four years), thereby using his all-or-nothing bargaining power, (so holding down costs by establishing a monopsony for passive fund management). A further proclaimed advantage of such a system is seen in the fact that performance in index-fund-investing is relatively easy to monitor (Orszag & Stiglitz 2001). The motive behind this institutional structure is to enable individuals to take care for themselves by requiring individual decisions, but at the same time relieving them from unnecessary, burdensome administration charges, thereby

*„**Enabling** everyone to save their own and their employer`s contributions in a highly cost-efficient fashion." (Pensions Commission 2005, 18; stressing in the original)*

Thereby, savers` coping resources, that is their position via powerful corporations are strengthened, so that actors on both sides of the market met at the same eye level. The reform model worked out by the British Pensions Commission (2005, 7 f.), the `National Pension Savings Scheme´, aimed at an annual charge of 0,3%, is similar to such an institutional market (however providing for a wider range of individual choice options than the ideal-type of Social Liberalism would allow).

Although collusion between regulator and a certain asset management company cannot be excluded (James, Smalhout & Vittas 2001), such a system seems to be very effective in holding costs down if corruption does not take place: Administrative costs in the Federal Thrift Savings Plan amount to just 10 basis points (0,1% of assets per year), reducing the accumulated retirement capital sum by only 2% over 40 years. By this way, Social Liberalism hopes to combine self-determination (moderate freedom of choice) - further supported by forbidding switching costs for choosing funds - and social concerns (low charges) - further supported by recommending a certain charge structure - that is forbidding flat fees per account completely and allowing to levy charges only as a percentage of assets. Thereby, richer individuals with huge retirement capital implicitly cross-subsidize poorer individuals with low retirement capital (James 2005).

[32] An important and very transparent performance criteria for index-funds besides their fee level is their tracking ability, that is the extent to which fund managers are able to replicate the benchmark.

3.6.3. Exploiting economies of scale in national or industry-wide sector non-profit funds (Social-Democratic Collectivism)

Likewise, `Social Democratic Collectivism´ strives to hold down administrative charges by exploiting economies of scale through occupational funds (Ebert 2001, 184) (at least on a company level, but rather on an industry-wide level) or even by instituting a single national fund. It also advocates reducing administration costs by obviating marketing costs through abolishing consumer choice and establishing a monopsony resp. monopsonies for funded pension provision, but also by administering and managing pension plans on a not-for-profit basis. Hence, administrative expenses are also considerably lower in centralized industry-fund-systems compared to decentralized individual-account-systems (Döring 2002, 115).

3.6.4. The Real World

The simple majority of seven countries do not regulate administration charges but instead trust the forces of competition advocated by Neoliberal Voluntarism (Australia, Canada, the Czech Republic, France, Italy, Japan and the United States). Four countries mix elements of Neoliberal Voluntarism and the weak form of Social Liberalism within the system (Poland) or by subjecting the occupational and personal pillar to accordingly different regulatory rules (Austria, Ireland and the United Kingdom). Three countries apply the strategy of Social-Democratic Collectivism (Denmark, Iceland and the Netherlands). Three countries mix elements of Neoliberal Voluntarism and Social-Democratic Collectivism: Finland and Switzerland by combining competition between insurance companies for employers negotiating on behalf of their workforces with asset-pooling on company level; Germany by two differently organized schemes (a personal, decentralized, competitive system and an occupational system exploiting economies of scale to which - which is crucial for its recognition here - every employee has legally guaranteed access if he/she wants so) . New Zealand and particularly Sweden come near to the strong form of Social Liberalism (institutional market) but also display influences of Neoliberal Voluntarism because choice is *not* restricted to a few diversified, passively managed index-funds as the ideal-type of Social Liberalism advocates. Administration Charge Regulation in Belgium can be classified as belonging to the weak form of Social Liberalism, because maximum charges in the dominant occupational pension sector are legally capped.

3.7. Longevity Risk

With the transition to retirement, people can be offered either the option of a lump sum or an annuity or both. On the one hand, mandating the conversion of the whole capital into an annuity at the beginning of retirement subjects the individual to market timing risk, that is to the risk of a low long-term interest rate prevailing at that time and a concomitant low conversion factor, so that the annuity payment will be relatively meagre. On the other hand, if individuals are free to choose lump sums, they face longevity risk, that is outliving their resources because they got older than they expected (Kotlikoff 1999, 21) or drew down their capital too quickly. Or they act in a much too conservative manner, dying earlier than expected and consume less than they would have really liked. Three different regulatory approaches to handle Longevity Risk in funded pension system design can be distinguished: 1) to let people freely choose between the two options and different mixes according to what they prefer, 2) to automatically enrol in annuitization requiring a written statement that the individual is aware of the risk if he or she wants to choose the lump sum and further promoting annuities through financial incentives (lower tax rates), 3) to mandate the annuitization of the whole capital sum and at the same time guaranteeing the long-term interest rate expected in a funded DB system as a stable conversion factor for every cohort.

3.7.1. Letting individuals choose (Neoliberal Voluntarism)

Neoliberal Voluntarism strongly favours the first option because it gives the individual the highest possible degree of freedom. There is no convincing reason for state regulators to prescribe anything here because individuals as rational actors know better for themselves what choice is best for them than some ministerial bureaucracy and people are already sufficiently protected against poverty by the unfunded pillar. Especially reducing the individual`s flexibility by dictating annuitization should be prevented because of the possible negative consequences in times of low interest rates.

3.7.2. Promoting annuitization (Social Liberalism)

Social Liberalism points to empirical research conducted by behavioural economics showing that most individuals are not so rational and competent retirement planners than conventional liberal theory assumes. Many studies show that people are unlikely to take out annuities if left

to choose and that the majority of people display an irrational preference for the lump sum option if confronted with two arithmetically equivalent plans (lump sum versus annuity) (Munnell & Sunden 2004; Oberhuber 2005), although empirical studies find that retirees holding annuities are more satisfied with their retirement, if other things are held constant (Panis 2003; Oberhuber 2005).

Again, myopia exerts a strong preference for instant access to money: one study found that the median respondent would give up 3000 $ today in exchange for a payment in 10 years only if that would amount to at least $ 10000 – that would equal a real interest rate of 9% (Munnell & Sunden 2004). Therefore, many retirees have a strong desire to control their money personally, although most of them as well as the financial experts hired by them are poorly eqipped to undertake sophisticated calculations to manage the portfolio and the drawdown rule over long term horizons and the related uncertainty (Mitchell & Utkus 2003). Another reason for the lump sum bias is that many people are subject to loss aversion (Kahneman & Tversky 1979), so that (possible) losses (here: if one takes out an annuity and dies early) are feared twice as much than (possible) gains (here: if one takes out an annuity and lives very long) are acclaimed. People misleadingly view annuities as a gamble with the insurance industry (Munnell & Sunden 2004), fearing that the industry will take their money as pure profit if they die early, thereby misunderstanding and neglecting the risk pooling and insurance function of annuities.

Hence, provided that there exists a first unfunded tier with mandatory annuitization, the conversion of the majority of the capital sum into an annuity should be automatic. People can refuse this, but they have to do so actively and by writtingly acknowledging that they are aware of the risks inherent in lump sum take outs as well as by incurring a certain financial disadvantage (via preferential tax treatment of life annuities (Börsch-Supan 2004, 3 f.)). So, the implicit advice inherent in the decision frame and the financial incentive should steer people in the direction thought to be the better one (annuitization) without abandoning their autonomy and responsibility. On this way, individual freedom of choice is maintained while at the same time strengthening and equalizing peoples` cognitive capabilities to reflect appropriately about the annuitization option.

3.7.3. Mandating complete annuitization (Social-Democratic Collectivism)

Social-Democratic Collectivism shares the concern of Social Liberalism regarding myopia but does not think that people should have something to choose. Authors standing in this tradition

refer f.e. to the French jurist Jacques Barthélémy, for whom the exclusion of the lump-sum option is a central criterium for distinguishing between simple savings and pension products (Chanu 2004, 21). More important than respecting peoples` myopic preference for having something to choose between are the values of solidarity and security.

In this context, this means to prevent (partial) failure of the annuities market which may be the consequence if annuitization is (partially) voluntary: Annuities are particularly attractive for retirees with an expected high remaining lifespan, so that they are more prone opting for an annuity in a voluntary system, whereas other people rather tend to opt for a lump sum. To adress this process of adverse selection, insurance companies raise premiums. This makes annuities more expensive, so that some people expecting a relatively high remaining life duration who would have otherwise have liked to take out an annuity instead opt for a lump sum, thereby intensifying the process of adverse selection. By this way, a vicious circle could be established, perhaps leading to a complete collapse of the annuities market, so that retirement security cannot be established.

Hence, for Social-Democratic Collectivism, annuitization must be completely mandatory. Market-timing risk is to be obliterated by balancing interest rate volatility via guaranteeing the expected long-term interest rate through solidaristic inter-generational risk-sharing, that means smoothing (temporary) deficits and surpluses like it is common in a DB system as the one detailed under chapter 3.3.3. To counter the implicit redistribution from poorer people with low average life expectancy to richer people with high average life expectancy inherent in mandating full annuitization, Social-Democratic Collectivism aims to counterbalance this effect via universal state subsidization of funded retirement accounts (see chapter 3.10.3.) financed out of progressive taxation.

3.7.4. The Real World

The majority of seven countries (Belgium, Canada, the Czech Republic, Japan, New Zealand, Switzerland and the United States) apply the indifferent form of Longevity Risk regulation advocated by Neoliberal Voluntarism. Four countries have selected the opposite approach of making annuities completely mandatory (Finland, Iceland, the Netherlands and Poland). The other countries mix elements of different ideologies: France, Ireland, Sweden and the United Kingdom combine Social-Democratic Collectivism and Neoliberal Voluntarism by making annuitization partially mandatory while granting some more or less extensive individual choice possibilities. Australia, Austria and Denmark combine one instrument advocated by

Social Liberalism (financial incentives for annuitization) with free individual choice between the two options, which corresponds to Neoliberal Voluntarism. Germany mixes Social Liberalism (savers must actively refuse annuitization and incur considerable financial losses if they annuitize less than 70% of the accumulated capital) with Neoliberal Voluntarism (30% of accumulated capital may be taken as a lump sum without incurring financial disadvantages), Italy mixes elements of all ideologies (partially mandatory annuitization, partially incentivised annuitization and undistorted free choice above a certain threshold).

3.8. Inflation Risk

Annuities fixed at a constant nominal level for the retirement period are subject to inflation risk, losing their real purchasing power as time goes by, especially if inflation is high. This is an important, though at the moment seldom publicly discussed potential issue of funded pension provision (Schmähl 2003, 359). There are three different approaches to handle inflation risk: 1) just to rely on an independent central bank with a legally based instruction to keep inflation down and to encourage the diversity of pension products by issuing inflation-indexed government bonds (Littlewood 1998), 2) in addition to that, to enrol people automatically in inflation-indexed annuities and to require a written statement confirming that they are aware of the risks if they opt out, 3) as independent central banks should not only strive to maintain low inflation but should also be given the instruction to facilitate economic and employment growth as an equally important task (what may make it necessary to incur a somewhat higher inflation rate during some periods), the security of annuities` purchasing power has to be guaranteed by mandating the take out of fully inflation indexed annuities backed by inflation indexed government bonds.

3.8.1. Keeping inflation down (Neoliberal Voluntarism)

Neoliberal Voluntarism supports the first approach, as it gives individuals the greatest range of options without compromising their freedom: individuals are given the possibility to opt for inflation-indexed annuities by the state offering inflation-indexed bonds in which company funds can invest, but individuals are not forced to buy inflation protected annuities – neither directly by legal mandates nor indirectly by irresponsible reflationary monetary policies. As employment problems are to be solved by a deregulated labour market, prudent monetary policy can and should keep inflation to levels not higher as 2%.

3.8.2. Steering people towards inflation protection (Social Liberalism)

Social Liberalism commits itself to a prudent monetary policy, too, but notes some concerns regarding the extremely low take-up-rate of inflation-indexed annuities even if these are available (round about 10% of those opting for annuities in the UK) (Munnell & Sunden 2004). So it would be wiser to make the inflation-indexed annuity the default option instead of the non-inflation-indexed annuity as it is the case today, so that

„individuals are free to purchase level or index linked annuities, but encouraged to consider implications." (Pensions Commission 2005, 37)

Because Social Liberalism sees state mandates as an ultima ratio, it relies again on the fact that people seem to interpret the default option as expert`s advice. By requiring an active, written statement acknowledging the inherent risks if the individual wants to choose the annuity without inflation protection, individuals are forced to deliberate well if this is really what they want and to seriously consider the consequences.

3.8.3. Mandating full inflation protection (Social-Democratic Collectivism)

Social-Democratic Collectivism cannot subscribe to this view because it sees individuals` reluctance towards inflation-indexed annuities as the outcome of myopia and the related, well established phenomenon of money illusion (Davis 2004). Humans overvalue having more money in the near future in comparison with keeping an annuity`s value in the far future, often falsely assuming that the nominally fixed annuity would be more worth than an (arithmetically equivalent) inflation protected annuity, because the latter is *initially* 25-30% lower than the former (which changes only as time goes by). Just making inflation-indexation the default rule would probably not help as a considerable part of the people would opt out of it. As a reflationary macroeconomic policy with low interest rates may be necessary in an economic downturn (because even deregulated labour markets do not clear themselves), mandated comprehensive inflation protection for all retirees is held to be without alternative by Social-Democratic Collectivism as even a rather low level of 3% inflation would curtail the real purchasing power of a nominally fixed annuity by 50% in 25 years (Munnell & Sunden 2004).

3.8.4. The Real World

Only three countries (Finland, Iceland and Poland) mandate the take-out of annuities whose value is protected against inflation. All other countries follow the Neoliberal Voluntaristic approach of no direct inflation protection; even more so, most of them do not even encourage market diversity (they do not offer inflation-indexed bonds), so that inflation-indexed annuities are often not available in these countries at all.

3.9. Lifecourse Transition Support

Lifecourse Transition Support refers to the question whether there should be some contributions paid out of the state`s pockets in the funded pension scheme for people temporarily not able to save adequately for status maintenance in old age, that is currently unemployed individuals, persons on maternity leave, and caring for children, as it is nowadays usually more or less the case in unfunded pension systems. There are three approaches to this regulatory issue: 1) to reject such a suggestion, 2) to make state contributions for them conditional on contributions by themselves or their partners (conditional subsidization), 3) to approve that society has a moral duty to pay for them.

3.9.1. Insisting on Self-Responsibility: No subsidies (Neoliberal Voluntarism)

Neoliberal Voluntarism subscribes to the first approach because it sees no necessity for using taxpayers` hard earned money to support those people. The principle of subsidiarity clearly demands that this is an issue that must be kept to the sphere of individuals` own responsibility: as industrious and honest individuals can hold non-contributory periods like these short, they can compensate their little contribution gaps themselves by paying a bit more after their unemployment and maternity periods. For those who stay longer out of the labour market, the unfunded pension system prevents them from falling into poverty in old age.

3.9.2. Supporting Self-Responsibility: Conditional subsidies (Social Liberalism)

Social Liberalism on the one hand feels a certain liberal hesitation to just `feed´ people up with subsidies as it knows that such policies signal and may promote a culture of dependency and of irresponsible, endless claim inflation, inconsistent with its insistence on developing

individual autonomy. Also, it thinks it may be more urgent to use tax-payers` money for other social policy issues of much greater importance (especially child poverty) than the status maintenance of temporarily unemployed, pregnant or child raising middle-class-people who usually have the means and social relationships to fill up their contribution gaps later by themselves.

On the other hand, Social Liberalism dislikes the somewhat `autistic´ stance of rough libertarianism and favours a welfare culture that does not only demand individual self-responsibility, but also recognizes the importance of institutionally promoting the idea that society indeed exists and that there should be such a thing like mutual civic responsibility, especially with regard to parents` needs. Hence, its stress on enabling citizen`s capability to help themselves and the importance assigned to strengthening (saving) resources of the socially disadvantaged leads Social Liberalism to make partial subsidization of retirement accounts conditional: if these people contribute (or a family member on behalf of them), the state will contribute a significant, although not overwhelming amount, too. This is held as an effective technique to promote self-responsible pension saving as recent research has shown that conditional matching by another party raises the average individual`s own willingness to save and to make higher contributions (Choi et al. 2004; Munnell & Sunden 2004).

3.9.3. Maintaining Collective Responsibility: Unconditional Subsidies (Social-Democratic Collectivism)

For Social-Democratic Collectivism, the principle of universal solidarity prevails so that it is an undisputed matter of course to subsidize the retirement accounts for unemployed and child caring people with a certain amount for a specified, reasonable period, because these people are held to be not responsible for their bad destiny resp. provide very valuable (albeit non-marketable) services for society. Subsidies should not be made conditional, since that would only overtax these people and would just support the richer part of them that can pay themselves whereas those who cannot will be left in the lurch.

3.9.4. The Real World

The huge majority of countries (15) follows the principles of Neoliberal Voluntarism what concerns the issue of Lifecourse Transition Support. Whereas two countries have instituted support measures reflecting the convictions of Social-Democratic Collectivism (Finland &

Poland), two other countries exhibit both elements of Neoliberal Voluntarism and Social-Democratic Collectivism because they restrict support to one group (the unemployed in the Netherlands) or mainly restrict it to one tier of the funded pension system (the Premium Pension in Sweden). Germany is the only country that applies the variant of Social Liberalism in this dimension.

3.10. Poverty of Means

Besides unemployed and caring people, a significant part of the working population, like low-wage workers, young families with children or part-time working single parents, may simply not have the means to afford to take out (a high enough) funded pension for securing the continuance of their former living standards in old age. The question is whether the state should take some responsibility for these people. The same three approaches to this regulatory issue as under point 9 are possible, and the three social philosophies give similar answers as before.

3.10.1. No subsidies (Neoliberal Voluntarism)

Again, for Neoliberal Voluntarism, those people are self-responsible for their status maintenance. With the state guaranteeing them a safety net against poverty in old age, all that is necessary is already done.

3.10.2. Conditional, targeted subsidies (Social Liberalism)

Social Liberalism makes subsidies by the state and their level dependent on people`s own contributions and their level. Giving people incentives to provide for themselves by offering them a helping hand is seen as an effective method to reach the goal of higher retirement savings, because research shows that conditional matching of people`s contributions by another party (state or employer) enhances participation rates as well as contribution levels (Choi et al. 2004; Munnell & Sunden 2004; Pensions Commission 2005, 32)[33]. This is important for Social Liberalism as it abstains from legally forcing individuals to contribute to funded pension insurance as this would not be consistent with its notion of promoting individual autonomy.

[33] See also the positive experiences with the Special Savings and Investment Accounts (SSIA) in Ireland (Wheelan 2005, 36).

In order to keep state expenditure levels in check and to concentrate tax-payers` money on the needy, Social Liberalism prefers concentrating subsidies predominantly on people with low incomes, gradually diminishing with the transition to middle income levels, so that saving resources of different strata are more equally distributed. Subsidizing the upper middle classes and rich people is seen as an unregrettable waste of scarce public resources, especially because these strata already highly profit from the tax-exempted investment gains in the TEE tax system preferred by Social Liberalism (see chapter 3.11.2).

3.10.3. Unconditional, universal subsidies (Social-Democratic Collectivism)

For Social-Democratic Collectivism, the principle of universal solidarity commands that all citizens – even the very rich - have a social right to a state subsidy with equal amount to their funded pension scheme. Subsidies and their amounts should also not be made conditional on own payments, because this would disproportionally serve the well-to-do who could better afford to pay more than poor people, especially those with debts, for whom a contribution would not make much economic sense. Such a regressive effect would not be in line with classical Social Democratic notions of equality.
What others might refuse as a sheer irrational economic waste of resources, is contended to be a preventive political technique to establish a hardly erasable mass support for the welfare state on closer inspection, that is, an attempt to entrench a genuine welfare *state* culture. Whereas targeting resources like tax-financed subsidies for funded pensions on poor people cannot count on political support of the middle-classes (the median voter) at least in times of austere budget policies, so that targeting public welfare payments on the `needy´ may paradoxically end up increasing poverty and inequality in the long run (Korpi & Palme 1998, I & 40), universal social policies like universal subsidies for funded pension have a strong middle-class support and are not so easily to curtail, thereby much more likely to maintain redistribution in the long run (ibidem; Moene & Wallerstein 1997).

3.10.4. The Real World

The majority of countries (14) follows Neoliberal Voluntarism and grants no subsidies at all. Four countries mix a Social-Democratic principle of subsidization with those of a Social-Liberalistic kind either by combining universalism and conditionality (Austria, the Czech Republic and New Zealand) or by combining unconditionality with targeting (Finland). The

remaining two countries (Australia and Germany) structure subsidization of funded pensions completely in line with Social Liberalism by targeting conditional subsidies on those with low resp. low-to-medium incomes.

3.11. Funded Pension Tax System

There are three occasions at which funded pension savings could be taxed: a) at the time contributions are paid into the scheme, b) at the time investment income accrues to the pension fund, c) at retirement, when pension benefits are paid out. While there thus exist eight possible tax regimes, the current discussion about pension taxation in the social sciences and ideological argumentations mainly focus on two central aspects:

Firstly, should contributions (pre-paid taxation) or benefit payments (deferred taxation) be taxed ?

Secondly, should pensions be taxed according to the principles of an *expenditure* tax system or should they be subjected to the principles of a comprehensive *income* tax system ? Whereas the central feature of a strictly comprehensive income tax system consists in taxing income stemming from labour (own work, pensions) and income stemming from capital (interest, dividends, gains from risen share prices, profits,…) equally, an expenditure tax system taxes only labour income and exempts personal capital income totally or up to a certain `basic return´ (Ganghof 2004, 30 ff.). Ceteris paribus, that means under the assumption of equal tax rates and structures[34], a comprehensive income tax system could be ideologically classified as belonging rather to a centre-left, classical social-democratic political stance whereas an expenditure tax system could be rather assigned to a centre-right, (neo)liberal political stance (ibidem, 36).

Three main ideal-type approaches to funded pension taxation could be distinguished:

1) in a classical (deferred) expenditure tax system (`EET´) applied to pensions, contributions are tax-exempt (E) (that means they can be deducted from taxable income), capital income stemming from investment gains of the pension fund is also tax-exempt (E), but retirement benefits are taxed according to the personal income tax rate (T).

2) in a pre-paid expenditure tax system (`TEE´) applied to pensions, contributions are taxed under application of the personal income tax rate (T) (that means contributions cannot be

[34] Here, tax structure means the decision relating to whether the amount of the deducted taxes should increase proportionally (`Flat-Tax´) or progressively (the progressive income tax as it is common in most OECD countries) with increasing amounts of taxable income.

deducted from taxable income), capital income stemming from investments of the fund is tax-exempt (E), and pension benefit payments paid out in retirement are also tax-exempt (E).
3) in a comprehensive income tax system (`TTE´) applied to pensions, contributions (T) as well as capital yields from pension fund investments (T) are taxed with regard to the same personal tax rate, while pension benefits are tax-exempt (E).
These three different system designs produce distinctly different outcomes as can be seen in the following example adopted from Willmore (2000, 6) (see Table 2). I have adjusted it insofar as I assume a progressive tax system instead of a flat rate tax system as Willmore has done, because some kind of progressive tax system is still common in all OECD countries and this has implications for the comparison of outcomes between EET and TEE. Thus, a rate of 30% during working life is applied whereas the rate in old age would be 20% - due to usually decreasing total personal income in old age. As Willmore, I assume that contributions of 100 are invested 10 years before retirement. The real rate of interest is 10%.

Table 2: Outcomes of Different Ideal-Type Funded Pension Tax systems

	EET-System	**TEE-System**	**TTE-System**
Labour Income	100	100	100
Tax	-	-30	-30
Contribution to Fund	100	70	70
Investment Income from Pension Fund (already deducted by capital taxes in the TTE case)	159	111	81
Fund Balance	259	181	151
Tax	-52	-	-
Total Individual Pension Benefit	207	181	151

Note: Adopted from Willmore (2000, 6), but with the difference that a progressive income tax rate (30% during working age and 20% in old age because of lower personal income) instead of a flat income tax rate of 20% is assumed.

Although one of course must be very cautious what concerns the exact amount of the differences between the three systems, because they depend on the various assumptions made here (tax rates, progressivity, investment returns, contributions), what matters here is that different funded pension tax systems produce different distributions of income between the

state and those saving for retirement. In an EET-system, the part of the sum going to the state / individual is lower / higher than in an TEE-System (of course, only if an progressive income taxation system prevails, but not if a flat tax system would be established). And in a TEE-system, the part of the sum going to the state / individual is lower / higher than in an TTE-system. Consequently, individual monetary incentives regarding the pension savings decision differ accordingly.

3.11.1. EET (Neoliberal Voluntarism)

`Neoliberal Voluntarism´ favours the classical (deferred) expenditure tax system (`EET´) system for funded pension system taxation.

Firstly, it prefers an expenditure tax system because pension taxation systems that tax accrued investment gains like it is the case in the TTE-system favoured by Social-Democratic Collectivism (but also in an ETT-system), result in a disincentive to save. According to liberal neoclassic economic theory, such disincentives are detrimental for all people because high saving rates are a crucial variable to spur long-term economic growth in a society (Börsch-Supan 2004, 2 f.) (see Schmitt (2000) for a critique of this argument). Moreover, Neoliberal Voluntarism needs such incentives because it neither mandates funded pensions (see chapter 3.1) nor does it subsidize them (see chapter 3.10). Without such tax incentives, funded pension saving in a voluntary system void of direct subsidies is likely to be very low as the only real-world example of such a combination, namely New Zealand, shows (Wheelan 2005; Whitehouse 1999).

Secondly, Neoliberal Voluntarism displays a preference for a *deferred (classical)* expenditure tax (EET) regards funded pension taxation instead of a prepaid expenditure tax (TEE), because an up-front tax relief would be perceived as more valuable and would give more incentives to save if it is embedded in an otherwise progressively comprehensive income tax system, because the income tax rate then is normally higher during working age than in old age, so that the amount of the tax saved is higher under an EET than under an TEE-system. Furthermore, owing to its rather sceptical view (a generalized homo oeconomicus view) on the state and its self-interested politicians influenced by public choice theory, Neoliberal Voluntarism suspects that revenue seeking future governments may not feel committed enough to promises made by earlier governments, which used the TEE approach and hence taxed contributions but reassured voters that benefits will not be taxed. Future governments are suspected to renege on such promises and apply a double taxation (contributions and

benefits) to pensions (Whitehouse 1999, 36). Hence, according to Neoliberal Voluntarism, pension insurance contributions within reasonable amounts should be tax-exempt, and instead payments in retirement should be taxed.

3.11.2. TEE (Social Liberalism)

Social Liberalism subscribes to the view of Neoliberal Voluntarism as far as the expenditure taxation principle is concerned, because a taxation of investment yields earned by savers and the implied fiscal punishment for the virtue of long-term saving is not in line with its stance on strengthening peoples` saving resources and stimulating them to take responsibility for themselves. At best, a significantly reduced rate of taxation (compared with the prevailing income tax rate) regarding the capital yields would be consistent with Social Liberalism.
However, Social Liberalism does not share Neoliberal Voluntarism`s generalized scepticism toward the political sphere as it thinks that political life can be embedded in a democratic discoursive atmosphere consisting of honest, intrinsically motivated individuals taking civic responsibility for the community, provided that procedures of direct democracy are established[35]. Social Liberalism also points out that deferred funded pension taxation within a progressive income tax system first and foremost privileges high-income-earners, that means those who need it the least. This is not in line with its goal to distribute (saving) resources and capabilities more equally. Such a waste of resources would also go to the detriment of the public`s purse, thereby constraining urgent public investments in education, research and so on. Therefore, Social Liberalism favours a pre-paid expenditure tax system (TEE).

3.11.3. TTE (Social-Democratic Collectivism)

In sharp contrast to the other two ideologies, `Social-Democratic Collectivism´ is outraged by the tremendously regressive effects of the expenditure tax principle (Willmore 2000, 7). For example, in the US (which operates an EET-system), according to the Department of Treasury, two-thirds of all those hidden tax subsidies go to the wealthiest 20%, while only one eighth go to the bottom 60% of the income distribution. Social-Democratic Collectivism is equally enraged about the huge fiscal losses incurred by the government through the tax concessions granted under EET, but, albeit to a lesser extent also under TEE - ranging between 1 and 3% of GDP, sometimes even exceeding the cost of means-tested pensions for

[35] See Frey (1997) as a prominent behavioral economist arguing this way.

the poor (Hughes & Sinfield 2004, 185). Thus, they mainly benefit high-income earners, who do not need these subsidies and would save anyway, instead of low wage workers, who would need it most (Ebert 2001). Tax advantages mean little to nothing to those whose tax rate is low or zero. Hence, the expenditure taxation principle, especially that of the deferred variant, and especially in combination with a voluntary funded pension system (with strongly higher participation rates of high-earners and near-zero perticipation of those on low incomes) is held to be absolutely irreconcilable with the principle of equity (Hughes & Sinfield 2004, 183). Besides these arguments related to equity concerns, Social-Democratic Collectivism also points out that there is no scientific agreement whether it is economically more efficient to tax capital income more generously than labour income (Ganghof 2004, 35). Therefore, `Social-Democratic Collectivism´ thinks it is much more adequate to mandate and support funded pensions by direct, universal subsidies as detailed in chapter 3.10.3., so that incentivising tax systems like EET ot TEE are simply not needed. Income from retirement savings is thus neither favoured nor penalised compared with income from work, that is, taxed at the same personal rate. So, public money could be saved and spent instead for promoting classic social-democratic concerns like public education, public health care and the like.

3.11.4. The Real World

Nearly all countries (14) have selected the pure EET-system advocated by Neoliberal Voluntarism or a system even more permissible (EEt). Three countries (Denmark, Italy, Sweden) slightly temper the dominance of Neoliberal Voluntarism in their system by injecting a small element of Social-Democratic Collectivism by taxing investment gains (however, at a concessionary rate), thereby displaying an EtT-system. Austria combines Social Liberalism and Neoliberal Voluntarism by taxing its two schemes differently (TEE and EET). Clear outliers are Australia with its ttt-system, compromising influences of Social-Democratic Collectivism and Neoliberal Voluntarism and New Zealand with a clear cut TTE-system exemplifying the approach of Social-Democratic Collectivism to funded pension taxation.

3.12. Ideologies, Institutions and Real Outcomes

An appropriate outcome hypothesis to be empirically tested that can be deducted from this ideal-typical analysis but cannot explored here further is that inequality of pension incomes 1)

will be rather high in countries with a predominantly Neoliberal-Voluntarist regulation, 2) intermediate in countries with a predominantly Social-Liberal regulation and those countries who mix Neoliberal-Voluntarist and Social-Democratic elements and 3) rather low in countries with a predominantly Social-Democratic Collectivist regulation.

4. Measuring the Intensity of Social Policy Regulation

With the help of the 11 social policy regulatory dimensions set out above, an overall composite index can be constructed measuring the overall intensity of *social-policy*-regulation of a country`s funded pension system in a standardized manner. As stated before, I equate the intensity of social-policy-regulation and the degree of collectivisation of a country`s funded pension system, as Girvetz (1968) has defined social policy as the explicit acceptance of responsibility of a *society* (*collective* responsibility) for the welfare of its citizens. Thus, this overall composite index is a measure for the collectivisation of a country`s funded pension system regulation. Collectivisation here means the degree to which the responsibility that an individual achieves status maintenance in old age and that possible dangers to this goal (f.e. high administration costs) are averted, is overtaken by *collective* social actors (state, tripartistic or corporatistic institutions). High values on this composite index mean a high degree of collectivisation and a low degree of individualisation of this responsibility, low values on this index mean a low degree of collectivisation and a high degree of individualization of this responsibility. The overall social-policy-regulation-intensity (SPRI) as well as each of the regulation intensities of the eleven single dimensions (MY, EW, VO, SI, CH, AC, LO, IN, LC, PM, TX) can take values between 0 (= no social-policy-regulation = complete individualization) and 1 (= highest possible intensity of social-policy-regulation = complete collectivisation). The intensity of social-policy-regulation of a country`s funded pension system is then computed in the following way:

$$SPRI = \frac{2 \cdot MY + EW + VO + SI + CH + AC + LO + IN + LC + PM + TX}{12}$$

where

SPRI: (Overall) Social Policy Regulation Intensity

MY: Degree of Myopia Regulation Intensity
EW: „ Early Withdrawal Temptation Regulation Intensity
VO: „ Volatility Risk Regulation Intensity
SI: „ Self-Investment Risk Regulation Intensity
CH: „ Choice Risk Regulation Intensity
AC: „ Administration Charge Regulation Intensity
LO: „ Longevity Risk Regulation Intensity
IN: „ Inflation Risk Regulation Intensity
LC: „ Life-Course Transition Support Regulation Intensity
PM: „ Poverty of Means Regulation Intensity
TX: „ Funded Pension Tax System Regulation Intensity

The single dimension of MY (degree of myopia regulation) is weigthed twice as much as each of the other ten single dimensions in the formula. This is so because the question whether participation is mandatory, voluntary or automatic enrolment is applied is of a special importance and significance.

Firstly, the consequences resulting from the decision relating to this dimension are of a clearly higher importance for the achievement of status maintenance than are the other ten single dimensions. To formulate it a bit pithy: Having prevented myopia `is not all´ (with regards to achieving status maintenance), but without having prevented myopia - even if all other 10 dimensions would be very strongly regulated – `all is nothing´: 50% of the population might have strongly regulated pensions in such a case, but the other half of the population might have nothing at all, because they do not take out funded pensions. Whereas regulations regarding the other 10 dimensions fulfil `only´ the task to prevent that an established retirement capital stock is not too drastically *diminished* (f.e. by inflation), myopia regulation is of higher importance because it aims to guarantee that a relevant retirement capital stock is *established* at all.

Secondly, mandating participation automatically implies a particularly striking signal that society will take collectively care for achievement of status maintenance in the future because the collective decision to *force* individuals to put their money in the financial market for old age security instead of making this decision voluntary will put a considerable higher bail-out-pressure on the state in the case that there are systematic problems with funded pensions (f.e. a massive market downturn, systematic fraud, high inflation etc.) – even if the state gave no explicit legal commitment to certain return guarantees, inflation protection or whatsoever in the beginning. This is so not only because the state *forces* its citizens, but also because with

forcing, *all* citizens will be affected by a crisis, whereas in the voluntary case, very likely only a certain part (50% or so) of them will be affected. This means that the degree of political pressure on the state to bail out, institute compensating measures etc. that victims of crises are able to exert on a future government will very likely be much higher under mandated than under voluntary funded pension systems.

The functioning of the simple formula above is illustrated with regard to the three ideal-types of funded pension regulation by the following table which at the same time summarizes extremely shortly the core contents of Chapter 3. A funded pension system designed exclusively according to the principles of Neoliberal Voluntarism / Social Liberalism / Social-Democratic Collectivism would get a SPRI-Value of 0 / 0,54 / 1. As Self-Investment Risk Regulation prescribed by Social Liberalism is as strict as in Social-Democratic Collectivism, so that Social Liberalism takes in this single dimension the value of 1 instead of 0,5 , the SPRI of a system designed purely according to the norms of Social Liberalism does not take the exact intermediate level of 0,5 , but a level slightly above that (0,54).

Table 3: Ideal-Type Institutional Shapings of the 11 Regulatory Dimensions and Assigned Values

Ideal-Type / Dimension	SOCIAL-DEMOCRATIC COLLECTIVISM	SOCIAL LIBERALISM	NEOLIBERAL VOLUNTARISM
Myopia Risk	Mandatory Participation *Assigned Value: 0*	Automatic Enrolment *Assigned Value: 0,5*	Voluntary Participation, *Assigned Value: 0*
Early Withdrawal Temptation	Early Withdrawals are forbidden (Exception: Homeownership)	Early Withdrawals are financially punished by revocation of subsidies and/or a surcharge tax (Exceptions: Homeownership, Education)	Early Withdrawals are allowed

	Assigned Value: 0	*Assigned Value: 0,5*	*Assigned Value: 0*
Volatility Risk	Intergenerational Risk-Sharing, Defined Benefit *Assigned Value: 0*	Automatic Enrolment in a Life-Cycle-Fund *Assigned Value: 0,5*	Defined Contribution, Education *Assigned Value: 0*
Self-Investment Risk	Self-Investment capped at 5 – 10% of assets *Assigned Value: 1*	Self-Investment capped at 5 – 10% of assets *Assigned Value: 1*	No caps *Assigned Value: 0*
Choice Risk	Collective Voice instead of Individual Choice *Assigned Value: 1*	\`Wisely´ Restricted and Structured Individual Choice *Assigned Value: 0,5*	Endless Individual Choice, Education *Assigned Value: 0*
Administration Charge Regulation	Collective Pooling of assets in Not-for-profit-Funds	Weak Form: Capping total charges at a meaningful level; Switching Costs are forbidden; Charges can only be levied as % of assets in an individual account *Assigned Value: 0,25* Strong Form: Additionally: Centralized,	Fostering Competition

	Assigned Value: 1	Institutional Market with restricted choice among a few passively managed index-funds; Competitive Auction as regards Fund managers` access to this market *Assigned Value: 0,75*	*Assigned Value: 0*
Longevity Risk	Annuitization mandatory *Assigned Value: 1*	Automatic Enrolment in Annuitization plus financial incentives *Assigned Value: 0,5*	Annuitization optional *Assigned Value: 0*
Inflation Risk	Inflation Protection Mandatory *Assigned Value: 1*	Automatic Enrolment in Inflation Protection; *Assigned Value: 0,5*	Inflation Protection optional; *Assigned Value: 0*
Lifecourse Transition Support	Unconditional subsidies by the state *Assigned Value: 1*	Conditional subsidies by the state *Assigned Value: 0,5*	No subsidies by the state *Assigned Value: 0*
Poverty of Means	Universal and unconditional subsidies by the state	Targeted and conditional subsidies by the state	No subsidies by the state

	Assigned Value: 1	*Assigned Value: 0,5*	*Assigned Value: 0*
Funded Pension Tax System	TTE *Assigned Value: 1*	TEE *Assigned Value: 0,5*	EET *Assigned Value: 0*
Total Regulatory Intensity (Degree of Collective Responsibility)	*Average Value: 1*	*Average Value: 0,54*	*Average Value: 0*

Of course, national funded pension regulation in the real world usually mix different ideal-type institutional shapings of different regulatory dimensions more or less: f.e. a country may combine a mandatory participation (Social-Democratic Collectivism) with the DC-principle (Neoliberal Voluntarism) (Examples: Sweden, Poland). So, an SPRI of 0,5 in sum must not necessarily reflect automatically an orientation of Social Liberalism, but may also indicate a balanced mixture of elements stemming from Neoliberal Voluntarism and Social-Democratic Collectivism.

Furthermore, national funded pension regulation in the real world often do not mix only different ideal-type institutional shapings ***across*** different regulatory dimensions, but they also not seldom mix ideal-type institutional shapings ***within*** these regulatory dimensions: f.e. they grant universal, but conditional subsidies in the Poverty-of-Means-Dimension, thereby mixing elements of Social-Democratic Collectivism (the principle of universality) and Social Liberalism (the principle of conditionality) (Examples: the Czech Republic, Austria). In such cases, the institutional shaping of a regulatory dimension in a country is assigned the respective intermediate value – meaning in this example (0,5 + 1) : 2 = 0,75. To reduce the subjective factor possibly distorting my value assignments in some of those sometimes quite tricky cases as much as possible, the general rule is that I look which institutional shapings reflecting what kinds of ideologies are present in the regulatory dimension of a certain country`s system and then compute the respective average value for that dimension.

In the following, the SPRI-Values for the funded pension system in 20 OECD countries (Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, the Netherlands, New Zealand, Poland, Switzerland, Sweden,

the United Kingdom and the United States) are specified by describing the shapings of all eleven regulatory dimensions of the system in each of these countries in a detailed way.

Excourse: What`s with the Conservative Welfare State ?

In comparison with Esping-Andersen (1990), the number of ideal-types is the same, but on the one hand, a new type, namely Social Liberalism is accounted for, partially a result of rather new scientific and philosophic approaches. On the other hand, the typology does not contain a `conservative´ type like Esping-Andersen`s did. This is the consequence of the fact that there exists neither a serious wholesale ideological tendency nor sprinkled arguments that promote conservative approaches to funded pension regulation at the moment in the literature nor one that would come near to that. The conservative approach, mixing liberal and social-democratic elements in a curious way by promoting funded DB pensions as a status privilege restricted to the core workforce mandated by the single paternalistic, arbitrary employer, with extremely long vesting periods (to keep worker morale and commitment) and 100% of assets invested in the own company (book reserve scheme) or at least in the own country, no subsidies and taxed according to EET, seems to become a thing of the past even if we regard the real world.

All the more, serious and often successful efforts have been made in the last decade to eradicate conservative stratification principles (as regards both monetary privileges and organizational structures) in the Paygo systems of former core conservative countries like France, Austria, Germany and Italy.

Of course: some sprinkled elements that could be denoted conservative are still alive in some countries with regard to unfunded systems (remind the obstinate privileges for civil servants in so-called `Bismarckian´ countries[36]) as well as with regard to funded systems (book reserve schemes in Japan and Germany, the structure of vesting rules in some Japanese funded pension schemes[37] and nationalistic, neo-mercantilistic investment restrictions in Austria, Canada, Poland and the Czech Republic), but these are (vanishing) exceptions so that one could say that Conservatism (of course, not: `Conservative´ Parties) with regard to pension policy is `dying´ - although it is still not entirely `dead´ yet.

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[36] But these were recently abolished in Austria in 2004 by a reform unifying all different systems in one scheme (Rürup & Gruescu 2004, 402; Krell 2005).

[37] However, even here, recent reforms curtailed the influence of such Conservative principles (see chapter 4.13.2).

Because it is an isolated, but quite important regulatory issue of a conservative nature which cannot be accounted for in my analytical screen distinguishing between neoliberal, social-liberal and social-democratic institutions, I will shortly direct attention to nationalistic, neo-mercantilistic investment restrictions.

Austria has a regulation specifying that at least 40% of an individual pension account must be invested in EU-countries with an equity capitalization rate (value of traded assets as % of national GDP) under a certain threshold. The responsible Austrian politicians naturally knew that only Austria (and the new Eastern-European EU-member states) fulfil this criterion. In Canada, there is a regulation that prescribes that pension savers have to hold at least 70% of their retirement portfolios in Canadian assets (Fried & Arnaboldi 2002, 11), which leads to a degree of risky underdiversification even more extreme than in Austria. In Poland, not more than 5% of assets may be invested abroad (Chlon-Dominczak XXXX, XX; Ratajczak 2005, 194), so that 95% of all assets have to be invested in Poland, which implies considerable investment risk because of underdiversifying. Risky underdiversification of assets is also enhanced in the Czech Republic by a complete prohibition to invest in foreign shares (Iglesias 2003, 42).

To exaggerate a bit, these prescriptions are a sort of a (hidden) neo-nationalistic, neo-mercantilistic economic policy which forces the individual citizen without regard to his/her financial integrity in a nationalist straitjacket, following the implicit motto: `You and your little private pension portfolio is unimportant, but your nation`s stock market boom (and the (allegedly) following economic success of your country) is all that matters in order to secure your country a place under the global economic sun of investment competition.´[38] Individual pension portfolios are put at risk:

„…expansion of the prefunded tier may create an imbalance on the capital market in the future, with the demand for equity by the funds becoming much higher than supply and resulting in overpricing of the market. In order to avoid this threat, pension funds should be permitted to invest more abroad than the current limit of 5%.“ (Chlon-Dominczak XXXX, 187; with regard to the case of Poland, T.H.)

This shows that individual account systems are far from being an automatic remedy against the misinvestment-reproachings so often smashed at state-administered funded systems by the World Bank. It shows that the steady scientific concentration on allegedly inevitably

[38] So to speak a modernised version of Wilhelministic ideology and the nationalistic motto `You are nothing, your nation is everything´ of even darker forces.

mismanged state-administered public funds what concerns investment strategies leads to the implicit, but false conviction that investment would be automatically appropriately regulated in personal account systems[39]. Ironically, with regard to Poland, this is so not although, but just because the pension reform there was assisted by the World Bank: predominant investment in domestic asset markets (`financial mercantilism´) in order to promote national economic growth is an as central as questionable tenant of the World Bank`s approach to pension reform (see Kotlikoff (1999, especially 2 & 13) for a very critical discussion of this and other features of the World Bank`s pension strategy).

5. The Regulation of Funded Pension Systems in 20 OECD-Countries

5.1. Australia

Australia was categorized as belonging to the group of `latecomers´ (Hinrichs 2000). It has no earnings-related Paygo-System, but a tax-financed, wage-indexed basic flat-rate pension (`Age Pension´) with an abundance- rather than means-test applying so generous thresholds that – *currently* - only top earners get no (18% of the retired population) or diminished (further 22%) benefits under the scheme (Rein & Turner 2001, 114). However, because of the retirement income increasingly generated by the newly established funded SG program (see below), the share of the elderly collecting a full `Age Pension´ benefit is predicted to fall from over half to about a third in the future (Sass 2004).

Myopia Regulation

In 1992, a Labour Government introduced the so-called `Superannuation Guarantee´ as a mandatory second occupational pension pillar, forcing[40] all employers to make contributions of 9% of salary on behalf of their employees aged between 18 and 65. The 9% contribution was gradually phased in until 2002. However, Australian employers are not legally obliged to pay for employees earning less than 15% of average male earnings as well as their part-time-

[39] For example, almost two thirds of total assets of the *privately managed* second Polish pillar are invested in Polish government bonds (Chlon-Dominczak XXXX, XXX).
[40] Employers who do not make contributions for their employees are legally obliged to pay a charge which is significantly higher than the contribution. Thus, Australian employers have a clear incentive to comply.

staff (defined as those employees working less than 30 hours), so that 97% of full-time employees are covered, but only 76% of part-time employees. Self-employed people are not covered by the mandatory program, too (INPRS 2003, 204).
Furthermore, besides these (rather `little´) coverage gaps, the Superannuation Guarantee Legislation suffers from a contribution gap with regard to the criterion of status maintenance. The retirement income policy of the former Labor Government intended to increase the contribution rate further from 9% to 15% in the long run, with employees and the government each contributing additional 3%, which would have been a Social-Democratic Collectivist regulation of the myopia as well as poverty of means dimension. But these plans were abolished by the Conservative Coalition Government which came to power in 1996. This is an as crucial as often neglected fact to be accounted for in the estimation of myopia regulation in Australia`s funded pension system. By holding the mandated minimum contribution rate constant at 9%, the Australian state indirectly gives its citizens the (false) impression that saving this 9% plus the `Age Pension´ will be – under reasonable return assumptions - enough to provide for a fairly decent standard of living in old age. From the knowledge established by Behavioural Economic Research, we can assume that many people will interprete this mandatory 9% as an implicit advice that 9% will be sufficient. And, indeed, only 20% of all Australians save voluntarily more than these 9% for retirement. Although the current Conservative Australian Government strongly refuses to officially announce a replacement rate target, it even directly gives the impression that continuance of former living standards is likely to be achieved by the 9%. In an official governmental document it reads:

„Treasury estimates that the SG system in conjunction with the age pension is projected to provide a spending replacement rate for a single male on median earnings of 76% after 30 years of contributions, or 85% after 40 years of contributions. While the government does not support setting a replacement rate target, it notes that these replacement rates are consistent with the 70% to 80% band mentioned in the Senate Committee report.“ (Government Response to the Recommendations of the Senate Select Committee on Superannuation Report, 1)

However, in a detailed and sophisticated comparative and standardized computation of prospective replacement rates under reasonable economic assumptions[41] provided by the OECD, one can see that the first and second mandatory pillars in Australia altogether are by

[41] For details see Verband Deutscher Rentenversicherungsträger (2005, 35).

far not sufficient to secure status maintenance, if we define this as a minimum net replacement rate of 65% at the official age of retirement. Instead, an average Australian earner will receive a net replacement rate of 52,4% (VDR 2005, 83). Harris (2002, 14) came to the same conclusion:

„Simply put, 9% mandated contributions will not be enough for an individual to replace their level of income and maintain their lifestyle in retirement.“

Hence, it lies in the individual`s responsibility to reach status maintenance:

„The Government believes that individuals are best placed to determine their own retirement income target based on their designed standard of living in retirement.“ (Government Response to the Recommendations of the Senate Select Committee on Superannuation Report, 1)

As Australian Myopia Regulation does rely on an individual approach to solve the possible problem of myopia thwarting the achievement of status maintenance, it subscribes to the value of Neoliberal Voluntarism in this dimension.
Consequently, *the shaping of Myopia Regulation regards status maintenance in Australia is assigned the value of 0* - and not 1, as one could have thought on first sight. It would have been 1 if Labour had been reelected and succeeded with its plan to raise contributions rates to 15%, because this rate would have been sufficient (under reasonable rate of return assumptions) to accomplish the 65% replacement threshold and would thus have meant the institution of collective responsibility to secure status maintenance with regard to the Myopia problem. But Australian funded pension history took a different direction.

Early Withdrawal Temptation Regulation

The preservation rules regarding Australian Superannuation legislated in 1999 require that pension fund capital are locked in until the age of 55. For those born after June 1960, an age threshold of 60 will be phased in between 2015 and 2024. However, early access is possible in the case of severe financial hardship (after being in continuous receipt of income support for half a year) and medical treatment not available through the public health system (without repaying funded pension tax advantages) (INPRS 2003, 205 f.). On the one hand, such

exceptions are not compatible with the approach of Social-Democratic Collectivism. Under Social-Democratic Collectivism, it would be the collective responsibility of the public welfare state to help individuals getting out of severe financial hardships during working age and to cover medical expenses completely, so that the individual could preserve its retirement capital and profit from the effect of compound interest. On the other hand, Australians do not have completely free access to their retirement accounts, as Neoliberal Voluntarism favours it, but is conditional (only in the case of severe financial hardship and medical expenses not publicly covered) and is otherwise not only fiscally punished (as Social Liberalism would have it) but strictly forbidden. So the Australian Regulation of Early Withdrawals can be regarded as of an intermediate intensity between Neoliberal Voluntarism and Social-Democratic Collectivism.
Consequently*, the shaping of Early Withdrawal Regulation regards status maintenance in Australia is assigned the value of 0,5.*

Volatility Risk Regulation

Pure Defined Contribution plans without any government guarantee dominate Australian Superannuation. 86% of all members are in plans of this kind and there is a further overall strong trend towards pure DC schemes, because most existing DB plans are closed to new members (INPRS 2003, 206). DC is exactly what Neoliberal Voluntarism prescribes.
Consequently, *the shaping of Volatility Risk Regulation regards status maintenance in Australia is assigned the value of 0.*

Self-Investment Risk Regulation

There is a strict ceiling on in-house investments at 5% of all assets which cannot be exceeded even if the employee wishes so (Bateman & Piggott 2001, 16). This harsh restriction of individual investment freedom is in accordance with the prescriptions of Social Liberalism as well as Social-Democratic Collectivism.
Consequently, *the shaping of Self-Investment Risk Regulation regards status maintenance in Australia is assigned the value of 1.*

Choice Risk Regulation

In 2004, the Conservative Coalition Government succeeded in enacting Superannuation Fund Legislation, giving Australian employees freedom of choice. While 80% of fund members have had *portfolio* choice (with different risk-return profiles) before that (however, only 10% used it), they have had to accept the fund management chosen by their employer / the trustees of the scheme. Only with regard to assets accumulated in possible previous employment workers could choose a fund from over 300 `public offer´ funds (Vidler 2003). But now, with the new legislation, employees are granted complete freedom of investment portfolio and fund – may that be an industry fund, a company fund, a retail fund or a self-managed do-it-yourself-fund.

Unrestricted choice is widely viewed as unproblematic not only by government and the fund industry, but also by the democratic opposition in parliament and consumer groups. The latter expressed just some Neoliberal concerns regarding disclosure regulation and financial literacy skills (Gallery & Gallery 2004). Hence, funding for consumer education was heightended a bit and disclosure regulation improved a little by the Conservative government to get Choice Legislation through parliament. Freedom of individual choice is viewed by the conservative government, in accordance with the convictions of Neoliberal Voluntarism, as promoting efficiency (higher net returns and lower administrative charges). Nothing has been done to ensure that the probably high part of those people who will not choose is enrolled in an appropriate default fund (as it is f.e. the case in Sweden). Existing default portfolio options chosen by employers or trustees are all named `balanced´, but earned nevertheless highly unequal rates of return in the past (Gallery et al. 2003).

Consequently, *the shaping of Choice Risk Regulation regards status maintenance in Australia is assigned the value of 0.*

Administration Charge Regulation

Charge level as well as structure is legally largely unregulated in Australia. There is a minor exception to this: charges are capped at 100% of net returns for small accounts with less than 1000 Australian $. However, thereby only negative net returns for accounts with sums already insufficient for retirement purposes are prevented, so that this regulation is negligible.

Charge levels vary considerably between the different kinds of funds: whereas the average fund established on an industry-wide basis (not-for-profit corporatist funds) incurs administration costs which reduce the total accumulated retirement capital sum only by 11,2%, in an average employer retail fund (which are often named `master trusts´, that are

funds arranged by the financial industry for small employers or groups of them), charges are so high that the total accumulated retirement capital sum are reduced by a staggering 32,7% (Bateman 1999) – note: this means in an *average* retail (master trust) fund and without accounting for possible annuitization costs. On average, charges amount to 1,3% - 1,7% of assets per year (Whiteford 2004), if switching and annuitization costs are not accounted for. According to Vidler (2003), 52% of all accounts are held with those high cost, low performance (actively managed) retail funds. A significant proportion of these are opened voluntarily, because partly uninterested consumers (10% of whom questioned in a representative survey did not knew her super fund) ignore cheaper alternatives (ibidem). This is not only so because representative surveys found that 55% of fund members know little or nothing about fees and charges, but also because pricing structures are highly complex and diverse. The retail fund industry vehemently and – until today – successfully refuses a meaningful level of disclosure:

„A thorough analysis would require a financial model that compared costs over the life of the investment under various scenarios of income, contribution and asset return." (Vidler 2003, 35)

Retail funds for individuals, used by self-employed people, charge even at around 3,25% of assets per year, reducing the total accumulated retirement capital sum by an inconceivable 50% or more (ibidem). High costs are not justified by higher investment earnings. Instead, lower cost funds clearly outperform higher cost funds (ibidem).

Financial providers can also charge considerable switching costs, have usually instituted significant fixed fee per account components and charge concessional rates for higher balances (accounts of high-income-earners) and penalty rates for lower balances (accounts of low-income-earners) (ibidem). The competition legislation introduced in 2004 will very likely not improve Australia`s high cost market since it leads to industry and company funds getting more similar to retail funds (e.g. the need to advertise), thereby probably losing their current cost advantages in the future (Bateman 1999). It is the retail fund industry that displays high charges combined with low returns, whereas industry funds are rather cheap and achieve satisfactory returns: The current ratio of investment earnings to fees is 8,2 : 1 in industry funds but 0,9 : 1 in Master Trusts (Interview with Greg Combet 2003, 23). So, with regard to international research experience laid down in Chapter 3.6., one can predict that the recent extension of choice and competition will make the charge cost problem even more worse:

„The analysis suggests that free choice would compound rather than alleviate current problems related to fees.“ (Vidler 2003, 28)

Consequently, as the unregulated administration charge levels and structures and the cure of increased competition are an recipe out of Neoliberal Voluntarism`s normative kitchen, *the shaping of Administration Charge Regulation regards status maintenance in Australia is assigned the value of 0.*

Longevity Risk Regulation

Generally, benefits at retirement can be received in the form of annuities or lump-sums without any relative or absolute restrictions. There exists no mandate to purchase lifetime income streams (besides the means-tested first pillar) (Bateman & Piggott 2001, 19), so that the possible failure of annuities market is not adressed (ibidem). In fact, most superannuation funds in Australia are structured to provide a lump-sum and currently, 75% of benefits are paid as lump sums (Whiteford 2004, 93).
This is a consequence of Australia`s unique quasi-universal, but means-tested first pillar with its relatively generous allowances. Many Australians take out lump sums to be able to structure their retirement resources in a way that maximizes the total value of private consumption & wealth and public pensions: in order to remain below the thresholds of the means test, they consume a part of the lump sum before applying for the public Age pension (so-called `double dipping´) and / or invest the lump sum in wealth that is not accounted for under the asset test of the first pillar, especially home-ownership. Consequently, Australia has one of the highest home-ownership-rates among pensioners in the world.
However, to counter the Australian `lump-sum mentality´, the government has instituted financial incentives privileging annuity streams compared to lump sum payments both with regard to the means-test of the first pillar and with regard to funded pension taxation (Sass 2004, 9). The latter entitles pensioners, who take at least half of the accumulated capital value in the form of an annuity, to a twice as much higher ceiling on which a 15% reduction on tax payments is applied (VDR 2005, 82). However, these incentives are said to be ineffective (Sass 2004, 9). Thus, Australian Superannuation neither mandates nor automatically enroles in annuitization (as Social-Democratic Collectivism / Social Liberalism would do). The only difference to Neoliberal Voluntarism here is that it uses a *part* of the institutional equipment

of Social Liberalism, namely financial incentives for annuitization. Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in Australia contains elements of Social Liberalism and Neoliberal Voluntarism and is thus assigned the value of 0,25.*

Inflation Risk Regulation

Inflation risk in retirement is not legally covered (Bateman & Piggott 2001, 19). Even if annuities are chosen, they can, but must not protect against inflation. Indexation is a commercial decision usually made on a discretionary basis (INPRS 2003, 206). Hence, the individual is not protected against possible money illusion.
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Australia is in accordance with Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

There are no private pension compensation payments made by the state on behalf of unemployed people, individuals on maternity leave or people raising children. This part of the population is not covered (INPRS 2003, 204).
Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Australia is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.*

Poverty of Means Regulation

The Australian government targets conditional subsidies for voluntary retirement saving top-ups above the mandated 9% on persons with an annual individual gross income under a certain threshold (58000 Australian $ in 2005). Saving individuals earning 28000 Australian $ or less in a year receive a relatively generous matching contribution by the state of 150% of the amount contributed by the individual, up to a maximum yearly state contribution of 1500 Australian $. The matching rate decreases rather exponentially resp. rather gradually from these 150% to 0% for those on 58000 Australian $ depending on the exact amount of the individual contributions (for details see the table in the booklet of the Australian Taxation Office 2005, 2). These conditional subsidies are named \`Superannuation Co-Contribution´, first instituted in 2002 and increased in their importance in 2005 (the former maximum matching rate was \`only´ 100%). However, it is unclear whether those on low incomes,

especially families with children (because these are not privileged in Australia as it is the case in Germany), can really afford paying such voluntary top-ups and benefit from these subsidies (Anderson 2003). This system of moderately targeted, conditional subsidies is an ideal exemplification of a Poverty-of-Means-Regulation according to Social Liberalism`s normative convictions.
Consequently, *the shaping of Poverty of Means Regulation regards status maintenance in Australia is assigned the value of 0,5.*

Funded Pension Tax System

Australia`s overall tax system taxes personal labour and capital income usually progressively, with the majority paying a standard rate of 30% and the highest marginal tax rate equalling 47% (Ganghof 2001, 17 f.; Whiteford 2004, 93).
Australia has a unique private pension taxation system. Contributions are taxed at a rate of 15%. Additionally, employees with income of more than 1,9 times the average have to pay a surcharge (introduced in 1996) with a maximum amount of 15%, which is reached for income above 2,3 times the average, so that some of the progressivity of the usual tax system is preserved here. Recently, the Conservative government has reduced the surcharge to 10% and is committed to reduce it further (Government Response to the Recommendations of the Senate Select Committee on Super-annuation Report, 9). Compared to normal labour and capital income taxation, capital gains from superannuation funds are also taxed, but fairly concessionally at a maximal rate of 15% (VDR 2005, 82) and a usual rate of around 7,1% (Yoo & de Serres 2005, 27). Benefits are taxed at the usual personal income tax rate, but there is a 15% allowance on benefits up to a certain amount (`reasonable benefit level´). The system for mandatory contributions can be called a ttt-system, because taxation is applied at all possible 3 stages, but always concessionally compared to the rate of the usual comprehensive income tax system currently prevailing in Australia. The tax system for voluntary top-up contributions of employees is similar to this (a Ttt-system), with the difference that contributions there are fully taxed according to the usual personal income tax rate (Yoo & de Serres 2005, 27). The government recently refused the recommendation of a senate committee to move to an EET-system as it is common in most OECD-countries (ibidem, 7). Thus, Australian pension taxation cannot be assigned to one of the ideal-types described in chapter 3.11. On the one hand, Social-Democratic Concerns regarding vertical equity are recognized because taxation a) is not totally deferred and b) exhibits not a pure expenditure system

character, because capital gains from funds are taxed and c) the mandatory character of 9% contribution ensures that those on lower income brackets profit from these moderate tax concessions, too. On the other hand, taxation at all 3 points is both clearly concessional, partly deferred and more proportional (flat-tax with little surcharges on contributions and benefits of high-income earners) compared with the overall income tax system in Australia. These properties are rather similar to the recommendations of Neoliberal Voluntarism. The trend to reduce the surcharge[42] noted above reinforces this character. Hughes & Sinfield (2004, 181 f.) show that the distribution of tax relief is more equally distributed in a significant way in Australia than in other Anglo-American countries, although one surely cannot say that tax relief is vertically equally distributed. Australia`s system chooses at all three possible points of taxation the mid of what Social-Democratic Collectivism and Neoliberal Voluntarism advocate. Hence, private pension taxation in Australia displays an intermediate, mixed character with elements of Neoliberal Voluntarism and Social-Democratic Collectivism of approximately the same weight. Consequently, *the shaping of the Funded Pension Taxation System in Australia is assigned the value of 0,5.*

Summary for Australia

Taken altogether, Australia`s SPRI assumes a value of 0,23:

$$\text{SPRI (AUS)} = \frac{2 \cdot 0 + 0{,}5 + 0 + 1 + 0 + 0 + 0{,}25 + 0 + 0 + 0{,}5 + 0{,}5}{12} = 0{,}23$$

5.2. Austria

Besides a means-tested, arbitrarily indexed basic pension securing a monthly minimum income of € 631 for single pensioners (VDR 2005, 126), Austria possesses, if pension spending is measured in % of GDP, the most expensive earnings-related Paygo-system in the OECD (Rürup & Gruescu 2004, 397). Until recently, the explicit goal of this system was to achieve a net replacement rate of 80% of worker`s income in the 15 years with the highest income after 40 years of insurance.

[42] This surcharge reduction was the political price to be paid by the Democratic opposition for introducing and increasing the targeted conditional subsidies for low-income earners described under chapter 4.1.10. (Anderson 2003).

Myopia Risk

A pension reform in 2003/2004 reduced this comparatively high level to the principle that an employee will achieve a replacement rate of 80% of his/her average income in the best 40 years after 45 years of insurance in the future. Additionally, pension payments are to be adjusted in line with inflation, not net income as in the past (ibidem, 401). Hence, it was a parametric, not structural reform, because the DB character was explicitly maintained by the officially proclaimed `Formula 80/65/45´ (Republic of Austria 2005, 12).
To cushion the cutbacks in the Paygo-system, the centre-right government has introduced two general accessible funded savings arrangements which can be used for old age, namely the `Abfertigung Neu´ (`New Severance Payment´) as an occupationally based form of (pension) saving in the second pillar and the `Prämiengeförderte Zukunftsvorsorge´ (`Premium-Supported Provision for the Future´) as an individually based form in the third pillar. Whereas the `Abfertigung Neu´ with a maximum fiscally promoted employer contribution of 1,53% of gross income is mandatory for all full- and part-time employees who sign a new employment contract, the `Prämiengeförderte Zukunftsvorsorge´ with a maximum fiscally promoted contribution of currently € 2000 per year is voluntary. The number of contracts concluded here reached almost 0,5 Mio. (2004), which is considered by the government as a success (Republic of Austria 2005, 11).
However, the cutbacks in the earnings-related Paygo-system are fairly modest, especially if seen against the backdrop of the very generous benefit levels in the old system. Furthermore, an explicit bottom line was instituted guaranteeing that in 2024 everybody will get a pension under the new system that equals at least 90% of what her/his pension amount would have been under the old system. The Austrian Paygo pension system still secures status maintenance if this is defined as a minimum net replacement rate of 65% for the standard pensioner: even under the new system, an average Austrian earner with a complete career achieves a very generous net replacement rate of 84,6% after a full career (VDR 2005, 127).

Hence, we have to differentiate: whereas the voluntary `Prämiengeförderte Zukunftsvorsorge´ is in line with Neoliberal Voluntarism (regulation intensity of 0), the mandatory `Abfertigung Neu´ follows the Social-Democratic Collectivist principle of myopia regulation (regulation intensity of 1). Of course, the latter system does by far not suffice on its own to reach a replacement rate of 65%. However, contrary to Australia, this funded system is embedded in a

generous, mandatory Paygo pillar, so that the two mandatory systems in Austria together ensure status maintenance in the definition used here (and much more).
Consequently*, as the two funded schemes in Austria are of roughly equal contributory weight, the shaping of Myopia Regulation regards status maintenance in Austria is 0,5.*

Early Withdrawal Temptation Regulation

Early Withdrawal regulation is different under the `Abfertigung Neu´ and the `Prämiengeförderte Zukunftsvorsorge´.
Although the `Abfertigung Neu´ legislated in 2002 is explicitly mentioned by the Austrian government as an important part of its strategy to promote supplementary pensions (see Republic of Austria 2002, 6 & 20 f.), it merely represents a reform[43] of the old severance payment system (`Abfertigung Alt´) which provides funded savings that can be used for retirement but must not necessarily be used for this purpose: early withdrawal regulation is rather lax here. Two conditions independent of one`s age have to be met to be able to request the (premature) pay-out of the savings under this scheme: at least three years of contribution payments and a dismissal by the employer[44]. Instant dismissal or handing in notice by the employee him- or herself does not provide the right to premature pay-out. The lax early withdrawal regulation is the result of Austrian unions` resistance – fearing that higher occupational pension levels would make it easier to justify deeper cuts in the Paygo system in the future - against the government`s intention to transform the old severance payment system into a genuine occupational pension pillar without premature leakages. An analysis of the political process by two experts of the national union for white-collar employees reads as follows:

„Employers and the current government were keen on remodelling the old severance payment system. They wanted to transform a support for bridging times of unemployment into a genuine second occupational pension pillar. This would have meant that future reductions in the benefit levels of the public earnings-related Paygo-system would have been

[43] The `democratisation´ of the severance payment system - which is a typical example for the overall dissolution of conservative stratification principles in Austria - was a central element in this reform: in the past, only the core workforce, that is dismissed employees in long-term employment relationships with a duration of at least 3 years (in practice that were only 12% of all cancelled employment relationships in 1997) had a legal right on a severance payment. Now, the accumulation of those rights are independent of the duration of the employment. Moreover, in the case of handing in one`s notice these rights evaporated automatically. After the reform in 2002, this is no longer the case.
[44] Instant dismissal or handing in notice by the employee him- or herself do not provide the right to premature pay-out.

preprogrammed, because every employee would have had the right on an occupational pension (…) But we were able to stop the government`s intention to introduce a mandatory occupational pillar.“ (Gewerkschaft der Privatangestellten (GPA) 2002, 1 & 6; my translation, T.H.)

However, the Austrian government was able to reach a compromise in this regard as it has introduced financial disincentives with regard to premature payouts: whereas the conversion of savings capital into a pension savings vehicle after a dismissal is tax-free, lump sums payouts are taxed at a rate of 6%. The impact of this incentive is disputed. Some journalists think that this incentive is much too weak and criticize that the possibility of premature payout independent of employee`s age will probably impede the growth of *pension* capital in this system (Bachner 2002). But legal experts regard the tax incentives as considerable: these would significantly increase the attractiveness of the pension option (Kristen et al. 2002).
The early withdrawal regulation of the `Prämiengeförderte Zukunftsvorsorge´ is structurally similar to that of the `Abfertigung Neu´ in its form, although of a higher degree. Here, payments cannot be received before the age of 40 and the legal minimum duration of an insurance contract is 10 years. In practice, 68% / 42% of all contracts have a stipulated duration of at least 20/30 years (Republic of Austria 2005, 11). Moreover, premature lump sum payouts are fiscally punished by a tax on investment gains of 25% and a repayment of half of the state subsidy (see chapter 4.2.10.). So, both funded pension systems prefer the approach of Social Liberalism to early withdrawal regulation, namely fiscal punishment. The impact of this is rather low in the `Abfertigung Neu´, but rather strong in the `Prämiengeförderte Zukunftsvorsorge´. *Thus, it seems appropriate to view the regulation intensity with regards to the funded pension systems in Austria as an intermediate one of 0,5.*

Volatility Risk Regulation

In both funded systems, the `Abfertigung Neu´ as well as the `Prämiengeförderte Zukunftsvorsorge´, providers are legally mandated to guarantee the nominal amount of the sum of all contributions paid into the schemes. Besides that, they are pure DC. Nominal capital guarantees can be seen as a combination of Neoliberal Voluntarism (they are generally DC schemes) and Social-Democratic Collectivism (they nevertheless provide some floor under which nobody should fall).

Hence, *the shaping of Volatility Risk Regulation in Austria`s funded pension part is assigned the value of 0,5.*

Self-Investment Risk Regulation

Investment in bonds and equities issued by the same company is legally limited to 10% of fund assets (INPRS 2003, 34).
Hence, the shaping of Self-Investment Risk Regulation in Austria is assigned the value of 1.

Choice Risk Regulation

Whereas the choice of the pension fund (`Mitarbeitervorsorgekasse´) in the `Abfertigung Neu´ is determined in a corporatist and thus collectivist way on company level, that means together by the works council and the employer[45], which is in accordance with the preferences for Social-Democratic Collectivism, there is no restriction on individual choice what concerns the `Prämienbegünstigte Vorsorge´ in the third pillar. A recent representative empirical investigation organized by the Association for Consumer Information (`Verein für Konsumenteninformation´) in the form of `Mystery Shopping´ found out that consumers were neither adequately informed about the costs nor about the advantages and disadvantages of the sold pension savings products in sales talks. No information was given to customers how the capital is invested. It also found that sellers in sales talks often do not adequately differentiate between the state subsidy expressed as % of the personal amount yearly paid in (currently 9%, for further details on this see chapter 4.2.10.) and the rate of return to be expected and thereby create the impression that a rate of return of 9% could be expected (Arbeiterkammer Wien 2005, 43). According to Halling et al. (2004, 21), Bodie`s (2002) observation that information material provided by US pension insurers is inappropriate and often misleading, is confirmed by the current situation on the Austrian pension insurance market.
Thus, there exists a system with collectively and a system with individually determined choice in Austria. Consequently, *the shaping of Choice Risk Regulation regards in Austria combines a Social-Democratic Collectivist regulation with an Neoliberal-Voluntaristic regulation and thus is assigned the average value of the two equalling 0,5.*

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[45] In companies without works councils it is predominantly the employer who chooses. However, a third of employees can raise an objection against the employer`s choice in such companies. If the parties are not able to reach an agreement, a neutral arbitration committee can be called for.

Administration Charge Regulation

There are also regulatory differences between the `Abfertigung Neu´ und the `Prämienbegünstigte Zukunftsvorsorge´ what concerns charges. In the former, deduction charges are not allowed to be higher than 0,3% of contributions, administration charges can vary between 1% and 3,5% of contributions and asset management costs up to 0,8% of assets are tolerated. Such caps are an example of a weak form of Social Liberalism. It is easy to see that, *taken together*, the significance of these charge caps is limited because thresholds are set at a relatively high level.

Charge regulations relating to the `Prämienbegünstigte Zukunftsvorsorge´ are non-existent. Neither the quantity nor the structure is regulated. Hence, charges are usually front-loaded so that switching early is costly and the average customer can hardly enforce a credible threat of exit. There is even no legally enforceable requirement for a single standardized expression of the amount of charges, which would make comparisons easier. According to the Austrian association for consumer information, most providers keep costs opaque. Halling et al. (2004) confirm this conclusion when they state that even their *scientific* investigation was not able to find out something meaningful about charge levels or structures applied by providers, because the market would be characterized by an intense intransparence. Consequently, estimated costs are said to be high, so that the state subsidy will be eaten up (almost) completely by charges after 10 years of investment (Halling et al. 2004, 2; Arbeiterkammer Wien 2005, 42).

As charge regulation in the `Abfertigung Neu´ exemplifies a weak form of Social Liberalism (0,25) whereas charges in the `Prämienbegünstigte Vorsorge´ are completely deregulated in line with Neoliberal Voluntarism (0), the *shaping of Administration Charge Regulation in Austria is assigned the value of 0,125.*

Longevity Risk Regulation

Individuals can choose freely between an annuity and a lump-sum, but the latter option is fiscally punished via a tax of 6% in the `Abfertigung Neu´ and via a capital gains tax of 25% plus repayment of half of the state subsidy in the `Prämiengeförderte Zukunftsvorsorge´. There is no automatic enrolment in annuitization. Consequently, *the shaping of Longevity Risk Regulation in Austrian`s funded pension system contains elements of Social Liberalism and Neoliberal Voluntarism, so that the value of 0,25 is assigned.*

Inflation Risk Regulation

Inflation Risk is not covered because there are neither mandates nor incentives concerning inflation protection of annuity values. Consequently, *the shaping of inflation risk regulation in Austria`s funded pension system is in line with Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

Lifecourse Risk Regulation is almost non-existent in both of the two funded systems. The exception to this is in the case of caring for children. The Family-Burden-Compensation-Funds (Familienlastenausgleichsfonds) pays contributions for child caring people in the \`Abfertigung Neu´, but these amount to currently € 6,67 per month and are therefore not worth mentioning. *Consequently, the shaping of Lifecourse Risk Regulation in Austria`s funded pension system corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Poverty of Means Regulation

Whereas savers in the obligatory \`Abfertigung Neu´ do not benefit from state subsidies, participants in the \`Prämiengeförderte Zukunftsvorsorge´ do. As the latter scheme is voluntary, state subsidies and their amount are conditional in the sense that they are only paid if an individual contributes. Furthermore, the amount of the state subsidy is proportional to the amount of personal contributions. The state subsidy in Austria is not targeted on people with low incomes as in Australia, but exhibits a universal nature: everybody can profit, if he/she is willing to pay something in. The subsidy consists of a fixed part that amounts to 5,5% of the yearly amount paid in and a variable part that is dependent on the prevailing market rate of return and can fluctuate between 3% and 8%. The maximum amount of a person that is subsidized in this way equals € 2000 per year at the time of writing (2005). If there is a real return of 0% over the minimum investment period of 10 years, the subsidy ensures a gross return (excluding administration costs) of 1,6%.

In the face of the conditional character of the subsidy (corresponding to Social Liberalism) and the universal character of the subsidy (corresponding to Social-Democratic Collectivism)

of the state subsidy, Poverty of Means Regulation of Austria`s funded system is assigned the value of 0,75.

Funded Pension Tax System

The tax system differs between the `Abfertigung Neu´ and the `Prämiengeförderte Zukunftsvorsorge´. The former operates under a structurally generous (albeit quantitatively strongly restricted) EEE-system, so that employer contributions up to 1,53% of gross income are not taxed as employee`s income, investment gains are relieved from capital taxation and pension payments are not diminished by income tax – as long as the capital is annuitized (see chapters 4.2.2 & 4.2.7.) (Kristen et al. 2002, XX). The latter scheme corresponds to a TEE system as contributions have to be made out of taxed income and cannot be deducted from income tax (all savers receive the state subsidy decribed in chapter 4.2.10. instead so that even employees who do not pay income taxes can benefit), but investment gains and pension payments are not taxed through capital resp. income tax (Halling 2004, 3) – as long as the capital is annuitized. Whereas the taxation of the `Prämiengeförderte Zukunftsvorsorge´ is identical with the prescriptions of Social Liberalism, the taxation of the `Abfertigung Neu´ structurally displays even a more libertarian character than Neoliberal Voluntarism recommends, because taxation is abandoned completely here. However, at the same time, the quantitative cap at 1,53% of gross income is very restrictive. So, *the regulation of the Austrian tax system for funded pensions can be said to combine elements of Social Liberalism and Neoliberal Voluntarism, so that the value of 0,25 is assigned.*

Summary for Austria

Taken together, Austria`s SPRI for its funded pension system alone assumes a value of 0,41:

$$\text{SPRI(AUT)} = \frac{2 \cdot 0{,}5 + 0{,}5 + 0{,}5 + 1 + 0{,}5 + 0{,}125 + 0{,}25 + 0 + 0 + 0{,}75 + 0{,}25}{12} = 0{,}41$$

5.3. Belgium

Besides a means-tested, price-indexed basic pension, Belgium has an unfunded earnings-related, but strongly redistributive Paygo-system with top-ups for low earners provided that they achieve a minimum insurance duration of 15 years.
Contrary to Austria, this system does not secure status maintenance in the sense defined here. A Belgian worker with a full career earning on average 75% resp. 100% of the average wage receives a net replacement rate of 63,8% resp. 62,8% (VDR 2005, 86). Replacement rates for higher income earners in the unfunded system are even more below this because the unfunded pillar is redistributive: whereas there is an upper ceiling on the wage level (relatively low at 125% of the average wage) that generates individual pension rights, it is not accompanied by a corresponding ceiling on the wage level from which contributions are deducted as it is the case in Germany.

Myopia Regulation

The fact that status maintenance even for medium earners in Belgium cannot be achieved simply by relying on the unfunded system is openly recognized by the Belgian Government, which therefore explicitly pursues a so-called strategy of a `democratisation´ of *occupational* pensions:

„In order to limit the decline in the standard of living when retiring, a new scheme with regard to supplementary pensions on the basis of capitalisation was introduced in the course of 2003. In this scheme, the sectoral pensions play a crucial role in the ***democratisation*** *of the pensions of the second pillar. (…) For salaried workers and self-employed persons, the development of a* ***democratic*** *second pension pillar will become increasingly more important to guarantee adequate pensions." (Belgian National Strategy Report on Pensions 2005, 5 & 7; my emphasises)*

Until 2003, only 48% of all salaried employees in the private sector – first and foremost white collar workers - are eligible for an occupational pension (ibidem). However, despite the official wish to reach a coverage level of „100%"[46], contained in the term of

[46] Bruno Tobback, the current Belgian minister of pensions was quoted by Menon (2005) stating „We hope to have a 100% coverage level, but I don`t have any illusions that we will achieve these levels in a year or two."

`democratisation´, the so-called `Vandenbroucke Law´[47], named after the former Belgian minister for Social Affairs, Frank Vandenbroucke, neither prescribed mandating nor automatic enrolment in occupational pensions.

Instead, it completely relies on the activities of the social partners on the sectoral level and tries to emulate the Dutch and Danish process of quasi-mandatorization. Such a development is promoted by the law in 2003 by granting social partners the right to make funded pensions mandatory on the sectoral level for all employers and employees over age 25 (even for those employers not organized and for those employees not unionized) and by stimulating such activities through fiscal incentives for so-called `social pension schemes´. These are sectoral schemes with 100% coverage of all full- and part-time employees and who fulfil two further social conditions (for details on the latter see chapters 4.3.8. and 4.3.9.), that are incentivised by the exemption from a 4,4% insurance sales tax which is normally levied on contributions into occupational pension funds in Belgium. Moreover, contributions paid into these plans are not taken into account in the calculation of the wage norm (the maximum allowed annual salary increase regulated by the Belgian government). Taken together, the Belgian industrial relations expert Pierre Walthery considers these incentives as *„strong" (Walthery 2004, 8).* However, up to now, Belgians still wait on the anticipated boost of pension coverage (Menon 2005), because salary increases were low so that trading off wage increases against pension rights is currently not so easy. Additionally, some Belgian employers complain that the `democratisation´ of occupational pensions would deprive them of an important human resource management tool (Walthery 2004).

It remains to be seen whether a process of quasi-mandatorization as in Denmark or in the Netherlands will be triggered in Belgium. At the moment, *the shaping of Myopia Regulation regards status maintenance in Belgium is assigned the value of 0,5. On the one hand, granting corporatist institutions the right to make occupational pensions mandatory even for non organized employers and employees on a sectoral level and rewarding it through fiscal incentives is clearly at odds to the liberal spirit of Neoliberal Voluntarism. On the other hand, Belgish social partners are – until now – quite reluctant to use the legal means the government has handed them out, so that in 2005, still roughly 50% of the private workforce remain uncovered despite this possibility (Menon 2005).*

Early Withdrawal Temptation Regulation

[47] The official title of the law is `Loi du 28 avril 2003 relative aux pensions complémentaires et au régime fiscal de celles-ci de certains avantages complémentaires en matière de Sécurité Sociale´.

Since the law legislated in 2003, Belgium has a strict early withdrawal regulation forbidding the formerly common practice of premature payments before the age of 60 resp. before retirement, if the employee retires earlier (Setca 2003, 45). The only permitted exception to this – besides some interim provisions for already existing schemes - is the use of (part of) the accumulated capital for the acquisition, the construction or the renovation of own house property (ibidem, 46). If this property is sold later on, the capital has to be paid back into the scheme, so the legal prescriptions cannot be circumvented.
As this regulation is identical with the recipe of Social-Democratic Collectivism, the shaping of Early Withdrawal Regulation regards status maintenance in Belgium is assigned the value of 1.

Volatility Risk Regulation

The legislation concerning the reform of the occupational pension landscape in 2003 has instituted a variable minimum rate of return guarantee based on the maximum technical interest rate permissible for Belgian life insurers[48]. This guarantee currently stands at 3,75% on employee contributions and 3,25% on employer contributions. Henk Becquaert, the former adviser of Frank Vandenbroucke and currently principal private secretary at the Belgian Ministry of Pensions justified this regulation as follows:

„At that time, we were getting news from the US that people had lost all their pensions and that is something that we do not want. The guarantee of 3,25% is not based on an annual basis but on a career basis. We understand that there can be good years and there can be bad years, but what we want is a guarantee of 3,25% over the long term. If you cannot achieve 3,25% over a long term, then I think you are a bad pension scheme." (Becquaert quoted in Menon 2005)

However, contrary to the long-term-expectations evoked by Becquaert here, the current – nominal - minimum interest rate of 3,75%/3,25% on all employee/employer contributions is not fixed for all times. The amount of the guarantee applicable can be changed by the government – not as regards past contributions, but as regards future contributions. Paragraph 24, section 3 of the law legislated in 2003 reads:

[48] Funds must fulfil this guarantee not on a yearly basis, but only when an employee retires or leaves the fund.

„Pour le calcul des minima visés aux §§ 1er et 2, ***en cas de modification du taux cité****, l`ancien taux s`applique jusqu`au moment de sa modification aux contributions versées avant cette modification et le nouveau taux à partir de la modification.“ (my stressing, T.H.)*

Because there are no legal prescriptions regarding the building up of reserves in times with high market returns in order to be able to sustain the guarantee level in times with low market returns, the probability of changes to the guaranteed return in the case of financial market downturns is very high. Nevertheless, the open governmental commitment to such a guarantee amounts insofar to more than just symbolic politics as there will be a high pressure on the government to at least ensure that no retiree has to suffer negative nominal returns in times of bear markets (nominal capital guarantee). Thus, the Belgish form of Volatility Risk Regulation can be said to combine elements of Social-Democratic Collectivism and Neoliberal Voluntarism. Consequently, *the shaping of Volatility Risk Regulation regards status maintenance in Belgium is assigned the value of 0,5.*

Self-Investment Risk Regulation

Self-Investment Risk Regulation in Belgium is laxer than what Social-Democratic Collectivism and Social Liberalism recommend but clearly more strict than Neoliberal Voluntarism would tolerate: of total assets invested, a maximum of 15% may be in the sponsoring employers (INPRS 2003, 44).

Consequently, *the shaping of Self-Investment Risk Regulation regards status maintenance in Belgium is assigned the value of 0,5.*

Choice Risk Regulation

Invested assets are pooled at sectoral or at least on a company level (collectivized investment) and administrated jointly. Therefore, instead of individual choice, there are legal rules concerning collective voice: If 10% of employees or employers think that the rate of return of their plan is too low, they can appeal to the National Council for Complementary Pensions, (`Conseil des pensions complémentaires´) which then will examine the situation and can adress recommendations to the corporatistic organizers of the concerning plan (f.e. change of the body responsible for investment management) (SETCA 2003, 27 & 45). Furthermore, the corporatistic administrators of an occupational pension plan are legally required to put in

practice a socially responsible investment policy which takes ethical criteria into account (ibidem 2003, 49). It will be interesting to see whether these different requirements (guaranteed rate of return + possibility of voice in case of below-average market returns vs. ethical investment style) will lead to tensions.
Consequently, *the shaping of Choice Risk Regulation regards status maintenance in Belgium in favour of collective voice instead of individual choice is of a Social-Democratic collectivist nature and therefore assigned the value of 1.*

Administration Charge Regulation

In order to keep administration costs down, the `Vandenbroucke Law´ legally caps these expenses at a maximum threshold of 5% of contributions what concerns the fiscally promoted social pension schemes. This is an example for the weak form of Social-Liberalistic Administration Charge Regulation.
Consequently, *the shaping of Administration Cost Regulation regards status maintenance in Belgium is assigned the value of 0,25.*
To be sure, the strong and sole insistence of the law on the development on not-for-profit, corporatistic sectoral schemes on occupational level (instead of individual accounts in the third pillar) as the central strategy to complement the unfunded pillar and to enable people to reach the goal of status maintenance, exhibits the conviction of Social-Democratic Collectivism that collective asset pooling in not-for-profit organizations (instead of competition between a lot of for-profit-providers, like Neoliberal Voluntarism advocates it) is an effective instrument to hold administration costs down. However, contrary to Denmark, Iceland and the Netherlands, such an institutional development has not really materialized (fully) yet, so that a value of 1 cannot be assigned at the moment.

Longevity Risk Regulation

Longevity Risk Regulation in Belgium is of an individualist nature, because the law of 2003 determines that both options (lump sum and annuity) are possible. They are now fiscally equally treated (Setca 2003, 51), by extending fiscal advantages (lower tax rate of 16,5%/10% for pension payments relating to employer/employee contributions if personal income tax rate is higher) formerly restricted to the lump sum option only to the annuitization option (Assuralia 2004).

As this regulation neither mandates nor gives financial incentives for annuitization, it is in line with Neoliberal Voluntarism, *so that the shaping of Longevity Risk Regulation regards status maintenance in Belgium is therefore assigned the value of 0.*

Inflation Risk Regulation

The Belgian government has fiscally incentivised the possibility of inflation indexation of pension payments. An occupational pension plan can call itself only a `social pension scheme´ and will benefit from the fiscal advantages (which were detailed in chapter 4.3.1.) only if certain solidarity conditions are fulfilled, which were exactly defined in a royal decree passed on the 14th november 2003[49]. Under these social conditions (two in sum)[50], the first requests that a pension plan makes payments for at least one of the following objectives: compensation of contribution and concomitant benefit losses due to early work incapacity, severe illness or indexation of benefit payments.
However, current Longevity Risk Regulation in Belgium makes it rather unlikely that a significant proportion of pensioners will take out annuities (see the foregoing chapter). Furthermore, social partners can decide to choose one of the other mentioned options to fulfil this solidarity condition instead of inflation indexation. So, under current legislation, it is very unlikely that inflation risk of a meaningful part of pensioners will be covered. Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Belgium is therefore assigned the value of 0.*

Lifecourse Transition Support Regulation

There are no contributions made by the state for unemployed, pregnant or child raising people. However, the Belgian government has fiscally incentivised the introduction of sectoral pension plans with those features. As already stated in the foregoing chapter, an occupational pension plan can call itself only a `social pension scheme´ and will benefit from fiscal advantages (which were detailed in chapter 4.3.1.) only if certain solidarity conditions are fulfilled. According to the royal decree passed on the 14th november 2003, the second condition[51] is that a minimum amount out of a collective fund related to the pension plan has

[49] The title of this decree is `Arreté royal du 14 novembre 2003 fixant les prestations de solidarité liées aux régimes de pension complémentaires sociaux.´
[50] The second will be explained in the next chapter.
[51] The first was explained in the foregoing chapter.

to be spent on occupational pension contributions on behalf of at least two of the following categories of people: the unemployed (because of dismissal or bankruptcy of the employer), ill people, individuals interrupting their career because of pregnancy and/or child care and people in further education. However, as only two and not all categories of these groups have to be covered, it is possible that child raising or unemployed people will not be covered at all. The decision is left to the discretion of social partners. Moreover, at the moment, it is not only not clear how Belgish social partners will respond to the financial incentives but also to what extent they will do so at all.

Consequently, the shaping of Lifecourse Risk Regulation regards status maintenance in Belgium corresponds – at the moment - to Neoliberal Voluntarism and is therefore assigned the value of 0.

Poverty of Means Regulation

There are neither automatic nor conditional state subsidies for pension saving in the second or third pillar in Belgium. Hence, *the shaping of Poverty of Means Regulation regards status maintenance in Belgium is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

The regime for occupational and private pension taxation in Belgium is categorized as an EEt system (Yoo & de Serres 2004, 26 f.). Contributions made by employers on behalf of employees do not account as taxable income for employees (but may be subject to a - rather minute - insurance sales tax of 4,4% if the 3 solidarity conditions mentioned in chapters 4.3.1., 4.3.8. and 4.3.9. are not fulfilled) and contributions by employees can be deducted from taxable income. There is a negligible tax of 0,17% on fund value and pension payments are also concessionally taxed at a maximum of 10 – 16,5% (see chapter 4.3.7.). Overall, the tax system exhibits a character which is even more concessional than Neoliberal Voluntarism prescribes.

Consequently, *the shaping of the complementary pension tax system in Belgium is therefore assigned the value of 0.*

Summary for Belgium

Taken together, Belgium`s SPRI for its funded pension system assumes a value of 0,35:

$$\text{SPRI (BEL)} = \frac{2 \cdot 0{,}5 + 1 + 0{,}5 + 0{,}5 + 1 + 0{,}25 + 0 + 0 + 0 + 0 + 0}{12} = 0{,}35$$

5.4. Canada

Besides two means-tested, price-indexed old-age poverty prevention programs, `Old Age Security´ (OAS) and the `Guaranteed Income Supplement´ (GIS), Canada has established an earnings-related, unfunded Paygo-System called `Canada Pension Plan´ (CPP), which is partially prefunded since a reform in 1997. Formerly a universal citizens` pension, OAS is meanwhile means-tested, with yearly income above 53960 Canadian dollars (2000) diminishing the amount of OAS received and above 87560 Canadian dollars (2000) completely withdrawing the right to receive OAS (Pearse 2000). With regard to the future weight of OAS in the pension mix, it is important to note that these thresholds are indexed to prices and not to wages.

Since the scale of the CPP is very modest (the targeted replacement rate is roughly 25% of personal pensionable earnings), these three public programs even altogether are not sufficient to reach status maintenance defined here as a net replacement rate of at least 65% after a full career. The average Canadian earner with a full career gets a net replacement rate of 57,1% (VDR 2005, 112). Pearse`s (2000, 4) estimation of the net replacement rate for the average Canadian earner provided by the three public programs is even lower, reaching just 45%. Therefore, appropiately regulated fully funded retirement saving in the second and third pillar is of crucial importance in Canada from a sheer functional point of view.

Myopia Regulation

Despite the relatively modest scale of the three public pension programs in Canada, individuals are neither automatically enroled in an occupational or personal pension savings program nor are mandated by law to fill the resulting gaps. Instead, the Canadian state relies on employer`s action to install `Registered Pension Plans´ (RPPs) or/and people`s own free

will to open up individual accounts called `Registered Retirement Savings Plans´ (RRSPs), both stimulated by the usual tax-advantages (see chapter 4.4.11.). In spite of these tax-advantages granted by the Canadian state (thus indirectly financed by all Canadian citizens), non-discrimination legislation is underdeveloped in Canada: in particular, employers establishing pension plans are allowed to discriminate between high and low earners by constraining their pension plan to the former category (INPRS 2003).

The success of the voluntary strategy is mixed: whereas the percentage of workers covered by RPPs fell from 45,4% (1991) to 40,6% (2000) (more than half of them being employed in the public sector) (Pozzebon 2004) and private sector workforce RPP-coverage stood at 28% in 2003 (Watson Wyatt 2004), roughly 55% of Canadian households have at least one member with a RRSP (Fretz et al. 2002). Taken RPPs and RRSPs together, the coverage rate stands at 66% of the Canadian labor force (Ambachtsheer 2004, 10). It is unknown to what extent the amounts contributed in the accounts will be sufficient to hold up the former living standards of their contributors in old age.

Private employers with RPPs are increasingly switching to so-called `Group-RRSPs´ (provision of access to individual accounts on a company basis), which are very similar to 401(k) plans in the US. These `Group-RRSPs´ are increasingly popular with employees, as they are not covered by RPP-legislation and therefore more loosely (see the next subchapter) regulated like individual RRSPs. Assets hold in `Group-RRSPs´ grew enormously by 178% between 1993 and 2003 (Pozzebon 2004). Canadian experts expect RRSPs to deepen their structural dominance in the next decade further (Fretz et al. 2002).

As in the United Kingdom, Canada has problems with the interaction of its means-tested old age poverty prevention programs and its voluntary funded pillars, although of a bit different kind: Shillington (2003) accuses the government and financial providers of mis-selling, that means advertising RRSPs to low-income Canadians, too, albeit this section of the population do not really need RRSPs because the two means-tested public programs will already secure a decent living for these people in old age. Low income canadians with RRSPs face a marginal tax of at least 75% because of several means-tested social programs for pensioners and the income tax on RRSPs. Whereas low-income Britons seem to have understood and refrain from voluntary saving, many Canadians save nevertheless: according to Shillington, 25% of all RRSP savers are ill-advised to do so.

Consequently, as Canada`s voluntary approach to status maintenance is in line with the ideology of Neoliberal Voluntarism, *the shaping of Myopia Regulation regards status maintenance in Canada is assigned the value of 0.*

Early Withdrawal Temptation Regulation

The central difference between RPPs and RRSPs lies in the fact that the former are firmly locked in until retirement, while the latter can be withdrawn at any time. Unless withdrawals are used to invest, that is to buy a home or to finance education, they are subject to the usual income tax, but not to an additional surcharge tax as in the US. Withdrawals for education have to be paid back within a legally specified time. Otherwise, taxes have to be paid. However, there is considerable popular pressure in Canada to increase the types of objectives for which amounts can be withdrawn *completely* tax-free (Fretz et al. 2002). One must be cautious not to interprete the income tax on early withdrawals as a Social-Liberalistic disincentive because there is no surcharge on early withdrawals so that taxation of early withdrawals does not differ from taxation of retirement benefits.

Thus, RRP regulation is in this point identical with Social-Democratic Collectivism and RRSP regulation is identical here with Neoliberal Voluntarism. *So, the appropriate value to be assigned to the shaping of Early Withdrawal Regulation in Canada is the middle point between the two regulatory philosophies, namely 0,5.*

Volatility Risk Regulation

Retirement saving plans in Canada can be DC or DB. Whereas group and individual RRSPs are always pure DC plans, a significant part of RPPs are DB plans. However, DB plans are increasingly replaced with DC plans and Group-RRSPs, so that in 2003, private sector workforce DB plan coverage dropped to mere 21% (Watson Wyatt 2004, XX).

Moreover, it is not appropriate to contend that Canadian occupational DB plans would ensure their members against volatility risk in a meaningful way. This is so because Canadian DB company plans use long-term accounting rules which are appropriate for a nation-wide single DB system (detailed in chapter 3.3.), but dangerous on a company level basis, because companies can go bankrupt in underfunded times. Therefore, at least well-designed bankruptcy insurance legislation is crucial for such a company-based DB system with long-term accounting rules[52]. But instead, bankruptcy legislation is full of holes in Canada. Only one Canadian jurisdiction, Ontario, has established a bankruptcy insurance fund at all,

[52] Of course, bankruptcy insurance for occupational DB plans can be a double-edged sword, because it can induce moral-hazard by companies (systematic underfunding, excessive risk-taking). However, this is not necessarily so, if legislation and regulation is able to prevent employers from taking contribution holidays and can enforce reasonable investment styles.

partially covering losses due to an underfunded status at the time of company bankruptcy. In other provinces, like Quebec, employees have to bear the burden fully by themselves: f.e., as the Quebecian mining company `Jeffrey Mines´ filed for bankruptcy, its pension plan was in deficit by 36%, so that employees have been deprived of a considerable portion of their accumulated pension capital (CGA 2004, 16). And even in Ontario, severe questions regarding the sustainability of its bail-out fund are being raised because its reserves are very low so that it would be completely overtaxed in the case it would have to bail out a DB plan of a single major Canadian company (Pozzebon 2004).

Canadian DB plans` fragility was uncovered when financial markets went down in the first years of the 21st century: at the end of 2002, almost a quarter of all Canadian DB plans displayed actuarial deficits of over 30% (ibidem). These severe underfundings were often the result of the lax Canadian DB plan regulation allowing excessive contribution holidays in the golden days of booming stock markets in the second half of the nineties, promoted also by a low 10% cap that the Canadian Federal Government itself had placed on plan surpluses (for tax reasons) (Ambachtsheer 2004, 9). Such a regulation is inappropriate for DB plans, especially company DB plans: thereby, hardly any meaningful buffers, which would have been a blessing in the stock market crisis at the beginning of the new decade, were accumulated in the late nineties.

As if the whole problem would not be severe enough, it is further reinforced by a recent decision of the Canadian constitutional court (so-called `Monsanto decision´), ruling that in the case of a partial termination of a DB plan (when a significant percentage of employees of a company are dismissed), surpluses of a currently overfunded plan have to be proportionally distributed to those laid off and surpluses are not seen as employer`s property (whereas funding deficits have to be always compensated by the employer alone at the same time). According to Canadian accounting experts, such a regulation will discourage Canadian employers with DB plans from funding their plans more than the legal minimum prescribes in order to avoid the generation of surpluses at any time (because it may be distributed to dismissed employees). But such (temporary) surpluses are of crucial importance for the functioning of DB plans because they can act as an important buffer in possible future bad times[53].

Taken altogether, there is no meaningful collectively organized insurance against financial market volatility risk in Canada: neither in RRSPs which are pure DC nor in RPPs whose regulation is simply too lax as well as highly misleading to insure in a reliable way against

[53] For further details on this see Watson Wyatt (2004) and Certified General Accountants Association of Canada (CGA) (2004).

volatility risks. Consequently, *the shaping of Volatility Risk Regulation regards status maintenance in Canada equals Neoliberal Voluntarism and is assigned the value of 0.*

Self-Investment Risk Regulation

In Canada, no more than 10% of the total assets of a pension plan can be invested in one company. This restriction is in line with Social Liberalism and Social-Democratic Collectivism. *Hence, the shaping of Self-Investment Risk Regulation in Canada is assigned the value of 1.*

Choice Risk Regulation

There are no restrictions regarding individual investment choice in group or individual RRSPs (Fretz et al. 2002)[54]. DC-RPPs offer individuals various investment options, too. A sample of 36 Canadian DC plans had an average of 11 investment options (Ambachtsheer 2004). Employer`s selection process regards chosen providers is not regulated (Gold 2003, 36). In DB plans, it is the employer who chooses the investment strategy, but as shown in the foregoing chapter, employees may nevertheless bear the burden of wrong investment choices if the employer goes bankrupt and the plan is underfunded at this time because of inappropriate investment strategies pursued by their employer.
Consequently, *the shaping of Choice Risk Regulation regards status maintenance in Canada is assigned the value of 0.*

Administration Charge Regulation

Charges are not legally regulated in Canada (INPRS 2003, 59). Even company plans are relatively expensive, not least because of their wide array of choice options: a sample of 36 Canadian DC plans had an average total cost of 0,92% of assets (Ambachtsheer 2004, 6), with some plans exceeding the 1% threshold, at which total pension capital accumulated at retirement is diminished by roughly 20%. According to the pension expert Keith Ambachtsheer, these costs are not compensated by appropriate additional yields – quite the contrary:

[54] There is a restriction that 70% of assets in an account must be Canadian (Fretz et al. 2002, XX). However, this is not motivated by concerns to protect individuals from detrimental choices. Rather, this high concentration of investments further increases risk.

„In the world of single digit investment returns we now live in, expenses at these levels are too high. For that matter, so are the number of investment choices that the typical DC plan offers. The idea that average DC plan participants can sensibly optimize their pension investment program from among a dozen or so investment choices is difficult to defend. (…) On top of all this, many corporate plans lack the physical scale to be value-for-money producers of pensions." (Ambachtsheer 2004, 6 & 7)

The voluntaristic stance towards charge structures and levels in Canada corresponds to Neoliberal Voluntarism. Therefore, *the shaping of Administration Charge Regulation regards status maintenance in Canada is assigned the value of 0.*

Longevity Risk Regulation

The majority of pension accounts, that is group and individual RRSPs as well as DC plans offer free choice between an annuity or lump sum without fiscally incentivising any of the two. What concerns the minority of all accounts, that is DB-RPPs, annuities were the only permitted option until 1992. Then, even here the Canadian government allowed people to direct their accumulations into so-called `Life Income Funds´ (LIF) – in which accumulated capital is further invested - subject to 2 conditions (Fried 2001): a minimum amount has to be withdrawn by the retiree each year from the LIF, so that she or he cannot endlessly defer tax payments. But more important in this context here is that not more than a certain maximum amount can be withdrawn in order to protect the retiree against outliving one`s resources. However, as this maximum amount is set by the law as being equal to the amount of what the annuity would have been, only the average life-expectancy is covered, so that the risk of outliving resources necessary for status maintenance because of higher-than-average life expectancy is far from being excluded.
Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in Canada is dominated by principles of Neoliberal Voluntarism and thus assigned the value of 0.*

Inflation Risk Regulation

As Longevity Risk is not covered via collective regulation, it is no wonder that Inflation Risk is not covered either. In the RRSPs market, indexed annuities are no longer sold in Canada because of a complete lack of market interest (Fretz et al. 2002) – the well-known phenomenon of money illusion seems to be at work there. There are no efforts made by the Canadian Government to resurrect the provision of indexed annuities – a more libertarian, because completely indifferent stance than even Neoliberal Voluntarism advocates. Likewise, RPPs are not required to provide inflation indexation (INPRS 2003), so that only 17% of occupational pension plans provide for automatic indexation on a voluntary basis (CGA 2004, 25).
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Canada is in accordance with Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

There are no payments made on behalf of unemployed or child caring individuals by the government to assist them with their RRSP or RPP balances.
Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Canada is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.*

Poverty of Means Regulation

There are neither automatic nor conditional state subsidies for pension saving in the second or third pillar in Canada. Hence, *the shaping of Poverty of Means Regulation regards status maintenance in Canada is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Canada has an EET-system for occupational and personal pensions (Yoo & de Serres 2004, 26 f.; Fretz et al. 2002) favoured by Neoliberal Voluntarism. In contrast to EET-systems with mandatory complementary pensions, the voluntary nature of occupational and personal pensions in Canada reinforces the regressive effects of this kind of pension taxation deplored by Social-Democratic Collectivism: according to Hughes & Sinfield (2004, 179), whereas 17% in the fourth income decile contribute to RRSPs in Canada, almost 85% in the top decile

do so. Despite the fact that contributory limits for tax advantages are heavily criticized in Canada for being too low (Pozzebon 2004) because ceilings were temporarily frozen at nominal levels for 10 years in the 1990s because of budgetary problems, Yoo & de Serres (2004, 29) show in their sophisticated analysis that the size of the tax incentives and the related cost for the Canadian state even today is still well above the OECD average.
Consequently, *the shaping of the complementary pension tax system in Canada is therefore assigned the value of 0.*

Summary for Canada

Taken together, Canada`s SPRI for its funded pension system assumes a value of 0,13:

$$\text{SPRI (CAN)} = \frac{2 \cdot 0 + 0{,}5 + 0 + 1 + 0 + 0 + 0 + 0 + 0 + 0 + 0}{12} = 0{,}13$$

5.5. Czech Republic

Like Belgium, the Czech Republic has a means-tested basic pension and an earnings-related, but highly redistributive Paygo-pillar with guaranteed minimum amounts after minimum contributory periods. Whereas employees with a 40 year contribution record having earned on average half the average wage receive a fairly high net replacement rate of 77%, those people having earned twice the average wage receive just 27%. Even with a full career, the average earner cannot rely on the unfunded pillar alone to secure status maintenance if the latter is defined as a net replacement rate of at least 65% as it is done here. He/She receives 58,2% (VDR 2005, 144).

Myopia Regulation

The Czech state has recognized this situation, but has refrained from mandating a funded pillar like many other East-European countries have done. Automatic Enrolment was also not considered. Instead, Czech governments had pinned their hopes on a heavily subsidized, but voluntary third funded pillar with individual accounts, which was established in 1994.

Membership in this supplementary scheme has risen from 3,5% (1994) to 48,7% (2002) of the labour force (Iglesias 2003, 17). However, growth rates have substantially decreased since 1999 and experts from the Czech insurance industry expect no further growth above 50% in the future. Moreover, coverage is concentrated among older workers with age above 45 years (61,7% of total planholders) and coverage among younger workers is low, so that the compound effect of interest is hardly exploited. Additionally, average contributions, which decreased from 3,2% of gross wages (1995) to 2,3% (2002), remain much too small to reach even the already modest government`s official replacement target rate of 10% (for the third pillar alone) (ibidem, 7). If one takes the small contributions and the short savings period together, it can be seen that pensions expected from the voluntary scheme are almost negligible, ranging between 1,9% and 3,2% of the average wage (ibidem, 31), with a fifth of that financed by the state subsidy.

An occupational second pillar does not exist in the Czech Republic until now. There were two serious political attempts to install a voluntary occupational pillar in 1993 and 2001. Some representatives from the current Ministry of Labour and Social Affairs like Jiri Kral (2003) would like to replace the third pillar by an occupationally based system as they are very critical of the system of individual accounts arguing that unfettered competition would lead to intransparency, high charges (see chapter 4.5.6.) and oligopolistic market structures dominated by a few big foreign financial companies (Kral 2003, 305 ff.). However, each time the relevant bills for an occupational system were rejected by government resp. parliament (ibidem). Thus, at the moment, only individual plans are legally allowed (Iglesias 2003, 7).

Consequently, as Czech Republic`s voluntary approach to status maintenance is in line with the ideology of Neoliberal Voluntarism, *the shaping of Myopia Regulation regards status maintenance in the Czech Republic is assigned the value of 0.*

Early Withdrawal Temptation Regulation

Until 1999, a participant of the voluntary third pillar just had to be at least 50 years old and must have paid in contributions for at least 12 *months* (!) to be eligible for a pay-out of their account sum. Thus, planholders could cash in the relatively generous state subsidy (see chapter 4.5.10.) at their 50th birthday just after having paid contributions for only one year. So, it was no wonder that shortly after the legislation complaints out of the Ministry of Labour and Social Affairs could be heard that the scheme...

„…serves as an advantageous saving scheme and not for securing funds for old age.“ (Czech Ministry of Labour and Social Affairs quoted in Iglesias 2003, 6).

Therefore, the age condition was heightened to 60 years and the necessary contribution period was lengthened to 5 years in 1999. However, this concerns only the eligibility for the state subsidy. If a plan participant is willing to give up the state subsidy, early withdrawals (even complete termination of the account) are possible at anytime. This financial incentive to hold on to the account up to the age of 60 could be read as an early withdrawal regulation corresponding to Social Liberalism. But plan participants have the possibility to circumvent this regulation by borrowing against their pension account`s balance (including the state subsidies): planholders can receive a credit from an entity affiliated to their pension insurance company. The credit can then be paid back when the debtor reaches the age of 60 and is eligible to a pay out of the account balance including state subsidies (ibidem, 37).
So, the shaping of Early Withdrawal Regulation regards status maintenance in the Czech Republic is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.

Volatility Risk Regulation

The Czech law on personal pensions allows only DC plans (ibidem, 8). However, the law also provides that savers can always take back at least their own contributions (Iglesias 2003, 15 & 38). Thus, Czech pension investors are given a nominal capital guarantee. On first sight, it seems as if Czech regulations go even further: a regulation prescribes that profits distributed to planholders in the past are to be locked-in, that is, they could not be outwiped by future losses that the pension fund will incur. At the same time, there are restrictions on the part that the management of the fund can distribute to the company`s owners (shareholders): only 10% of profits in a year can be distributed to them. So it seems that if there are some years with positive net returns, at least 90% of them would be locked-in forever for the planholders (ibidem, 16). However, one has to recognize that Czech pension insurance companies have many possibilities to circumvent the 10% limit on the distribution of profits to owners, especially through the completely deregulated charge structure that allows companies to declare sums that are distributed to owners as administration costs. The consequence is that the average net rate of return credited to planholders (0,7% over the period 1995 – 2003) is very low in comparison to prevailing average financial market rate of return (ibidem, 41).

Hence, *the shaping of Volatility Risk Regulation in the Czech Republic`s funded pension part combines elements of Neoliberal Voluntarism and Social-Democratic Collectivism and is therefore assigned the value of 0,5.*

Self-Investment Risk Regulation

There are no prohibitions regarding investments of assets in entities of persons related to shareholders of the pension company (ibidem, 42). This is probably a more libertarian regulation than even a sincere Neoliberal Voluntarist might be willing to accept. Whereas radical libertarians just would rely on competition`s invisible hand to automatically remove pension funds with those questionable practices from the supply side of the market (and, of course, foolish investors on the demand side of the market with them[55]), Neoliberals would at least prescribe to inform customers about those practices in the written contracts in order to reduce information asymmetries. However, informational duties of Czech pension funds are said to be highly insufficient (ibidem). The whole problem is further aggravated by the fact that there is no legal prescription that states that planholders` assets and pension companies` own assets have to be segregated one from another (ibidem, 5 & 14 f.) as it is common in most OECD countries (with the further exception of Switzerland).
Consequently, *the shaping of Self-Investment Risk Regulation in the Czech Republic is assigned the value of 0.*

Choice Risk Regulation

In accordance with Neoliberal Voluntarism, there are no choice constraints or frames in the Czech third pillar. Consequently, *the shaping of Choice Risk Regulation in the Czech Republic is assigned the value of 0.*

Administration Charge Regulation

Neither the structure nor the height of administration charges are regulated, so that costs are high (Iglesias 2003, 30; Kral 2004, 298 & 304) and price comparison is difficult. As administration costs are considerable even compared with individual account systems in other countries – they declined from 13,3% (1995) of assets to the still high level of 2,7% of assets

[55] This is an example of the possible social-darwinist consequences of radical libertarianism.

(2001) -, the problem was recognized by the government and in 2002 it was deliberated in a draft legislation whether a cap of 2% should be legislated (Iglesias 2003, 46). However, 1) even this level would have melted down total pension capital by roughly 40%, 2) as if this would have not been enough, providers were allowed to charge a variety of further hidden expenses, 3) none of even these – very limited - considerations were put into practice in the end. Moreover, switching costs are also very high, so that a change of provider would be a foolish act, even if one own`s current exhibits a weak investment performance (Kral 2004, 302).

Consequently, *the shaping of Administration Charge Regulation regards status maintenance in the Czech Republic is in accordance with Neoliberal Voluntarism and thus is assigned the value of 0.*

Longevity Risk Regulation

Participants of the third pillar can choose freely between the lump sum and the annuitization option, without one of the two being fiscally advantaged (ibidem, 9). As accumulated retirement capital is low due to the late beginning of the savings process, the short savings periods and the very low contribution levels (see chapter 4.5.1.), most retirees (85%) take the lump sum (ibidem, 27). This shows that the scheme is often (mis)used as a (heavily subsidized) medium term savings mechanism for people in their second life period rather than as a genuine pension plan with regular payments.

Consequently, as free choice without financial incentives for one of the two options is in accordance with the principles of Neoliberal Voluntarism, *the shaping of Longevity Risk Regulation regards status maintenance in the Czech Republic is assigned the value of 0.*

Inflation Risk Regulation

Inflation protection for the few annuitants is neither mandated nor fiscally incentivised in the Czech Republic.

Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in the Czech Republic is assigned the value of 0.*

Lifecourse Transition Support Regulation

There are no special subsidies for pension saving in the third pillar for child caring or unemployed people.
Consequently, *the shaping of Lifecourse Risk Regulation in the Czech Republic is assigned the value of 0.*

Poverty of Means Regulation

The voluntary third pillar in the Czech Republic is conditionally subsidized by the Czech State: if someone contributes, the state will do so on his behalf, too. But unlike the Australian system, the Czech system is not targeted at people on low incomes but is a universal program. That means everybody who contributes receives the same state subsidy even when he/she is a millionaire. Participants must pay at least a minimum amount of CZK 100 per month in 2003 (roughly € 3,30[56]). This minimum amount is subsidized by 50%. The subsidization rate decreases with increasing contributions, so that higher contributions of CZK 500 and more are subsidized at a rate of 30% (ibidem, 13). The maximum contribution amount that receives subsidies is CZK 6000 per year (roughly € 200). Under the assumption of zero real investment returns, the state subsidy alone ensures a gross rate of return of 9,1% (excluding charges) for someone who regularly pays in the minimum amount for 10 years.
Consequently, *the shaping of Poverty of Means Regulation regards status maintenance in the Czech Republic mixes Social Liberalism (because of the conditionality of the subsidy) and Social-Democratic Collectivism (because of the universality of the subsidy), so that the value of 0,75 is assigned.*

Funded Pension Tax System

The third pillar in the Czech Republic is subject to a tEt-system (Yoo & de Serres 2004, 26 f.). Contributions up to CZK 6000 cannot be deducted from taxable personal income because they are already subsidized. Contributions over this amount can be deducted from taxable income so that they are tax-exempt up to a maximum amount. Additionally, employer contributions made on behalf of the employee up to 5% of the wage are not considered as employee income, that means they are also tax-exempt. Capital yields from investment also

[56] Computed by the exchange rate course on 1.1.2005 with reference to http://www.emd-ag.com/d/downloads/report/umrechnung/umrechnung.pdf visited at 28.11.2005.

accrue tax-free. Benefits – regardless whether in the form of a lump sum or an annuity – are taxed at the lowest income tax rate of 15%[57] (Yoo & de Serres 2004, 27). With the exception of the subsidized and therefore taxed instead of tax-free part of contributions up to 6000 CZK/month, this system is in line with taxation preferences of Neoliberal Voluntarism. As we have already accounted for the subsidization under the foregoing chapter, it should not be done here again. Furthermore, the taxation system for personal pensions in the Czech Republic is even more libertarian than even Neoliberal Voluntarism would advise, because benefits are also taxed concessionary (15%) – however, only for people on high incomes who would normally have to pay up to 40% under the progressive income taxation system prevalent in the Czech Republic. In contrast, people on low incomes who already pay 15% under the progressive system get no equivalent tax reduction on their benefits. This and the voluntary nature of the third pillar reinforce the regressive effect of personal pension taxation in the Czech Republic – a system completely contrary to Social-Democratic values.

Consequently, *the shaping of the complementary pension tax system in the Czech Republic is therefore assigned the value of 0.*

Summary for the Czech Republic

Taken together, the Czech Republic`s SPRI for its funded pension system assumes a value of 0,13:

$$\text{SPRI (CZE)} = \frac{2 \cdot 0 + 0 + 0{,}5 + 0 + 0 + 0 + 0 + 0 + 0 + 0{,}75 + 0}{12} = 0{,}13$$

5.6. Denmark

Besides the tax-financed, wage-indexed basic pension (`Folkepension´), which is divided into an (almost) unconditional citizens` pension and a means-tested additional part, the Danish state mandates its citizens to make further contributions to the funded ATP scheme, which is resp. was a centrally administered and managed DC scheme. However, contributions to this

[57] Income taxation in the Czech Republic is progressive and rates range from 15% to 40%. See http://www.company-worldwide.de/tschechei.htm

scheme, which vary according to monthly working hours, are low (up to 223 DK or € 30[58] for an employee working more than 116 hours per month). Hence, payments resulting from the Folkepension and the ATP-scheme are alone not sufficient to enable a worker with a full career on the average wage to reach status maintenance if this is defined as a net replacement rate of at least 65%: she or he would receive only 54,1% from the two state schemes (VDR 2005, 90).

Myopia Regulation

However, since the early 1990s, instead of the state, Danish social partners have succeeded in establishing industry-based funded pension schemes mandating pension contributions by employers and employees. This corporatistic system has accomplished a nowadays very high coverage rate of around 95% of employees (EU Social Protection Committee 2005, 11), reflecting a process often called quasi-mandatorization made possible by high bargaining coverage.

Contribution rates lie between 9% and 17% (VDR 2005, 158). Under reasonable rate of return assumptions, even the lower contribution rate of 9% will be – together with the benefits resulting from the Folkepension and the ATP - by far enough to secure status maintenance for the average earner with a full career: he or she will receive a net replacement rate of 82,4% (ibidem) if benefits resulting from Folkepension, ATP and Labour Market Pensions are summed up.

Consequently, *in the face of the high degree of penetration of Danish corporatism, the shaping of Myopia Regulation regards status maintenance in Denmark is assigned the value of 1.* One might perhaps object that a coverage rate of 95% does not equal 100% and still leaves gaps so that we should not assign the full collectivisation value of 1, which should be reserved for state-mandated systems with 100% coverage. However, even state-mandated systems like f.e. Switzerland (with a coverage rate of round about 75% of employees in the second pillar) mostly do not reach a coverage rate of 100%, because they exclude low-wage earners. This can be basically reasonable from a Social-Democratic Collectivist standpoint if these low-wage earners are already well-covered by the state basic pension system and therefore would be overtaxed by further contributions to a second pillar, because they would be unnecessarily forced to transfer money which they need more urgent today into old-age when their needs are not so pressing. What concerns Denmark, the remaining 5%,

[58] Computed with reference to http://www.emd-ag.com/d/downloads/report/umrechnung/umrechnung.pdf

representing mainly low wage earners, are already adequately covered by the Folkepension and the ATP: those with a full contribution career earning half / three quarters of the average wage receive a net replacement rate of 95,6% / 68,0% (ibidem), which is above the 65%-threshold for status maintenance applied here. Moreover, since 1997, the Danish state pays the double amount of usual contributions for persons on maternity leave and those receiving unemployment insurance in the ATP scheme (Danish Government 2005). So, taken all together, the threefold Danish Pension System (Folkepension, ATP, Labour Market Pensions) exhibits a thoroughly coordinated welfare-mix based on a purely Social-Democratic collectivist approach to myopia regulation. The voluntary third personal pensions pillar is not needed to secure status maintenance. This justifies the assignment of the value of 1 in this dimension.

Early Withdrawal Temptation Regulation

Early Withdrawals of accumulated capital sums are not permitted in ATP and also usually not in industry-fund pension schemes until the age of 60 (legal minimum) resp. 65 (average plan) (INPRS 2003, 64). So, *the shaping of Early Withdrawal Regulation regards status maintenance in Denmark is assigned the value of 1.*

Volatility Risk Regulation

Industry pension funds (but also the ATP scheme) are DC plans that guarantee a variable rate of return, trying to smooth volatility through the build-up of (temporary) reserves. Part of the yields above the guaranteed rate are allocated to reserve funds (up to a certain limit), which are then used to meet the guarantee in times of actual returns falling under the guaranteed level (Turner & Rajnes 2004).
However, similar to the Equitable Life Crisis in the United Kingdom, the system was badly administered by Danish pension funds and Danish life insurance companies (Grosen 2004). The rate of return guarantee of 4,5% prevailing up to 1994, which was easy to met in the high interest environment of the 1980s, was drastically reduced (to 1,5% in 1999) by them in response to the falling interest rates since the early 1990s, but much too late. This has put funds and life insurers under considerable solvency pressure – temporary hidden by booming stock markets -, which are now tried to be solved by successfully lobbying for tax rebates and lax accounting rules as well as by technical tricks redefining the financial basis to which the

old high guarantees apply, which is a questionable practice at least seen from a legal point of view. A further problem is that a part of the returns earned on the funds of new members/customers might be used to cover deficits on old contracts with high guarantees. This shows the high potential for mismanagement related to attempts to contain volatility risk as long as clear, open and binding adjustment rules to financial market developments are missing:

„It seems that private pension benefits are a sacred cow in line with public welfare benefits. Therefore it has been very easy for life insurance companies to lobby for tax rebates. The politicians have been willing victims of the political pressure exercised by the companies." (Grosen 2004)

The Danish case is an example for a mismanaged rate of return guarantee system that does not fully hold on to the degree of protection promised. The rather symbolic value of the guarantee will not do much more than preventing negative nominal rate of returns in times of bear markets. Therefore, *the shaping of Volatility Risk Regulation regards status maintenance in Denmark combines elements of Neoliberal Voluntarism and Social-Democratic Collectivism and is assigned the value of 0,5.*

Self-Investment Risk Regulation

Investment in a single company must not exceed 2% resp. 3% (in the case of companies in OECD countries with a capital over DKK 250 Mio. listed on a stock exchange). This is a very low threshold in line with the concerns of Social Liberalism and Social-Democratic Collectivism. Therefore, *the shaping of Self-Investment Risk Regulation in Denmark is assigned the value of 1.*

Choice Risk Regulation

Participants in industry funds have no individual choice regards fund management because funds have captive membership and there exists no competition between them (Ploug 2003). However, some individual freedom of choice is granted in so far as it is possible to choose between a *few* different investment strategies (Jorgensen 2004). Whereas the completely missing choice with regard to management funds is consistent with Social-Democratic

Collectivism, the constrained choice with regard to a few investment strategies (different risk-return portfolios) is consistent with Social Liberalism. Consequently, *the value to be assigned to Choice Risk Regulation in Denmark is equal to the average of the two, that is 0,75.*
However, it is unclear how long this arrangement of constrained choice will prevail, because there is growing pressure on the part of the current liberal-conservative government deeply committed to loosen the existing restrictions on choice (Jorgensen 2004):

„The government wants to give individual citizens the liberty to exercise greater influence on the investment and management of their pension savings. (…) The government has considered the question of providing a wider choice in the ATP and labour market pensions. Further considerations will be made in dialogue with the social partners.“ (Danish Government 2005, 7)

The government published a report entitled `More freedom of choice in the pension savings system´ in May 2003 and has already succeeded with this Neoliberal-voluntarist agenda what concerns the ATP scheme. Since 2005, individuals can choose the investment manager and the strategy here (VDR 2005, 88). This reform occured despite the fact that former investment returns under centralized management were comparatively high and the exclusion of individual choice made very low administration costs possible (Herbertsson, Orszag & Orszag 2000, 65). With regard to the international literature concerning the benefits and costs of individual choice, it can be expected that the hitherto good relation between administration costs and investment yields in the ATP scheme will probably worsen for the average investor. This case shows the striking influence of a purely ideologically motivated libertarianism in funded pension regulation, regarding unrestricted individual choice as an end in itself, and this in a country usually considered as a social-democratic welfare state. Thus, it can be seen that there are limits to the national-homology-hypothesis.
What concerns the question of unrestricted choice in labour market pensions, a Dansih trade union expert thinks that the ideological wishes of the liberal-conservative government will *„certainly“* not materialize here (Jorgensen 2004), because occupational pensions are seen as a project of the social partners (sceptical to unrestricted individual choice) in which the government would have no say (ibidem). However, it remains to be seen whether the government will be able to install a (more) liberal welfare culture and to exert a relevant discoursive pressure on social partners by appealing to the luring promises of unrestricted individual freedom.

The great efforts put in such a strategy to institute something like a popular pensions capitalism by the current government is further exemplified by the project of the Folkeborsen (`People`s Stock exchange´). This is a pension capital investment tool which was modelled after the Swedish Premium Pension Scheme. Here, Danish citizens can invest money which they contributed to a further fourth, albeit very small mandatory pension scheme (1% of gross income), the recently established `Special Pension Scheme´[59], and choose between a range of at the moment 200 funds[60]. Once again: there are limits to a national welfare culture homology between redistribution and regulation.

Administration Charge Regulation

The clear structural dominance of industry pension funds organized as corporatistic non-profit life insurance companies in Denmark reflects the social-democratic strategy of asset pooling, collective investment and non-profit status to hold administration costs down. With the introduction of industry-wide pension plans, existing company schemes were largely replaced by sector schemes (Stougaard 2001). According to Ploug (2003), the resulting low administration costs are a central advantage of the system. Stougaard (2001) comes to the conclusion that the annual administrative costs of an individual account in the commercial market in Denmark is ten times higher than the personal pension account in a Danish sector pension scheme.

Consequently, *the shaping of Administration Charge Regulation regards status maintenance in Denmark is in accordance with Social-Democratic Collectivism and thus assigned the value of 1.*

Longevity Risk Regulation

Benefits in the sector wide pension schemes in Denmark can be paid as annuities or lump-sums without any legal constraints. However, as the take out of at least a part of the accumulated capital sum as an annuity is fiscally incentivised, these plans usually prescribe a minimum annuity with individuals choosing the mix what concerns the division of the remaining capital sum. Thus, usually a combination of an annuity and a lump sum is chosen

[59] The Special Pension was formerly a redistributive savings scheme centrally managed, deducting proportional contributions and providing flat-rate-benefits, which was invented by the Social-Democrats in 1997. The Liberal-Conservative government transformed it into the Folkeborsen in 2002.
[60] Contributions for 2004 & 2005 in this scheme have been suspended in order to stimulate the economy.

(Hinrichs 2002) - pure lump sum plans are rare (INPRS 2003, 64). This is so because of two fiscal reasons.

Firstly, employee as well as employer contributions to pure annuity plans are completely tax-deductible, whereas in plans that provide a part of the accumulated sum as an annuity and the other part as a lump sum, contributions related to the lump sum part are deductible only up to a certain (but quite high) ceiling, which stood at DKK 38900 per year (round about € 5230) in 2003. Contributions to pure lump sum plans are deductible up to the same amount, with the exception of those high earners in the top income tax band, whose contributions are taxed in these sort of schemes at the top income marginal tax rate (59% in 2001) (Ganghof 2001, 18). This first sort of fiscal incentive in order to promote annuitization is of relevance for Danish high income earners.

Secondly, there are also fiscal incentives to promote annuitization for modest income earners, because lump sum benefits at retirement are taxed at a flat rate of 40%, while annuity benefits are taxed at the personal tax rate, which should be more or less below these 40% for modest earners. Although exact data are unfortunately not available, it is very probable that the annuities from the basic pension, the ATP[61] and the minimum annuity common in sector pension plans plus some fiscal incentives for further annuitization, will together ensure that individuals will receive/choose at least an *annuitized* net replacement rate of 65%.

This strategy of promoting (partial) annuitization up to a reasonable level via tax incentives is in accordance with Social Liberalism. However, the Danish regulation does not contain automatic enrolment in annuitization which Social Liberalism also prescribes. Therefore, *the shaping of Longevity Risk Regulation regards status maintenance in Denmark contains elements of Social Liberalism and Neoliberal Voluntarism and thus is assigned the value of 0,25.*

Inflation Risk Regulation

Inflation Risk is not legally covered in Danish sector pension plans. Furthermore, social partners seem to consider it as irrelevant, because benefit adjustments are uncommon until today (INPRS 2003, 64). Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Denmark is assigned the value of 0.*

Lifecourse Transition Support Regulation

[61] Complete annuitization is mandatory in ATP (Stougaard 2001).

Neither the Danish State nor the social partners have instituted a regulation that pays contributions on behalf of unemployed, pregnant or child caring people into the sector pension schemes.

Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Denmark is assigned the value of 0.*

Poverty of Means Regulation

There are neither automatic nor conditional state subsidies for pension saving in the Danish sector pension schemes. Hence, *the shaping of Poverty of Means Regulation regards status maintenance in Denmark is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Denmark pension taxation system is neither of a pure Neoliberal-voluntarist, social-liberal nor of a social-democratic-collectivist nature, because it is an EtT-system. Contributions are exempt (up to a ceiling with regard to lump sums), capital income yields of pension funds are taxed at a concessionary flat tax rate of 15% (lowered from 26% a few years ago because of the problems of pension funds and life insurers detailed in chapter 4.6.3.) and benefits are taxed at the personal rate (or at 40% what concerns lump sums). At first sight, it seems difficult to assign a value on the individualist-collectivist-line, but basically, it is an Neoliberal-voluntarist system (EET) with a half-hearted social-democratic injection (t = the 15% on investment yields). *As Neoliberal Voluntaristic pension taxation principles dominate Social-Democratic Collectivist principles, the shaping of the complementary pension tax system in Denmark is assigned the value of 0,25.*

Summary for Denmark

Taken together, Denmark`s SPRI for its funded pension system assumes a value of 0,56:

$$\text{SPRI (DEN)} = \frac{2 \cdot 1 + 1 + 0{,}5 + 1 + 0{,}75 + 1 + 0{,}25 + 0 + 0 + 0 + 0{,}25}{12} = 0{,}56$$

5.7. Finland

Besides a tax-financed, formerly universal, but meanwhile income tested guarantee pension whose amount as well as need thresholds are price-indexed, Finland has a unique mandatory earnings-related pension system that is partially funded (to round about 25%[62]) and partially Paygo. Instead of separating the funded and the unfunded part as it is the case in many countries, in Finland the funded part is so-to-speak entrenched in the unfunded part. A further feature of the Finnish system negotiated between the social partners in 1961 and legally established by party consensus a year later that makes it outstanding in an international comparison consists of its particular, deep interconnection of public and private elements.

To reduce political risks, administration is shared between (currently 6) private pension companies[63] on the one side, in which the social partners are equally represented and together occupy half of the seats in the Supervisory Boards and Boards of Directors (Hietaniemi & Vidlund 2003, 63), and a central public administrative body called the `Finnish Centre for Pensions´ on the other side. These private companies, which compete one with another for contracts to be concluded with single or groups of employers who negotiate on behalf of their corresponding workforces, collect the contributions (the funded *and* the Paygo-part) paid by employers and employees, pay out the pensions and determine the investment decisions related to contributions of the funded part. The pension company `C´ which insured the employee`s last employment contract calculates his/her total pension rights accrued from all employment relationships in his/her whole working life and pays out the pension (this ist he so-called `last institution principle´). To be sure, the relevant person has often acquired pension rights by paying contributions to one or more different pension companies `A´ and `B´ during his working life because one or more of his/her former employers was or is under contract with these different providers. Therefore, a cost clearing agency is needed which compensates the resulting imbalances between actual benefit payments and former

[62] However, there is no exact share of funding legally prescribed. The share of funding is higher in the private sector schemes (27%) than in the public sector scheme (13%) (Risku 2003, 97).

[63] Finnish pension law also permits the establishment of company and industry pension funds. However, these are of minor importance. 85% of individuals are in plans where assets are managed by pension insurance companies (Ilmakunnas & Vanne 2004).

contribution inflows. This is the central function performed by the Finnish Centre for Pensions.

Pension Policy in Finland was and has remained an issue of tripartistic politics, with negotiations between the social partners on the national level largely predetermining the content of pension reforms (Ilmakunnas & Vanne 2004).

To be exact, the statutory system is partially subdivided according to occupational lines (the self-employed, farmers and seamen have own systems), but it is nevertheless justified to speak of a single system as the main characteristics were increasingly harmonised and are nowadays identical (VDR 2005, 93) so that it would not be appropriate to see it as a Conservative system in the sense of Esping-Andersen (1990).

Myopia Regulation

Because the statutory system on its own ensures status maintenance and has no contribution and benefit ceiling, even Finnish high-income earners hardly resort to voluntary occupational or personal arrangements (Lassila & Valkonen 2002; Ilmakunnas & Vanne 2004, 14). The latter two are of minor importance (Lassila & Valkonen 2002, 264; Börsch-Supan 2005).

„…most people in Finland are able to live comfortably after retirement with their statutory earnings-related old age pension. This largely explains why complementary private pension insurance is not very popular in Finland.“ (Tanminen 2004, 7)

Of total contributions paid into pension schemes, 94,4% (2000) went into the mandatory scheme and only 5,6% (each 2,8%) were related to the voluntary second and third pillar (Härkönen & Laitinen-Kuikka 2003, 110).

Moreover, there is a high resistance among representatives of private pension companies to strengthen (one could almost better say invent) voluntary DC systems in Finland. For example, suggestions in this direction made by the German pension economist Börsch-Supan in a presentation in Finland at a scientific conference in 2004 were refused in a comment by Jaakko Tuomikoski, a Deputy CEO of a Finnish private pension insurance company by pointing out the possible weaknesses of voluntary DC arrangements: short-sightedness, volatility risk and resulting inequities, high administrative costs and mis-selling to

inexperienced workers (Tuomikoski 2004)[64]. Even today, the Finnish Government is still openly committed to secure that this statutory system including all working people will be sufficient on its own to guarantee the continuance of the accustomed living standard in old age:

„The earnings-related pension scheme provides earnings-adjusted, insurance-based pensions, which ensure to a reasonable degree that all wage and salary earners and self-employed persons retain their level of consumption after retirement.“ (Government of Finland 2005, 5)

This statement is not a whitewash of bad reality, but is in line with calculations in the OECD-Report `Pensions at a glance´, which shows that Finnish individuals with average earnings and a full working career receive a relatively high net replacement level of 78,8% compared to the mandatory system of most other countries examined here (VDR 2005, 95).

This does not mean that the Finnish system would be unaffected by demographic change and no reforms would occur. But instead of arbitrarily cutting benefits in the first pillar and promoting voluntary pensions in the second and third pillar, the pension reform in 2005 introduced (inter alia) a life expectancy coefficient so that the future pension level of a retirement cohort will be dependent on its expected life expectancy. In striking contrast to pension reforms in many other countries, the Finnish Government does not promote complementary pensions to compensate the reductions to be expected from the introduction of the life-expectancy factor (10% by the year 2035 (Börsch-Supan 2005, 20)), but instead favours working longer (ibidem). Therefore, it introduced a flexible retirement age band between 63 and 68 and increased financial incentives to work longer considerably[65]. The accrual rate of pension rights resulting from employment was made dependent on the age: working between the age of 18 and 52 receives rights equal to 1,5% (of the individual life-time average wage) per year, working between 53 and 63 receives 1,9% per year and continuing employment between 63 and 68 is rewarded by 4,5%[66]. However, this increasing

[64] Tuomikoski expressed „strong disagreement“ with Börsch-Supan`s estimation that „it is a major weakness of the (Finnish) system that it is one big system without any private savings character.“ (Tuomikoski 2004, 4). He also refused the idea of setting a limit to the contribution level by reducing the benefit level like it was done in Germany (ibidem, 6).

[65] This is related to the low employment rates of Finnish workers in the age between 55 and 64 resulting from (formerly) generous early retirement regulations (see Börsch-Supan 2005, 11 for details).

[66] To be exact: the pension rights accrual rate already increased with higher ages before the reform in 2005: whereas working between ages 23 and 59 received rights equal to 1,5% (of the individual life-time average wage) per year, working between 60 and 65 got 2,5% per year. But as can be seen, the effect was further deepened by the reform in 2005 and especially targeted on the later ages (between 63 and 68).

accrual rate is partly financed by contributions rates increasing by 27% from age 53 (Tanminen 2004, 8), so that it remains to be seen whether older Finnish workers will be ready to work longer with higher contribution rates in order to receive a much higher replacement rate. Likewise, such regulations may disadvantage employees working in occupations where it is not so easy to prolong work over 63. Moreover, the reform in 2005 only managed to reduce projected contribution rate increases from about 30% to 26,5% in 2030. Today, they stand at the already high level of 21,4% (Börsch-Supan 2005). It remains to be seen whether future Finnish governments and social partners will hold up their strong commitment to the mandatory scheme despite these expected developments.

Consequently, *as Finland`s earnings-related, partially funded pension insurance system is a mandatory one covering the whole labour force and alone is sufficient to ensure status maintenance, the shaping of Myopia Regulation regards status maintenance in Finland is of Social-Democratic Collectivist nature and therefore assigned the value of 1.*

Early Withdrawal Temptation Regulation

Withdrawal of funds before retirement is not permitted (INPRS 2003, 253).

Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in Finland is in line with Social-Democratic Collectivism and is assigned the value of 1.*

Volatility Risk Regulation

The Finnish statutory earning-related system is a DB system[67] (VDR 2005, 19) in the sense that individual replacement rates depend on the structure and the length of the personal working career (and the resulting sum of yearly accrual rates set out above) and the life-expectancy of one`s cohort, but are not subject to financial market fluctuations in any way. The reference wage for the accrual rates are former earnings in the relevant year revalued at the time of retirement in line with a composite index consisting of 80% real wage growth and 20% price inflation. This ensures the retiree`s reference wage base not only fully against the risk of high inflation during one`s career, but also almost completely against that of high real

[67] Börsch-Supan (2005) argues that the introduction of the life-expectancy factor has partially transformed the Finnish system in the direction of a DC system. However, this is dependent on how the defined benefit concept is understood. The introduction of the life expectancy factor just prevents that increased longevity leads to a *higher* total average pension *sum* paid and so just has the effect that the total sum paid to an average retiree (months in retirement x monthly pension) stays the same (if increases due to inflation and wages are disregarded). Hence, the average total sum paid as a defined benefit stays the same.

wage growth during one`s career. Remind also that accrual rates in later ages are higher than in younger ages which is a further insurance against high real wage growth. So we can speak rightly[68] of a strict DB nature[69] of the Finnish system. The following two mechanisms were instituted to enable the system to keep this generous promise of security.

Firstly, a sophisticated solvency regulation[70] forces private pension companies by law to build up reserves up to certain margins in order to be able to offset short-to-medium-term investment return downturns below the level required to keep the defined benefit promise (Risku 2003, 89). A `target zone´ for solvency was defined so that the value of a company`s assets should normally range between 116% and 132% of its liabilities[71]. If a company is within this zone, it is free to decide whether it uses further investment gains either to further increase its solvency margin or to reduce the contribution rate which it requires from its employer-customers. If a company`s solvency margin exceeds 132%, further investment yields have to be used completely for decreasing the contribution rate. If a company`s solvency situation is within 104% and 108% (`restriction zone´), the amount of investment gains that can be used to lower the contribution rate is restricted, so that at least a part of it is used to increase the solvency margin in the direction of the target zone. Companies that exhibit a solvency margin of 100% to 104% are said to be in the `crisis zone´, where all further investment yields made have to be used to increase the solvency margin (Risku 2003, 90). As the exact percentages vary according to the risk profile of the assets (f.e. amount of the part invested in equities) managed by a company (Risku 2003, 89; Government of Finland 2005, 30), the above percentages apply to an asset profile with medium risk.

Secondly, more severe investment return downturns which lead to liabilities exceeding assets are not compensated by reduced accrual rates (which would lead to lower replacement rates which would transform the system into DC), but instead employer contribution levels have to be adjusted upwards in those cases[72] (Ilmakunnas & Vanne 2004). Furthermore, companies have to establish a plan for correcting those situations to be submitted to the Insurance Supervisory Agency. If a single company is not able to restore its solvency within a certain period, it will be liquidated and its assets transferred to another pension insurance company.

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[68] In contrast to the Icelandic and Dutch funded DB systems, which ensure retirees` against financial market risk, but do not ensure their reference wage bases against the risk of high real wage growth (Iceland) resp. both high inflation and high real wage growth (Netherlands).

[69] Of course, DB nature in the sense that we abstract from political risks (f.e. future governments who might diminish the accrual rates or the reference wage base retrospectively) here.

[70] Solvency regulation means legal prescriptions concerning the relationship between assets and liabilities which are indispensable for a well-designed funded DB system.

[71] Liabilities are contributions related to the funded part plus a common minimum rate of interest to be credited to member accounts set by the Ministry.

[72] This does not mean that employers alone bear these fluctuations, because employers / social partners will adjust wage levels accordingly at least in the medium term.

As the Finnish pension system represents a partially funded DB system striving to offset financial market fluctuations by building up reserves and variability of employer contribution rates instead of letting benefit levels fluctuate, the shaping of Volatility Risk Regulation regards status maintenance in Finland corresponds to Social-Democratic Collectivism and is assigned the value of 1.

Self-Investment Risk Regulation

Whereas assets consisted mainly of premium loans granted back to contributing employers up to the mid 1990s, this practice was stopped with financial deregulation then and a pension company may nowadays invest only up to 5% of its assets in shares of a single company but not more (INPRS 2003), which corresponds to Social Liberalism and Social-Democratic Collectivism.
Consequently, *the shaping of Self-Investment Risk Regulation in Finland is assigned the value of 1.*

Choice Risk Regulation

It is the employer, and not the single employee who chooses the pension insurance company. These private companies compete one with another through the contribution level charged to employers, which varies between these insurance companies according to the (long-term) investment performance they display and their administration costs. Consequently, the employer contribution rates vary, whereas employee contribution rates are the same across all companies (4,6% in 2003). The choice situation on the Finnish pension market is relatively clear for the employer, because she or he has just to consider a single item (the contribution rate) of not more than 6 companies at the moment (Ilmakunnas & Vanne 2004, 18).
One may perhaps suspect that employers may be bad choice agents for their principals (employees). But neither employee`s benefit nor contribution levels do not depend on employer`s choice performance. There is also no bankruptcy risk for the employee because private companies are jointly liable in such a case (Risku 2003, 88) with the strict solvency rules set out above helping to avoid moral hazard problems. Employers have an incentive to choose efficient providers because their contribution level depends on that. As the overall rate of return on investments are clearly satisfactory until today, this sort of competition seems to function quite well (Ilmakunnas & Vanne 2004, 7).

The decisive point in Finnish Choice Risk Regulation is that employees do not bear individual choice risk, which means that the Social-Democratic Collectivist norm of security prevails. *Thus, the shaping of Choice Risk Regulation in Finland the value of 1.*

Administration Charge Regulation

The Finnish system relies both on a moderate social-democratic and a moderate Neoliberal measure to contain administration costs. Firstly, the *hegemony* of company (instead of individual) schemes without the possibility of individual investment choice clearly reflects the attempt to exploit economies-of-scale by asset pooling, but not on such a central level (national or industry) that Social-Democratic Collectivism prefers, but instead on company level. The consequence is that contribution levels vary according to the size of the customer-company, because administrative costs for arrangements for small companies are higher than for great companies. This means that private pension companies discriminate against smaller employer-customers. This is a sort of inequality that Social-Democratic Collectivism would surely strive to avoid. Secondly, it also seeks to exploit the forces of competition, but not on such a decentralized level (that of the individual employee) as Neoliberal Voluntarism would like it, but instead on an intermediate level (that of the employer). The consequence is that competitive force is delegated from the employee to the employer, something which Neoliberal Voluntarism would surely not subscribe to.
As an Neoliberal and a social-democratic techniques both in a diluted version are combined, the shaping of Administration Charge Regulation in Finland is assigned the value of 0,5.

Longevity Risk Regulation

Benefits are always and completely paid as annuities and lump-sum payments are prohibited. Consequently, *as this is identical with the interventionist style preferred by Social-Democratic Collectivism, the shaping of Longevity Risk Regulation regards status maintenance in Finland is therefore assigned the value of 1.*

Inflation Risk Regulation

Old-age pensions are adjusted in line with an index composed of 20% change in wages and 80% change in inflation. As wage increases are most of the time higher than inflation, adjustment will mostly be even higher than inflation.
Consequently, *the shaping of Inflation Risk Regulation in Finland is in line with Social-Democratic Collectivism and thus is assigned the value of 1.*

Lifecourse Transition Support Regulation

The Finnish Government grants unconditional subsidies for unemployed and child-caring people. Thus, pension rights do not only accrue from employment, but also from periods with earnings-related unemployment insurance. For those persons, pensionable earnings are equal to 75% of the salary on which the unemployment benefit is based (Tanminen 2004). The pension reform in 2005 also prescribes that in the future pension rights will also accrue during periods of maternity and paternity leave (1 year) and of childcare up to further 2 years for each child. Pensionable earnings during periods of maternity and paternity care are 117% of the corresponding maternity/paternity allowance. Pensionable earnings accounted for childcare periods after maternity/paternity leave equal € 523,16 per month (Tuominen 2004), which is equal to 22% of the average net wage (Government of Finland 2005, 11)[73].
The unconditional support for unemployed people and childcaring individuals reflect concerns of Social-Democratic Collectivism. *Accordingly, the shaping of Lifecourse Risk Regulation in Finland is assigned the value of 1.*

Poverty of Means Regulation

The Finnish state does not subsidize pension accounts of normal employees but supports mandatory pension savings of seamen, farmers and other self-employed people, because it thinks that the contribution level would become too high if these groups would have to finance their pension solely by themselves (Tanminen 2004, 3). Hence, state subsidies for pension savings in Finland are targeted but unconditional. Whereas the targeted character corresponds to Social Liberalism, the unconditionality is in line with Social-Democratic Collectivism.

[73] The accrual rate applied to supposed pensionable earnings for periods both of unemployment, maternity/paternity leave and further childcare is 1,5% per year irrespective of age.

Consequently, *the shaping of Poverty of Means Regulation regards status maintenance in Finland is therefore assigned the value of 0,75.*

Funded Pension Tax System

Finland taxes pensions according to the EET principle: contributions are deductible from taxable earnings, investment gains are not taxed, but benefits are treated as earned income subject to the full personal income tax rate (Government of Finland 2005, 14).
Consequently, *the shaping of the pension tax system in Finland follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for Finland

Taken together, Finland`s SPRI for its funded pension system assumes a value of 0,85:

$$\text{SPRI (FIN)} = \frac{2 \cdot 1 + 1 + 1 + 1 + 1 + 0{,}5 + 1 + 1 + 1 + 0{,}75 + 0}{12} = 0{,}85$$

Besides the high degree of tripartism in Finnish pension politics, an high awareness for the possible flaws of voluntary DC systems and a higher tolerance for higher contribution rates (until today), the high average value of the Finnish Pension system is mainly due to the fact that the - substantial - funded part exists since the system was established in 1962 (clearly a period with a more collectivist Zeitgeist than today) and is not separated from, but instead deeply entrenched in the unfunded part. Moreover, the considerable funded part and the participation of private actors makes the system not as vulnerable to claims about sustainability and etatism as the completely unfunded systems in continental Europe.

5.8. France

France has a means-tested, wage-indexed basic pension plus two unfunded, earnings-related parts, the régime général (with an integrated, price-indexed minimum pension of roughly 30%

of the average wage provided that 40 contribution years are achieved), and the complementary occupational systems ARRCO and AGIRC (mandatory since 1972).
Even despite the pension reforms of 1993 and 2003, the two unfunded systems together seem to provide narrowly the continuance of the personal living standard in old age for French employees in the future. According to the OECD, the average earner with a full career will achieve a net replacement rate of exactly 65% from these two systems, which is the exact threshold applied here with regard to status maintenance (VDR 2005, 98).
However, the crucial difference between the unfunded pension system part in Austria and France lies not (only) in the much higher generosity in Austria (93,2% vs. 65%), but in particular in the fact that Austria`s unfunded system is still a DB system with an official replacement target (the so-called 80/65/45 formula), whereas one tier of the unfunded part of the French system, namely the complementary pension system, *is a DC system* (Mandin & Palier 2005, 76). The value of a pension point defining the benefit level depends on the amount of collected contributions (INPRS 2003, 277) and the contribution rate in this system is *fixed* (Lavigne 2002). It is set relatively high, so that the two unfunded systems together secure a net replacement rate of 64% even in 2040 (Government of France 2005, 9) according to scenarios made by the French government under the application of assumptions estimated as `optimistic´ by the French Council for Pensions (`Conseil de Retraites´). However, the pension paid out in the régime générale as well as in the occupational regimes is price-indexed, so that it will soon after retirement fall below the threshold. Moreover, if the unfavorable developments on the labour market and/or demographics in the past will continue or even worsen in the future, initial replacement rates, too, will go down further from alone. This means that in contrast to Austria, there is no official overall replacement rate target for the two systems to which the French state is committed.
Consequently, French people will be dependent on a well-regulated funded pension pillar if they want to secure status maintenance in old age if this is understood as a net replacement rate of at least 65%. So it has to be investigated whether French governments have compensated the inherent insecurity in the unfunded part with an appropriately regulated funded pillar.

Myopia Regulation

The `Loi 2003-775 du 21 aout 2003 portant réforme des retraites´, (Law Nr. 2003-775 concerning pension reform on 21 august 2003) usually called `Loi Fillon´ (Law Fillon),

named after the then responsible Minister for Social Affairs, reacted on the prospective development in the two unfunded pillars described above by instituting two tax-advantaged pension savings schemes, the `Plan d`épargne retraite populaire´ (PERP) as a personal scheme and the `Plan d`épargne pour la retraite collectif´ (PERCO) as an occupationally (company or inter-company) based system. A French employer needs the approval of one or more company unions which represent at least 50% of all employee votes if he or she wants to erect a PERCO-plan. However, PERPs can also be offered on a company basis. The holder of a PERP-account becomes a member in an investor association called `Groupement d`épargne individuelle pour la retraite populaire´ (GERP) which can elect a supervision committee whose task is to represent the collective interests of the members in relation to the private provider (L`Express 18.10.2004; Chanu 2004).
However, participation in both schemes is voluntary and there is no automatic enrolment. While expectations were high at the beginning, the dissemination of both products up to now is often regarded as insufficient (Deutsche Pensions & Investment Nachrichten from 01.03.2005).
Consequently, *the shaping of Myopia Regulation regards status maintenance in France follows the principle of Neoliberal Voluntarism and is therefore assigned the value of 0.*

Early Withdrawal Temptation Regulation

Whereas liquidating the accumulated capital before retirement is allowed under PERCO and subject only to usual income tax without additional surcharges, premature access to PERP is generally excluded. However, this protection of capital is riddled with two exceptions: 1) end of benefits received from unemployment insurance (both schemes) and 2) overindebtedness (L`Express 18.10.2004). Thus, regulation of early withdrawals under PERP is a kind of Social-Democratic Collectivism with Neoliberal-voluntaristic holes (value of 0,5). Regulation of early withdrawals under PERCO corresponds to Neoliberal Voluntarism (value of 0). Thus, as PERP and PERCO are of equal weight (they receive the same tax advantages), *the shaping of Early Withdrawal Regulation regards status maintenance in France is assigned the value of (0,5 + 0) : 2 = 0,25.*

Volatility Risk Regulation

PERP and PERCO are both pure DC plans. Consequently, *the shaping of Choice Risk Regulation regards status maintenance in France corresponds to Neoliberal Voluntarism and is assigned the value of 0.*

Some authors argue that the PERP-legislation, in order to cushion volatilities of the value of the accumulated pension capital sum, would prescribe that an increasing share of the capital sum in an individual account would have to be guaranteed by the private pension provider which means that the provider will automatically invest the assets more and more in less riskier assets (bonds) the nearer the saver comes to retirement age (at least 40% in bonds 10 – 20 years before retirement, 65% in bonds 5 – 10 years before, 80% in bonds 2 – 5 years before and 90% in bonds 2 years) (L`Express 18.10.2004). This technique called `désensibilisation´ in France (Chanu 2004) would imply that every French pension investor would be automatically enrolled in a life-cycle fund with increasing age and that he or she can refuse this only by a personal written statement explicitly recognizing the risks, if she or he wants to pursue a different investment strategy:

„Afin d`éviter que le montant de l`épargne accumulée subisse les conséqunces d`une situation boursière défavorable au moment de la liquidation de la rente, le décret prévoit un dispositif de garantie du capital: au fur et à mesure que l`épargnant se rapproche de l`age de retraite, une part croissante de son capital devra etre garanti par le gestionnaire financier (ce qui implique qu`il soit majoritairement investi en obligations d`Etat), sauf si l`épargnant demande explicitement et par écrit de rester dans des placements plus risquées.“ (Chanu 2004, 20)

All this sounds as if a weak form of Social Liberalism would be at work here, but on closer inspection it is revealed that the Life-Cycle-Fund is just one PERP-versions out of three which all French pension insurers have to offer and among which investors have to choose (without being automatically enrolled in one of them). A French pension investor can choose between at least 3 PERP-versions: a) a diversified portfolio with an increasing share invested in bonds the nearer the investor comes to the retirement age (this is the Life-Cycle option). However, all providers also have to offer a version with b) a very conservative portfolio consisting solely out of European bonds and a version c) that gives free choice among several funds (round about 50 at the Société Générale):

„Le souscripteur a ensuite le choix entre trois profils de gestion. Une gestion sécurisée, tout d`abord, avec la souscription d`un PERP adossé á un fund en euros, c`est-à-dire investi en obligations, et dont la valeur ne peut baisser d`une année à l`autre. L`alternative existe avec une gestion plus diversifiée, via un multisupport offrant un choix d`unités de compte relativement restreint et dont l`orientation dynamique et risquée se réduit au fur et au mesure que l`on approche de la retraite. Enfin la troisème version donne permet une gestion libre entre plusieurs fonds (une cinquantaine à la Société Générale).“ (Le Monde, supplément `Argent´ du huitième mai 2004, 5).

Probably an automatic enrolment in the life-cycle option would have been a much better regulatory system: Most French PERP-investors exhibit a much too conservative style of investment that is far from being optimal for them, but nevertheless well-known by behavioural economists and called `Reckless Conservatism´. According to a representative survey, 67% of French PERP-holders chose the eurobond-fund[74]:

„A quoi ressemble le souscripteur type du PERP ? Si on se réfère au portrait-robot que vient de dresser la Caisse d`épargne sur la base des dizaines de millier de souscriptions que l`Ecureuil a enregistrées depuis le lancement de son PERP, ***il s`agit [des personnes] davantages tentés par la sécurité (67% des ouvertures se sont faites sur le fonds en euros).*** *“ (ibidem, 7)*

What concerns the PERCO, the only legislative prescription for these occupationally based funded plans regarding choice is made with regard to the *minimum* of funds (at least three) to be offered by a plan but – typically – nothing was specified with regard to the *maximum*. This complete neglection of the problematic side of endless choice pointed out by Behavioural Economics is a good exemplification of what I would call – a bit polemically - the `happy choice obsession´ currently prevailing in European pension policy:

„A vous de piloter votre épargne comme bon vous semble et d`effectuer des ajustements pour modifier la répartition de votre portefeuille entre les nombreux supports.“ (L`Express 18.10.2004)

[74] It is a secure investment, but rates of return are much lower (sometimes not much more than inflation rates) than with a diversified asset portfolio invested over two to four decades, because naturally, the equity premium cannot be exploited in a pure bond fund. Bonds have considerably lagged equities in the long-term (Wheelan 2005, 34). Consequently, much higher contribution rates are needed for a given target replacement rate. The differences are substantial, so that no reasonable economist would advocate a pure bonds portfolio.

Self-Investment Risk Regulation

The 2003 legislation makes clear that capital accumulated in saving funds under the PERCO-legislation cannot be (mis)used as a possibility for selling company equities to own staff on a large scale:

„Le PERCO ne peut pas servir de support à l`actionnariat salarié. (…) Ces FCPE [Fonds communs de placement d`entreprise, T.H.] ne peuvent détenir plus de 5% de titres de l`entreprise qui a mis en place le plan ou d`entreprises qui lui sont liées.“

As this restriction is in line with concerns of Social Liberalism and Social-Democratic Collectivism, *the shaping of Familiarity Bias Regulation regards status maintenance in France is assigned the value of 1.*

Choice Risk Regulation

No collective regulations for abandoning, constraining and even not framing individual pension investment choice can be identified in French Complementary Funded Pension Legislation, so that *the shaping of Choice Risk Regulation regards status maintenance in France is assigned the value of 0*.

Administration Charge Regulation

Neither the structure nor the quantity of administration charges related to PERP and PERCO are regulated, so that charges are quite high: what concerns PERP, charges amount to yearly 0,8 – 1,2% of assets (this alone will deduct round about 20% of the total accumulated capital sum) *plus* a further 3% - 5% of monthly contributions (Maussion in Libération 27.04.2004). The legislation enforces a cap on switching costs restricting them to a maximum amount of 5% of assets accumulated until the time of switching (L`Express 18.10.2004). However, this threshold is far from being meaningful because these 5% (and important French providers like the Caisse d`épargne indeed make full use of this maximum amount in the case of leaving to a different provider[75]) is so high that it nevertheless functions as a deterrent on those

[75] See Maussion in Libération 27.04.2004

disappointed by the investment performance of their actual provider (Le Monde, Supplément `Argent´, huitième mai 2004).
Consequently, *the shaping of Administration Cost Regulation regards status maintenance in France is in line with Neoliberal Voluntarism and thus is assigned the value of 0.*

Longevity Risk Regulation

Longevity Risk Regulation differs between PERP and PERCO. Whereas the latter permits the accumulated sum to be paid out in the form of a lump sum or an annuity (without fiscal advantages for one of them), the former only allows annuities (L`Express 18.10.2004). Some commentators conclude from this that PERCO would rather constitute a savings product than a pension product (Chanu 2004, 21), because it also can be cashed in early without special reasons if one accepts the loss of tax advantages (see cahpter 4.8.2.).
As the PERP-regulation corresponds to Social-Democratic Collectivism (value of 1) in this point and the PERCO-regulation exemplifies Neoliberal Voluntarism (value of 0) here and as both schemes are given equal weight (they receive the same tax advantages), *the shaping of Longevity Risk Regulation regards status maintenance in France is therefore assigned the average value of both which is 0,5.*

Inflation Risk Regulation

French complementary funded pension legislation does not cover measures concerning inflation protection of annuities.
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in France is in accordance with Neoliberal Voluntarism and is therefore assigned the value of 0.*

Lifecourse Transition Support Regulation

Neither unemployed nor child caring individuals receive subsidies for PERP or PERCO.
Consequently, the shaping of Lifecourse Risk Regulation regards status maintenance in France is in line with Neoliberal Voluntarism and therefore assigned the value of 0.

Poverty of Means Regulation

The French State does not use subsidies to support its citizens in relation to pension saving under PERP or PERCO.
Hence, *the shaping of Poverty of Means Regulation regards status maintenance in France is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Contributions made for PERP and PERCO are deductible from taxable income (up to a total threshold of 10% of personal income), investment gains under these saving vehicles are not taxed, but pension benefits are taxed. Thus, funded pension taxation in France constitutes an EET system (French Government 2005, 40) favoured by Neoliberal Voluntarism. So it is no wonder that French commentators with a social-democratic, unionist background are very critical of these tax-advantages:

„On voit que ce sont les salariés les plus aisés, ceux qui ont par ailleurs les capacités d`épargne les plus grandes, qui seront les principaux bénéficiaires du dispositif, en ayant des baisses d`impots très significatives.“ (Chanu 2004, 21)

Consequently, *the shaping of the funded complementary pension tax system in France follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for France

Taken together, France`s SPRI for its funded pension system assumes a value of 0,17:

$$\text{SPRI (FRA)} = \frac{2 \cdot 0 + 0{,}25 + 0 + 1 + 0 + 0 + 0{,}5 + 0 + 0 + 0 + 0}{12} = 0{,}17$$

5.9. Germany

Germany`s pension system was since the great pension reform of 1957 until the turn of the century dominated by an earnings-related Paygo-system which put heavy weight on the principle of labour market meritocracy in its benefit formula. It was and is accompanied by means-tested social assistance[76] as a measure against poverty for those with incomplete careers and / or low earnings (besides surviving dependant`s pension for housewives). With the reform in 1957, contribution rates were risen up to 14%, so that benefit levels could be increased by 60% (Hockerts 1985, 314). Equally important was the then passed index-linking of pensions, adjusting already accumulated pension entitlements as well as current pensions not only to inflation, but to increases in gross wages – hence the then popular term `productivity pension´. Another important element of the reform in 1957 was the complete abolishing of the former integrated flat-rate element and the tightening of the equivalence between the personal, wage-proportional contribution rate (up to a ceiling of around 180% of average gross earnings) and the level of the personal pension.

Although pensions were indexed by net wage increases since 1992, the general principle of securing former living standards wasn`t mitigated at that time. The pension formula passed at that time – implicitly following the Musgrave principle - was constructed in a way that the (fictitious) standard pensioner, the so called `Eckrentner´, which meant a person who has accumulated 45 so called `Earning Points´ by working for 45 years in the labour market, earning steadily the prevailing average income and retiring at the standard age of 65 (formerly 63 for male and 60 for female), should receive a pension amounting to 70% of the average net income of all insured wage earners of the working generation.

Additionally to this mandatory basic scheme securing status maintenance in the operationalisation used here (minimum net replacement rate of 65%), mostly capital funded supplementary occupational schemes of the defined-benefit-type formed the second tier. However, in the 1990s, only about 50% of all employees in the private sector were covered by them, which were provided by employers on a voluntarily basis. Moreover, in most of the cases, benefit levels were relatively low: 41% of male and 57% of female occupational pensions amounted to payments less than 200 German marks per month (Bäcker et al. 2000, 300). Including the third pillar consisting of voluntarily, capital funded private old age provision of the defined-contribution-type, rough estimates assume that at the end of the 1990s approximately 80% of financing old age security in Germany was provided by PAYGO and 20% by capital funding (Schmähl 2002, 14).

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[76] Since 2001, the means-tested nature of the benefit was tempered a little bit by excluding the capital of poor pensioners` children from the means-test.

However, this mix between funded and unfunded pensions will be transformed in the future in favour of the former by two paradigmatic pension reforms instituted by the red-green coalition government in 2001 and 2004, implying an - openly admitted by the government - good-bye to the former goal of achieving status maintenance through the Paygo-system alone (Berner 2005b, 3; Sailer 2003, 78). The central motivation of the reforms was to limit the increase of the contribution rate to the Paygo scheme to not more than 22% in 2030 (Nationaler Strategiebericht Bundesrepublik Deutschland 2005, 8) instead of the roughly 27% after the parametric reform in 1992.

Therefore, the `Riester-Reform´ in 2001 (named after the Federal Minister of Labour and Social Affairs in office at that time, Walter Riester), introduced a new adjustment formula, which from now on links changes in pension benefit levels to increases in gross wages minus increases of social contribution rates for the statutory pension scheme (and not minus the sum of income taxes and all social contribution rates as since 1992)[77]. However, this alone would not result in lower benefit levels at all. For this aim, two additional specific measures were integrated in this formula: firstly, it is assumed that insured persons pay a voluntary premium for a private personal pension plan (called `Altersvorsorgeanteil´), which increases from 0,5% in 2002 to 4% of personal income in 2009. This percentage was integrated in the adjustment formula in such a manner that it will have exactly the same effects as an (additional) increase in the statutory pension contribution rate in the concerning time period, that is reducing the increase of gross wages (see above), which implies a lower increase of absolute pension benefits and thus leads to a reduction in pension replacement rates. Secondly, and even more subtle and less transparent, for the time after 2010, an arbitrary factor was introduced in the formula whose effect is to strengthen the moderating effects which increases in pension contribution rates have on pension benefits (De Deken 2002).

However, simulations made by the Rürup-Commission showed that the contribution aim could not be achieved without additional cuts, because contribution rates were expected to climb further to 24,2% in 2030 and 25,6% in 2040 despite the reforms already passed. Therefore, a second reform, the so-called pension insurance sustainability act, was passed in 2004, whose main element consisted of the introduction of a `sustainability factor´ in the pension formula of the Paygo system (in addition to the elements introduced in 2001). This factor leads to a recognition of developments concerning changes in the ratio between the number of pensioners and the number of pensioners, called `pensioner quotient´, so that a 1%

[77] This was done to insulate the benefit level from changes in income taxes generally and the planned reductions of these especially, so that lower income taxes won`t result in higher pensions and thus lead to higher contribution rates which would clearly offset the asserted stimulating economic effects of the tax reform.

increase of the pensioner quotient will exert a downward effect on the pension level of 0,25% from now on to be added to the effects on the benefit level stemming from the other factors in the formula (wage increases etc.). The general effect of the reform measures instituted in 2001 and 2004 is that the net pension level for the standard pensioner is projected to decrease from formerly 70% to 58,5% in 2030 (Berner 2005, 5). Thus, adequately regulated complementary funded pensions are needed in Germany in the coming decades in order to achieve status maintenance if this is defined as a minimum net replacement level of 65% as it is done here.

Myopia Regulation

In order to compensate for these cutbacks to the statutory Paygo pension scheme, the red-green coalition instituted subsidized and tax-favoured, but voluntary personal (the `Riester-Rente´) and occupational funded pension schemes. To receive these advantages, personal pension products offered by the private providers need a public certification which is granted if certain minimum criteria detailed in the following subchapters are fulfilled.
The voluntary nature of these schemes is not subject to public debate, but instead supported across the whole political spectrum (Berner 2005b). To be sure, it was the initial intention of the then responsible minister Walter Riester to implement a mandatory system. However, he had to resign to this idea because it provoked a massive public outcry with the leading German tabloid denouncing the project as an illegitimate `oppressive pension (Zwangsrente)´. At least until the end of 2003, the take-up rate of the `Riester-Rente´ stood at a low 10% of those entitled, whereas the participation rate of occupational pensions in the private sector has increased from 38% to 43% (Berner 2005b) between December 2001 and March 2003. However, the majority savers contribute less than would be sufficient to reach an overall level securing continuance of former living standards (ibidem).
Consequently, as Germany`s voluntary approach to status maintenance is in line with the ideology of Neoliberal Voluntarism, *the shaping of Myopia Regulation regards status maintenance in Germany is assigned the value of 0.*

Early Withdrawal Temptation Regulation

Only pension products that do not allow payments before the saver reaches the age of 60 resp. receives benefits from the Paygo system are accredited certification and are hence eligible to subsidies (Berner 2005a). However, this condition does not mean that early withdrawals are

legally outruled in these schemes. Instead, the relevant persons will loose the state subsidies resp. tax savings granted in the meantime[78].

As early withdrawal temptation regulation in Germany uses financial disincentives to steer people away from premature access to the accumulated pension capital, it corresponds to Social Liberalism and is therefore assigned the value of 0,5.

Volatility Risk Regulation

In order to receive the public certificate, personal pension contracts have to guarantee that at least the nominal value of the sum of all contributions is paid out on retirement (Berner 2005a). Likewise, the new occupational pension schemes are defined contribution plans with a guaranteed minimum benefit which is equal to the sum of the contributions paid in (Berner 2005a, 12). What concerns the old DB schemes, they are now clearly on the decline (ibidem) and can thus be neglected here. As nominal capital guarantees can be interpreted as a combination of Neoliberal Voluntarism (they are generally DC schemes) and Social-Democratic Collectivism (they nevertheless provide some floor under which nobody should fall), *the shaping of Volatility Risk Regulation in Germany`s funded pension part is assigned the value of 0,5.*

Self-Investment Risk Regulation

No more than 5% of the total capital may be invested in a single entity, especially the company of the employer which has erected an occupational scheme. In the case of more than 3 employers organizing their scheme through the same pension fund, a maximum *total* limit of 15% applies (Blömeke 2004, 14).

As these restrictions are in line with the advice of Social Liberalism and Social-Democratic Collectivism, *the shaping of Self-Investment Risk Regulation in Germany is assigned the value of 1.*

Choice Risk Regulation

According to Sailer (2003, 82), 4000 private pension products had been licensed until 2000. Thus, individual choice are not subject to any restrictions what concerns the personal pension

[78] Thanks to my colleague Patrick Blömeke for making this point clear to me. Personal Communication on January 18, 2006.

scheme. Instead, the regulation follows ordoliberal lines by putting emphasis on informational transparency: investors have to be informed once a year how his or her contributions are being used, costs and yields and to what extent ethical, social and ecological criteria are taken into account by the insurer as regards investment policy (Börsch-Supan 2004, 25; Sailer 2003, 79).

However, what concerns the occupational pension scheme, the investment company and strategy are not chosen by the individual worker, but instead by the social partners. As could be expected, German mainstream economists publicly criticize this feature, contending that individual choice would be needed to further peoples` self-determination capabilities (see the interview with Martin Hellwig in DIE ZEIT 44/2005), ignoring the possible problems created by endless individual choice as regards self-determination capabilities detailed in chapter 3.5.2.
Combining a personal scheme with individual responsibility and an occupational scheme with collective responsibility for the handling of choice risk, *the shaping of Choice Risk Regulation in Germany is assigned the value of 0,5*.

Administration Charge Regulation

A part of the products sold on the personal pensions market, namely life insurance products is subject to a charge cap of 4% of the sum of all premiums[79]. But this cap represents neither a significant nor general protection against high fees as it firstly does not prevent total deductions to reach levels of more than 20% of the capital sum (so that in the case of a nominal interest rate of round about 2% the real return will be zero or even less) (Kröger 2005) and secondly does not apply to other products sold on the personal pensions market (bank plans, investment fund products). The main emphasis of the regulation is on information: savers must be informed about the level of commission and administrative costs, the cost of switching to a different policy, the costs of financial management etc. (Börsch-Supan 2004, 25; Sailer 2003, 79). This aim to increase transparency exhibits an ordoliberal stance, although even neoliberal thinkers criticize that the current level of transparency is not sufficient for customers to make meaningful provider and product comparisons (Börsch-Supan 2004, 29; see also Sailer 2003, 82). This again shows that arguments of state failure pertain not only to Paygo- or collectively funded schemes, but also to decentralized funded schemes.

[79] § 4 Abs.1 Satz 2 of the Deckungsrückstellungsverordnung of 1996.

However, the reform of 2001 has also employees entitled to demand from their employer to deduct a part of their salary for retirement purposes (so called `salary sacrifice´) (Blömeke 2004, 5), thereby giving every employee access to sector wide or at least company based occupational pensions with collective investment structures exploiting economies of scale, now openly favoured by ministry officials because of their higher cost efficiency:

„The legislature considers the best way of achieving across-the-board voluntary coverage to lie above all in the inclusion of occupational retirement provision in collective agreements. Another major argument for the further spread of occupational retirement provision is the cost and efficiency advantages resulting from collective implementation, ***which as a rule are superior to purely individual private pensions****.“ (National Strategy Report on Pensions Germany, 17; my stressing, T.H.)*

Thus, a rather neoliberal strategy in the personal pension scheme stressing competition and information as cost-cutting instruments (ibidem, 35 f.) is combined with a rather social-democratic collectivist strategy in the occupational pension scheme, to which – this is a very important aspect here – every employee has a legally guaranteed access. *Therefore, the shaping of Administration Charge Regulation regards status maintenance in Germany is assigned the value of 0,5.*

Longevity Risk Regulation

Initially, certification requirements contained a provision stating that the pension contract has to foresee that the accumulated capital must be completely converted into a life-long annuity (Sailer 2003, 79), so that the pension saver was automatically steered to annuitization. The saver could nevertheless opt for a lump-sum, but then tax advantages and allowances would have to be paid back (ibidem, 80). This sort of regulation was well in line with the ideal-type of Social Liberalism. However, opposition by the providers and neoliberal politicians within the opposition against this provision was intense, arguing that it would exert a deterrent effect and hence was partially responsible for the low take-up rates until then. Finally, the red-green government partially responded to these critics by lowering the annuitisation rate required to be eligible to state supported retirement saving to 70% of the accumulated capital sum (Berner 2005b).

So, regulatory elements of Social Liberalism and Neoliberalism are now mixed in German Longevity Risk Regulation. Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in Germany is assigned the value of 0,25.*

Inflation Risk Regulation

There exists no statutory requirement for inflation indexation of annuities from personal pensions in Germany. What concerns occupational pensions, it has to be differentiated between the old DB schemes and the new DC schemes with nominal capital guarantee introduced in 2001: whereas benefits in the former schemes - now on clear decline - had to be adjusted to inflation by the employer bar if his/her company could not afford it, no adjustment duties apply to benefits in the latter schemes - now on clear upswing (Blömeke 2004, 10f.). *As personal pension plans but also those newly introduced occupational pension schemes to which every employee has a legally ensured access to do not have to provide for inflation protection, the shaping of Inflation Risk Regulation regards status maintenance in Germany corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

The German state directly subsidizes personal pension saving of low and medium wage earners, if they contribute an own amount, too. But the unemployed and non-employed child caring people also belong to the circle of beneficiaries of these conditional support. Moreover, for child caring people, a child allowance of yearly € 185 (2008) is granted if they participate in a personal pension scheme. Thus, German Lifecourse Transition Support Regulation applies the Social-Liberal guideline of conditioning state support for these people. Consequently, *the shaping of Lifecourse Transition Support Regulation regards status maintenance in Germany is assigned the value of 0,5.*

Poverty of Means Regulation

In order to cushion the distributionally problematic effects of the EET system applied to funded pensions in Germany (making the distribution of the level of state-support relative to personal income across income strata U-shaped instead of regressive) and to promote private pension saving among low earners in the voluntary system, the red-green government decided

to subsidize personal pension saving of low-to-medium earners by an amount which increases to a yearly maximum flat allowance of € 154 in 2008 (plus the child allowance of a yearly maximum flat allowance of € 185 for each child already mentioned in the former subsection), provided that they contribute a certain amount, too (4% of gross salary minus the direct subsidy). That these amounts are more than significant can be seen by the fact that the rate of state subsidization (as % of the maximum amount promoted) varies - depending on income and the number of children – between 24% and 90% (National Strategy Report on Pensions Germany 2005). However, at the moment, the level of the allowances for low and medium earners are not planned to be indexed to inflation or wage growth after 2008 (so that their real value might diminish constantly after that), whereas the tax advantages for high income earners are (Sailer 2003, 84), so that the structure of state support could become more regressive in the future.

German Poverty of Means Regulation combines the principle of conditionality and targeting, which corresponds to the ideal-type of Social Liberalism. Hence, the shaping of Poverty of Means Regulation regards status maintenance in Germany is assigned the value of 0,5.

Funded Pension Tax System

The tax treatment of the funded pension schemes introduced in 2001 in Germany corresponds to the EET model (Sailer 2003, 80; Yoo & de Serres 2004, XX). The taxation of occupational pensions can be even conceived as an EEt system, because here, private pension contributions are also exempt from social security contributions. However, this provision is legally foreseen to last only until 2008 (Berner 2005b). Consequently, *the shaping of the complementary pension tax system in Germany follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for Germany

$$\text{SPRI (GER)} = \frac{2 \cdot 0 + 0{,}5 + 0{,}5 + 1 + 0{,}5 + 0{,}5 + 0{,}25 + 0 + 0{,}5 + 0{,}5 + 0}{12} = 0{,}35$$

5.10. Iceland

Myopia Regulation

Besides its basic pension indexed to public sector wages, divided in a residence based first tier covering all citizens and a means-tested second tier targeted at poor individuals (structurally similar to Denmark), Iceland has a second, occupationally based and fully funded pillar based on industry-wide sector funds which has its origins in a corporatistic wage agreement in 1969, which was made mandatory for all employees in 1974 and extended to all self-employed in 1984. There is no wage ceiling for the contribution rate to be deducted. According to the OECD, under reasonable rate-of-return assumptions, an average earner with a full career receives a net replacement rate of 65,9% (VDR 2005, 105), if the citizen`s pension and the guaranteed DB part (see below) of the mandatory second pillar is summed up. Thus, the two obligatory systems guarantee the continuance of the living standard in old age if the latter is defined as a minimum net replacement rate of 65%, albeit quite narrowly.
Consequently, *the shaping of Myopia Regulation regards status maintenance in Iceland is of a Social-Democratic Collectivist nature and therefore assigned the value of 1.*

Early Withdrawal Temptation Regulation

Withdrawal of funds before retirement is not allowed (INPRS 2003, 310). In the second pillar, the normal retirement age is 65, whereas it stands at 67 in the first pillar.
Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in Iceland is assigned the value of 1.*

Volatility Risk Regulation

Since `Act No. 129 on Pension Rights Insurance and the operation of pension funds´ was legislated in 1998, minimum pension rights are determined. This law recommends that industry-wide pension funds in the second pillar have to be DB plans in the sense that they must guarantee an accrual rate of at least 1,4% of earned wages per year, which leads to a net replacement rate of 56% after 40 years of paid work, so that the average earner with 40 years of paid work achieves an overall replacement rate of 65% (together with the residence-based part of the first pillar, which provides 9% of the average wage (VDR 2005, 109)). Most plans

nowadays provide for higher benefits, but these additional parts are not guaranteed, they are DC.

So it looks as if Iceland has a pure DB system with a DC top-up. However, there is one little snag if it is considered what is defined as the reference wage to which these 56% refer. The answer to that issue is 56% of average monthly lifetime earnings, but these former earnings are revalued only in line with price inflation, but not in line with wage growth (VDR 2005, 104). The consequence of this is that the real guaranteed net replacement rate is not completely defined, but varies according to overall real wage growth: if real wage growth during one`s working career was very strong, a retiree having earned constantly the average wage for 40 years will receive a guaranteed amount which is considerably less than 65% of an active average Icelandic wage earner. If real wage growth during one`s working career was very weak, a retiree having earned constantly the average wage for 40 years will receive a guaranteed amount which is almost 65% of an active average Icelandic wage earner. Under a DB system which revalues former earnings `only´ according to price inflation (and not to real wage growth[80]) as it is the case in Iceland, the earnings position of pensioners is partially dependent on the pace of former real wage growth. In this sense, the promised benefit is not so much defined in Iceland as it seems on first sight. However, it nevertheless remains much less risky than pure DC systems or those with return guarantees, which are subject not only to wage growth risk, but (more or less) also to inflation and financial market risk.

Consequently, *the shaping of Volatility Risk Regulation regards status maintenance in Iceland can be classified as DB and thus is assigned the value of 1.*

Self-Investment Risk Regulation

Icelandic legislation concerning the second pillar specifies that not more than 10% of total assets managed by a pension fund may be invested in a single entity (INPRS 2003, 309). This restriction is in line with Social-Democratic Collectivism as well as Social Liberalism.

Consequently, *the shaping of Familiarity Bias Regulation in Iceland is assigned the value of 1.*

[80] As was the case in the German unfunded DB pillar between 1957 and 2001, which was therefore often called `productivity pension´ at the time of its invention.

Choice Risk Regulation

What concerns the contributions paid for basic DB benefit of the guaranteed replacement rate of 56%, industry-wide pension funds are captive and membership is based on bargaining sector affiliation. Risk-sharing through collective asset-pooling is mandatory here (INPRS 2003, 305 & 310 f.) and funds are managed jointly by representatives appointed by the social partners (Gudmundsson 2001 & 2004). Public Choice theorists might suspect that this statutory monopoly might inevitably produce inferior investment outcomes because the principal (employees) is the captive of the agent (social partner representatives), but up to now, return on assets has been good and stable according to the chief economist of the Central Bank of Iceland (Gudmundsson 2001, 1 & 11).
Since the reform law in 1998 was passed, individuals were granted choice freedom concerning the part of their contributions related to the unguaranteed DC top-up in excess of the DB minimum benefit specified in the same legislation, which means that individuals can leave these excess contributions with their sector fund or can establish individual accounts offered by banks or other financial providers (Gudmundsson 2001, 5).
As investment choice is collectivised with regard to the DB minimum benefit ensuring continuance of former living standards together with the citizen`s pension, *the shaping of Choice Risk Regulation regards status maintenance in Iceland is assigned the value of 1.*

Administration Charge Regulation

Exploiting economies of scale through collective asset-pooling on an industry-wide basis in captive non-profit entities managed by the social partners (what concerns the DB minimum which ensures continuance of former living standard) reflects a Social-Democratic Collectivist stance. Administration costs stood at an average of 0,17% of assets in 1999 (Gudmundsson 2001, 16), which is very low by international comparison.
Consequently, *the shaping of Administration Charge Regulation regards status maintenance in Iceland is in accordance with Social-Democratic Collectivism and thus assigned the value of 1.*

Longevity Risk Regulation

What concerns the DB minimum benefit, pensions are paid as a lifetime annuity and lump sums are not permitted. Choice between an annuity and lump sum payouts exists only with regard to contributions made for DC benefits in excess of the DB minimum which guarantees the continuance of former living standard.
Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in Iceland is in accordance with Social-Democratic Collectivism and thus is assigned the value of 1.*

Inflation Risk Regulation

Benefits related to the DB minimum must be as a minimum indexed to the Consumer Price Index (INPRS 2003, 311).
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Iceland is assigned the value of 1.*

Lifecourse Transition Support Regulation

Unemployed and child-caring people are not covered through legal provisions concerning the second mandatory pillar (INPRS 2003, 307). There is only an indirect insurance against poverty for the long-term unemployed and long-term housemen and housewifes via the two tiers of the first pillar which ensure that pensioners without any further means receive at least the minimum wage (€ 987 in 2000) as soon as they reach age 67.
Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Iceland is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.*

Poverty of Means Regulation

The Icelandic state does not subsidize funded pensions in the second or third pillar.
Thus, *the shaping of Poverty of Means Regulation regards status maintenance in Iceland is in line with Neoliberal Voluntarism and thus is assigned the value of 0.*

Funded Pension Tax System

In Iceland, funded pensions in the second and third pillar are taxed according to the EET-principle.
Consequently, *the shaping of the funded pension tax system in Iceland follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for Iceland

Taken together, Iceland`s SPRI for its funded pension system assumes a value of 0,75:

$$\text{SPRI (ICE)} = \frac{2 \cdot 1 + 1 + 1 + 1 + 1 + 1 + 1 + 1 + 0 + 0 + 0}{12} = 0{,}75$$

5.11. Ireland

As the net replacement rate in the first, categorial[81] and contributory but redistributive unfunded flat-rate pillar is comparatively very low even for those people with the contribution record required (an average of 48 weekly contributions per year during working life) for the full pension – the average earner achieves a rate of 36,6%, those with half of the average a rate of 63,0% - Irish government officials have recognized the importance of sufficient coverage and contribution records in the second (occupational) and third (personal) funded pillars at least since the 1990s.

Myopia Regulation

In October 1996, a `National Pensions Policy Initiative (NPPI)´ was launched by the `Pensions Board´, the tripartistic Irish regulatory body for complementary pensions, and the Department of Social Welfare. The goal of this was to initiate a national policy debate about how to enable all Irish residents to maintain their standard of living in retirement and, subsequently, to formulate a corresponsing strategy as a result of that debate. The outcome of

[81] The categorial character is partially weakened (but not really cancelled) by the Homemakers scheme legislated in 1994 which allows up to 20 years spent on caring duties to be disregarded when a person`s insurance record is being averaged for pension purposes (Government of Ireland 2005).

these deliberations was a Report of the Pensions Board to the Minister for Social, Community and Family Affairs entitled `Securing Retirement Income´ published in May 1998. This report came to the conclusion that mandating *all*[82] employers to provide their employees with easy access to a special individual pension scheme, called `Personal Savings Retirement Accounts (PRSAs)´ (by forcing *all*[83] employers to enter into a contract with at least one provider) without making PRSAs obligatory for employees would be – for the time being - the best strategy to achieve an official coverage rate target set at 70% of the total workforce *over age 30*. The idea behind that was requiring all employers to act as a kind of distribution agents would increase employees` exposure to the issue and thereby raise their consciousness, thus increasing their likelihood to purchase PRSAs. Concluding that

„…it may be appropriate to introduce some provision for compulsory income-related pensions at some future date" (quoted by Wheelan 2005, 15),

the Report also stipulated that the success of the PRSA-strategy has to be evaluated 5 years after the implementation of the PRSAs (which occured through the Pensions Amendment Act in 2002) and that making PRSAs mandatory should be considered if progress toward the coverage target would be insufficient.

In 2005, the coverage rate actually achieved stood at 59% of the Irish labour force *aged over 30*, 11 percentage points below the target level. 39% of *all* employed were member of an occupational pension scheme and further 13% of *all* employed were member of a personal pension scheme. The current Irish Minister for Social Affairs, Seamus Brennan, is far from being satisfied with the take-up rates of PRSAs:

„Despite all the incentives and all the good work, I regret to say that overall the coverage figures achieved are disappointing. (…) The reality is that we are failing to mobilise the general public and employers to start contributing to pensions in the numbers required to achieve our overall targets in any sort of reasonable timescale." (Brennan quoted by Kerby 2005, 9)

[82] All employers who have not instituted an occupational pension scheme with access eligible for their whole workforce.

[83] This is an important difference to Great Britain (with important quantitative implications), where employers with not more than 5 employees are excluded from the obligation to provide access to Stakeholder Pensions.

Moreover, of further concern is the fact that contribution rates in occupational DC plans (usually between 5 and 10% (INPRS 2003, 322)) are clearly inadequate according to Irish pension experts (see also Irish Congress of Trade Unions 2005, 11):

„The real pension time bomb in Ireland is the inadequacy of contribution rates to defined contribution plans. It is well documented that contributions to DC schemes in Ireland are considerably below the high levels required to provide the targeted income replacement rate." (Wheelan 2005)

Minister Seamus Brennan is well aware of this and concerned about it, too:

„It is estimated that 50% of those private pensions are totally inadequate. In other words, there is a good chance that up to 75% either have no [complementary, T.H.] pension or have a [complementary, T.H.] pension that falls well short of what they will need for a comfortable retirement." (Brennan quoted by Kerby 2005, 10)

So what is the consequence ? Brennan, who recently ordered the Pensions Board to bring about the evaluation report normally due in 2007 earlier, that is already in 2006, is deeply ambiguous about the idea of mandating complementary pensions:

„Are we moving towards compulsory funding ? `I genuinely have an open mind about that´, he replies. (…)[but] `forcing all workers and employers to contribute to a private pension scheme raises problems with guarantees and with what the `minimum´ contribution would be, and whether that would bring everyone who was already paying a higher contribution down to that minimum.´" (Brennan quoted by Kerby 2005, 9f.)

It will be interesting to see which conclusions the evaluation report will draw from the failure to reach the stated coverage goals. But up to now, the Irish approach to the problem of myopia prevention is a purely voluntary one. It can be argued that there is a small element exhibiting a collectivist and obligatory nature here, namely the legal requirement for *all* employers to enter into a contract with a PRSA provider in order to be able to offer their employees a corresponding product. But there is no collective institution that ensures that applying employees will select an appropriate contribution level with regard to the continuance of their accustomed living standard in old age.

Therefore, *the shaping of Myopia Regulation regards status maintenance in Ireland is assigned the value of 0, because it relies – at least for the time being - on the voluntary approach favoured by Neoliberal Voluntarism.*

Early Withdrawal Temptation Regulation

It is not possible to cash in a PRSA before the age of 60 and PRSAs cannot be used as securities for loans (Pensions Board 2003, 23). The only exception is early retirement due to serious illness or disability. Similar rules apply for occupational pensions (INPRS 2003, 324). Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in Ireland is assigned the value of 1.*

Volatility Risk Regulation

What concerns the second occupational pillar, 69% of existing schmemes are DB and 31% are DC (Government of Ireland 2005). However, there is a strong trend towards DC schemes, with almost all new schemes being set up as DC schemes. In 1991, the ratio of DB plan members to DC plan members in Ireland was 5:1 (Hogan & O`Sullivan 2002, 8).
Like in many other countries, Irish DB schemes were further damaged by irresponsible, short-sighted behaviour of all actors with regard to the – temporary - surpluses emerging during the bull market in the end of the 90s: employers were taking contribution holidays, unions were seeking excess benefits and legal revenue rules were demanding that surpluses be reduced (Irish Congress of Trade Unions 2005, 10). After the rude awakening of the bear market in the years after 2000, 50% of all Irish DB schemes had difficulty meeting Minimum Solvency Standards (ibidem, 8).
Moreover, Wheelan (2005, 4) speaks of a threat to Irish DB schemes, caused by the (unintended) regulatory discouragement of DB schemes: current Irish solvency rules do not allow for a long-term perspective but require steady short-term matching of assets and liabilities (ibidem, 7), leading to a move from equities into bonds, which reduces the long-term rate of return in DB pension schemes significantly and so increases the long-term costs for sponsoring employers running these schemes. Thereby, the current Irish solvency rules act as a massive disincentive to erect or uphold DB schemes (ibidem, 34)[84]:

[84] Of course, abandoning the short-term matching requirement in a *company*-based DB scheme and switching to a long-term matching requirement necessitates well-designed (i.e. moral hazard avoiding) bankruptcy insurance for these plans.

„Our members have told us quite forcefully that the current regulatory regime, if left unaltered, will result in a dramatic reduction in defined benefit coverage in the private sector over a very short period of time.“ (Irish Association of Pension Funds 2005, 6)

There exists neither a statutory obligation nor a binding corporatistic agreement or norm constraining volatility risk in occupational schemes. At the moment, Irish Trade Unions call in vain for hybrid pension scheme legislation in which volatility risk is shared between employers, employees and the state (Irish Congress of Trade Unions 2005, 12).
Pension schemes in the Irish third pillar, the PRSAs, are pure DC schemes. There is neither an employer or a state guarantee. However, the pension investor is automatically enrolled in a DIS (Default Investment Strategy) that is applied unless the person indicate otherwise in a written statement. The DIS is said to be based on good investment practice, investing in higher-risk funds in the early-to-mid-years, moving to middle-risk funds in later years and finally to lower-risk funds approaching retirement (Pensions Board 2003, 20 & 22). This is the strategy of automatic enrolment in a Life-Cycle-Fund.
Therefore, *the shaping of Volatility Risk Regulation regards status maintenance in Ireland exhibits an Neoliberal Voluntaristic nature in occupational schemes (emerging dominance of DC schemes) and a Social Liberalistic nature in the third pillar, so that the value of 0,25 is assigned.*

Self-Investment Risk Regulation

Whereas Self-Investment Risk Regulation in DBs ensures employees insofar against employer bankruptcy risk as the calculation of plan assets in the context of solvency evaluation must exclude those assets in self-investment, corresponding regulation in DC schemes is almost non-existent: trustess only have to inform the members of the plan if more than 5% of total assets are invested in the business of the sponsoring employer. This regulation exhibits an Neoliberal-Voluntarist understanding of the social world: employees will be rational actors with equal rights (they can exit, i.e. change their employer) who know their company`s financial situation well and will protest against such applications if they think it will be too risky. Social Liberalism`s concern about familiarity emotions sometimes overwhelming prudent reason or Social-Democratic concerns about assymetric power relations in labour markets often favouring employers are not taken into account.

Therefore, *in the face of the strong trend towards DC in Ireland, the shaping of Self-Investment Regulation in Ireland corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Choice Risk Regulation

Naturally, most of Irish occupational schemes do not provide individual investment choice because they are DB schemes and pool assets. However, as no new DB schemes are set up anymore, there is now a massive trend towards DC plans which offer individual investment choice options.

What concerns PRSAs, the individual pension investor can choose between 10 providers with 52 approved products. All Standard-PRSAs have to be pooled funds. But the investor can choose Non-Standard-PRSAs which provide the possibility to invest in undiversified funds[85].

As individual investment choice in the part of the funded system that will be dominant in the future (DC schemes) is not restricted, the shaping of Choice Risk Regulation regards in Ireland is assigned the value of 0.

Administration Charge Regulation

Administration costs of Standard-PRSAs are legally regulated, that is both with regard to quantitative and structural concerns. All providers have to offer at least one Standard PRSA. Firstly, charges of Standard-PRSAs are capped at 1% of assets *plus* 5% of contributions per year (Non-Standard PRSAs do not have caps at all) (Pensions Board 2003, 26 & 43). This is, of course, a quite high level, albeit narrowly meaningful in the sense that it should prevent the worst excesses which might have occured without such a cap. But it nevertheless produces criticism:

„There is concern about high administration charges for DC schemes and PRSAs at present. The fact that allowable charges for standard PRSAs have been capped by law, to allay such fears, has not diminished the widespread perception of overcharging – even though providers would argue that this capping has made PRSAs virtually unsaleable !“ (Irish Congress of Trade Unions 2005, 7).

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[85] 80% of PRSA-buyers choose (better: remained in) the Standard-PRSA (The Aspen Institute 2004, 4).

Secondly, charges have to be expressed in % of assets or % of contributions, but not in flat cash terms. This represents a protection of account holders with low account balances (especially low-income earners). These are also protected against discriminations related to interrupting contribution payments. Thirdly, transfer charges for switching to a different provider are legally prohibited, which is, compared to other countries (f.e. France) with individual account systems, an important form of state intervention (ibidem, 27). So, the PRSA administration charge regulation represents a *weak* form of Social Liberalism (value of 0,25).

However, charges in the Irish occupational pension sector are not regulated at all despite of its importance and the fact that, according to the quotation above, administration costs in the currently booming DC schemes are far from being affordable. This is probably so because these schemes – often erected by the swarm of US companies investing in Ireland - contain a high range of individual investment choices like the expensive 401(k) schemes in the US.

Taken the administration charge regulation of occupational schemes (corresponding to Neoliberal Voluntarism) and PRSAs (exemplifying Social Liberalism) together, *the shaping of Administration Charge Regulation in Ireland is assigned the value of 0,125*.

Longevity Risk Regulation

On the one hand, both under occupational pension legislation and PRSA legislation, there is a financial incentive to take a part of the benefits as a *lump sum*. Up to a maximum of one and a half of final salary[86] (INPRS 2003, 329) of pension capital accumulated in an occupational pension scheme and 25% of the accumulated capital sum in an PRSA can be taken as a tax-free lump sum, whereas annuities are taxed according to the personal rate.

On the other hand, there are legal restrictions on the part that can be taken as a lump-sum at all. Of all pension capital accumulated in an occupational pension fund, 3/80 of final salary for each year contributed (maximum: 40 years), that is 1,5 of final salary at a maximum, is available in the form of a lump-sum (INPRS 2003). What concerns the PRSA, the retiree is completely free to decide what kind of benefit she or he prefers provided that she or he can proove that he or she receives a yearly income of at least € 12700 (2004) in the form of an annuity (public and occupational pension included) (Hogan & O`Sullivan 2002, 18). Otherwise, the retiree must buy an annuity with the help of which she or he reaches this level. Thus, Longevity Risk Regulation of funded pensions in Ireland combines elements of Social-

[86] Unfortunately, the source does not say whether monthly or yearly final salary is meant here.

Democratic Collectivism and Neoliberal Voluntarism, namely mandatory annuitization up to a moderate threshold and free choice above that.

Therefore, *the shaping of Longevity Risk Regulation regards status maintenance in Ireland is assigned the value of 0,5.*

Inflation Risk Regulation

There exists no statutory requirement for inflation indexation neither with regard to PRSAs nor what concerns pensions in the voluntary occupational pillar. Some 70% resp. 90% of members in the private sector resp. public sector of the latter currently receive indexation, but only 38% in the private and 74% in the public sector are eligible to *guaranteed* indexation (Hutch 2001).

As there exists no reliable universal requirement for inflation protection of pensions in the second and third pillar, *the shaping of Inflation Risk Regulation regards status maintenance in Ireland corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

There are no payments made on behalf of unemployed or child caring individuals by the Irish State to assist them with their account balances in the second or third tier.

Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Ireland is assigned the value of 0.*

Poverty of Means Regulation

There are neither automatic nor conditional state subsidies for pension saving in the second or third pillar in Ireland. Hence, *the shaping of Poverty of Means Regulation regards status maintenance in Ireland is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Employee contributions are tax-deductible up to 15% of personal income, employer contributions do not count as taxable income for employees, investment income of pension

funds is not taxed, but benefits are taxed (with partial exceptions for lump-sums)(INPRS 2003; Hutch 2001). Thus, funded pension taxation in Ireland is subject to the EET resp. EEt principle. So it is no wonder that actors with a Social-Democratic Collectivist orientation like the Irish Congress of Trade Unions, complains about

„the regressive nature of our pension tax law and the tax avoidance and social inequity which invariably results.“ (Irish Congress of Trade Unions (ICTU) 2005, 1).

Union calls for correcting this regressivity by improved tax treatment of lower paid workers for pensions (which can only mean subsidising their accounts, because these people hardly pay taxes), are rejected by the Irish Treasury with the argument that tax advantages would already be a considerable burden on the state (ICTU 2005, 6 f.). Thus, Treasury`s losses due to tax advantages for Irish high-income earners prevent subsidies for the pension saving of Irish low-income earners.
Consequently, *the shaping of the complementary pension tax system in Ireland follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for Ireland

Taken together, Ireland`s SPRI for its funded pension system assumes a value of 0,16:

$$\text{SPRI (IRE)} = \frac{2 \cdot 0 + 1 + 0{,}25 + 0 + 0 + 0{,}125 + 0{,}5 + 0 + 0 + 0 + 0}{12} = 0{,}16$$

5.12. Italy

Italy has an earnings-related Paygo-systems with an integrated minimum pension, which however is closed now for people entering the labour market for the first time in 1996 (VDR 2005, 107). This means that poor pensioners of the now young generations will have to fall back upon social assistance in the future.
Moreover, when the Dini-Reform was passed in 1995, Italy had transformed its formerly extremely generous first, unfunded DB pillar (hitherto providing a *gross* replacement rate of

80% after 40 contribution years (Rürup & Gruescu 2004) into a Notional Defined Contribution (NDC) System. In the new system, monthly individual pension benefits are calculated by constructing a notional account into which total personal contributions fixed at a rate of 33% of personal gross income over the whole working life are paid. These notional accounts are credited with an interest rate equal to the average GDP growth rate of the last 5 years before retirement. In order to compute the final personal annuity, the resulting notional capital sum is then multiplied with a so-called `Transformation Coefficient (TC)´, which reflects the expected retirement duration of the relevant cohort. The TC is dependent on the personal retirement age chosen (the lower the age, the lower the TC) as well as on the development on the average life expectancy of pensioners (the higher the life expectancy, the lower the TC)[87]. As these changes were coupled with long phase-in periods, it fully applies only to young people entering the labour market at the time the reform was passed (Ferrara & Jessoula 2005, 36).

Through this NDC system, future demographic adjustment costs have to be borne mainly by retirees. Firstly, higher life expectancies result in a lower TC and thereby in lower pensions. Secondly, if wage growth equals growth of GDP *per person active in the labour market*, pensioners will have to bear fully the adjustment costs resulting from the decreasing absolute number of people active the labour market (as a result of low fertility rates and eventually also as a result of decreasing employment rates). If we assume for the standard case that yearly wage growth and the growth of GDP *per person active in the labour market* is the same (say, 2%) and the number of persons active in the labour market decreases by 0,4% per year (which can be expected as a result of the demographic development in Italy) (VDR 2005, 106), the GDP growth per year and the interest credited to the notional account is 1,6%. This means that the relative income position of retirees compared with the active wage-earner will worsen and replacement rates will sink exactly proportionally to the decreasing number of people active on the labour market. Then, contrary to an unfunded DB system, where former earnings are implicitly revalued in line with wage growth, in the Italian NDC system, former earnings are revalued in line with the rate of wage growth minus the loss rate of those active in the labour market (because of low fertility and eventually lower employment rates). In the other two possible cases, that is if yearly wage growth is stronger / lower than the growth of GDP *per person active in the labour market,* the relative income position of retirees compared with the active wage-earner population will fall behind even stronger / not so strong than under the standard scenario.

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[87] The TC will be adjusted every 10 years in order to account for the development of average life expectancy.

In a nutshell, replacement rates in the first Italian pension pillar will fall more or less as a consequence of demographic change and can hardly be compensated by working longer only, because demographic effects due to low fertility (and not only those due to increased life-expectancy as in Finland) are also implicitly taken into account in the new benefit formula of Italy`s NDC system. However, as a consequence of the fact that the system has by far the highest contribution rate (33%) in the whole OECD, replacement rates remain very high even for those young individuals to whom the new system fully applies. According to the OECD, an average earner with a full contribution record of 45 years will receive a *net* replacement rate of 88,8% (VDR 2005, 108) under the new system. This is the highest rate for the first pillar of all countries examined here and far above the threshold of 65% applied here as the criterium for the continuance of former living standards. On the other hand, it nevertheless is a DC system, whose net replacement rates will go down below 65% at some very distant time if the current, very low fertility rate in Italy does not recover.
So, the regulatory intensity of the funded part of Italy`s pension system has to be regarded against the backdrop of an unfunded first pillar in Italy, which is still the most generous of all countries examined here, but whose standard replacement rate may sink below the 65% threshold in some very distant time.

Myopia Regulation

Legal regulations concerning voluntary pension fund saving accessible for the whole population were established for the first time in 1993[88] by the Legislative Decree No. 124 of April 21, 1993. Since then, so-called closed pension funds in the occupational pillar can be erected on a company, regional or industry-wide basis. The employee also had the possibility to subscribe to a so-called open pension fund operated by banks or insurance companies provided that there existed no closed fund in his occupation or region. But this prerequisite was implicitly abandoned by the establishment of individual pension plans through life insurance contracts (`Piani Individuali Basati Su Polizze Assicurative (PIPs)´) (Ceccarelli et al. 2005, 6) through the Legislative Decree No. 47 of February 18, 2000. These open individual plans are subject to the same regulations as funds in the occupational sector. However, the take-up rate of supplementary pensions in Italy was very meagre: in 2000, supplementary pension provision covered less than 5% of those covered by the first pillar (Sidoti & Ricci 2000, 15). In 2002, 40% of all employees had the possibility to choose a

[88] Before that time, such possibilities were restricted to high-income earners in the banking and insurance sectors (Rürup & Gruescu 2004, 9).

closed fund, but only 16% of these took advantage of this possibility (Rürup & Gruescu 2004, XX). Open funds with individual accounts counted roughly 0,35 mio. members in 2002 (Coletto 2004, 5). To raise the attractiveness of funded pensions, the Italian government raised the threshold up to which contributions to these pension funds can be deducted from taxable income from 2% to 12% in 2000 (Ferrara & Joussoula 2005).

Furthermore, there were considerations whether contributions made under the mandatory Severance Payment Scheme, the `Trattamento di fine Rapporto (TFR)´, should be mandatorily redirected into pension funds to compensate the cuts in the first unfunded pillar. Under the TFR, which was mandated by law in 1975, the employer holds back round about 7% (Ferrara & Jessoula 2005, 43) of employee`s yearly gross wage and uses this money as a cheap credit. The accumulated sum, credited with an interest rate of 1,5% plus 0,75% of the prevailing inflation rate (Rürup & Gruescu 2004), is paid out as a lump-sum to the employee in the case of job separation and retirement. TFR mainly functioned as an important form of liquidity during unemployment (Brugiavini 2002; Bosi & Guerra 2002, 16).

However, as Italian unions and employers[89] refused the idea of a mandatory redirection of TFR-contributions into genuine pension funds inserted by the government in a proxy law (Coletto 2004, 6), a compromise had to be struck which was based on the mechanism of `Silenzio Assenso´ (Silent Approval). The reform passed in June 2004 means that by January 2006, the (former) severance payment contributions will be automatically transferred to the closed pension funds in the second pillar, except the employee makes an explicit request to pay them in the old TFR-scheme (Natali & Rhodes 2004). She or he also can demand that the contributions will be paid into an individual account within an open fund. In the case that there is no closed fund and the employee makes no specific requests, the contributions will be paid into regional pension funds to be administrated by regional authorities (ibidem).

`Silenzio Assenso´ is the Italian name for the technique of `Automatic Enrolment´ favoured by Social Liberalism. Therefore, what concerns the supplementary funded pension pillar in Italy, *the shaping of Myopia Regulation regards status maintenance in Italy is assigned the value of 0,5.* However, it remains to be seen whether Automatic Enrolment will function as well in Italy as it has done in some companies in the US. According to a representative survey conducted in 2004, only 15,8% of Italian workers said they would choose the genuine pension fund option, whereas 43,6% preferred the old TFR-option. 32% of those opting for the old TFR argued that it would provide a surer return compared to the new, genuine pension funds investing on capital markets. The importance of security and the related preference for the

[89] Employers refused the approach because TFR represents a cheap and unexamined form of credit.

traditional TFR-scheme is no wonder as the TFR-payments are a form of guaranteed unemployment insurance which most workers do not like to see exposed to the vagaries of financial markets.

Early Withdrawal Temptation Regulation

According to Ceccarelli et al. (2005), early withdrawals from money out of the pension fund are allowed without quantitative limits when the employee is no longer able to stay in the system because of a quit or dismissal and membership conditions are no longer met (see also INPRS 2003, 100). Such withdrawals are taxed, but not subject to an additional surcharge. As life-long employment contracts will be of increasing rarity in the face of increasingly flexible labour markets, this form of early withdrawal regulation exhibits great leakages.
As the shaping of Early Withdrawal Regulation regards status maintenance in Italy is broadly in line with Neoliberal Voluntarism, the value of 0 is assigned.
However, as Italy has an EtT-system and also no compensating direct subsidies for employees with none or only low taxable earnings, 1) the significance of total tax advantages for pension saving are relatively low (slightly below OECD-average, see Yoo & de Serres 2004, 29) and 2) resulting financial incentives for resisting the temptation of early withdrawals are rather moderate for medium income earners and (almost) non-existent for low income earners.

Volatility Risk Regulation

Funds established on the basis of the legislation passed in 1993 have to be DC systems (Ceccarelli et al. 2005). The 2004 reform prescribes that pension funds have to offer investment lines that offer expected returns similar to the traditional TFR revaluation mechanism. However, these low- risk-low-return options would be available in every usual private pensions market and thus represent no meaningful state intervention of a market framing, constraining or neutralizing nature. There is also the option of requesting that contributions are invested under the traditional TFR-scheme, with save, but low returns. However, the choice of such options are not well-suited as they play on the bias of `Reckless Conservatism´ which provides save, but very low returns which in turn necessitates much higher contributions to fill the gap teared up by the cuts in the first pillar. And this level of contributions may then be too high for some employees to afford it.

Consequently, *the shaping of Volatility Risk Regulation in Italy corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Self-Investment Risk Regulation

The investment of 100% of TFR-contributions in employer`s company under the old TFR-scheme seems to be incredibly risky, but it is not so for the employee[90], because his / her savings are backed by a bankruptcy guarantee fund.
Closed pension funds established on a company level in the occupational sector are permitted to invest up to 20% of total assets in a sponsoring company and even 30% may be invested in sponsoring companies if the plan is established on an industry-wide basis under the legislation passed in 1993 (INPRS 2003, 100; Sidoti & Ricci 2000, 14). These thresholds are roughly twice as much as Social-Democratic Collectivism and Social Liberalism would permit so that quite considerable concentration risk lies on employee`s shoulders, because contrary to the traditional TFR-scheme, there exists no bankruptcy guarantee fund here. On the other hand, the Italian regulation is not a complete lifting of controls favoured by Neoliberal Voluntarism.
Consequently, *the shaping of Familiarity Bias Regulation in Italy is assigned the value of 0,5.*

Choice Risk Regulation

There are no state-enforced frames or constraints on individual investment choice. Open as well as closed pension funds offer several different investment portfolios to choose between (Ceccarelli et al. 2005). The employee can also choose between open individual funds (PIPs) and closed occupational funds.
Consequently, *the shaping of Choice Risk Regulation in Italy is assigned the value of 0.*

Administration Charge Regulations

There are no legal rules concerning charge regulation in relation to open individual funds nor closed occupational funds.
Consequently, *the shaping of Administration Charge Regulation regards status maintenance in Italy is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.*

[90] Of course, it is risky for those who have to finance the bankruptcy fund because on this mandatory way, employers and/or investment projects with a questionable credit worthiness may receive funds which no reasonable bank would have offered.

Longevity Risk Regulation

Retirees are permitted to receive a maximum of 50% of their accumulated capital in the form of a lump sum. Additionally, there is a fiscal incentive to receive not more than a third of the accumulated amount in the form of a lump sum: the part of the accumulations that stems from net investment income is taxed (for a second time, see chapter 4.12.12.) at 12,5%, if more than 33% is taken in the form of a lump sum. Thus, the Italian Longevity Risk regulation combines elements of Social-Democratic Collectivism (mandatory annuitization of 50%), Social Liberalism (financial incentives to annuitite further 16%) and Neoliberal Voluntarism (free choice without financial incentives above that level).
Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in Italy is assigned the value of 0,5.*

Inflation Risk Regulation

No legal rules concerning benefit adjustment exist.
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Italy is in line with Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

Unemployed or child caring individuals receive no supporting state subsidies for complementary pension saving.
Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Italy is assigned the value of 0.*

Poverty of Means Regulation

The Italian state grants its citizens no subsidies for complementary pension saving.
Consequently, *the shaping of Poverty of Means Regulation regards status maintenance in Italy is in line with Neoliberal Voluntarism and thus assigned the value of 0.*

Funded Pension Tax System

Italy subjects complementary pensions to an EtT system. Employee and employer contributions are tax-deductible up to 12% of personal income with a yearly upper limit of round about € 5000 plus TFR-contributions (INPRS 2003, 102). Net investment income of pension funds is taxed at 11%. This is only slightly below the proportional capital income tax rate of 12,5%) (Bosi & Guerra 2002, 12), but for high-income earners it is considerably lower than the progressive personal income tax rate applied to labour income. Pension benefits are taxed at personal income tax rate. If more than a third of the accumulated capital is taken out as a lump-sum, the part corresponding to net investment income is taxed again at 11% (see chapter 4.12.7). As in Denmark, the complementary pension tax system in Italy represents an Neoliberal-voluntarist system (EET) with a half-hearted social-democratic injection (t = the 11% on investment yields). Therefore, *the shaping of the complementary pension tax system in Italy is dominated by Neoliberal Voluntarism coupled with a small influence of Social-Democratic Collectivism, so that the value of 0,25 is assigned.*

Summary for Italy

Taken together, Italy`s SPRI for its funded pension system assumes a value of 0,19:

$$\text{SPRI (ITA)} = \frac{2 \cdot 0{,}5 + 0 + 0 + 0{,}5 + 0 + 0 + 0{,}5 + 0 + 0 + 0 + 0{,}25}{12} = 0{,}19$$

5.13. Japan

The Japanese public pension system consists of a flat-rate, contributory, price-indexed `National Pension Insurance (NPI) (Kokumin Nenkin)´ covering the whole *citizenry*[91] (Conrad 2002, 98), and an earning-related `Employees Pension Insurance (EPI) (Kosei Nenkin)´. However, the NPI meanwhile has a maximum replacement rate of 17% of average earnings which is below the social assistance level (Conrad 2002, 115). NPI and EPI taken together will provide the average Japanese earner with a full contribution record with a net replacement rate of 59,1% (VDR 2005, 110), so that complementary pensions are needed to secure status maintenance.

[91] Of course, in theory – in practice, many Japanese citizens defect (Shinkawa 2005, 175).

Moreover, this calculation made by the OECD does only account for legal developments until 2002 (ibidem, 33). But in June 2004, a further pension reform was enacted as a response to Japan`s great demographic pressures. Until then, the index used to revalue past pensionable earnings for benefit calculation at the time of retirement was the rate of increase in take-home pay. But the recent reform in 2004 established a new revaluation factor which now takes also account of demographic elements, namely the rate of decline in the number of contributors to the scheme and the rate of increase of life expectancy (Takayama 2005, 19). Thus, revaluations of past pensionable earnings will in the future be considerably lower than real net wage growth, so that net replacement rates of retirees with average earnings and a 40 year-career are expected to fall to at least 50,2% in 2023 (ibidem, 20). To allay fears of a bottomless reform abyss, the legislation stipulates that the downward effect of the demographic elements in the new formula will be stopped when a replacement rate of 50% for the standard pensioner is reached. However, this replacement rate only applies to the time of retirement, and the demographic factors will also impinge heavily on the former full indexation of current pension payments according to inflation. Thus, current pension payments will be only partially adjusted to inflation in the future, so that the replacement rate for the standard pensioner will dwindle during his or her retirement to just 43% at age 84 (ibidem, 24). The aim of all these measures is to ensure that the contribution rate will not rise over 18,35% until 2017 (Casey 2004, 13).

Moreover, the moral stability of the unfunded pillar is in peril also because the incidence of contributory non-compliance in the NPI is quite high, because Japanese people increasingly loose the trust in the scheme: the share of unpaid contributions of all due contributions reached a staggering 37,2% in 2002 (Shinkawa 2005, 175).

At the same time, traditional forms of self-help in retirement which were particularly characteristic for Japan, namely working in old age and living together with adult children, are increasingly less available in the lately, but constantly modernizing Japanese society (Casey 2004). The (formerly) high incidence of multi-generational families falls significantly and rationalisation of the agricultural and retail sector reduces employment possibilities for older people massively.

All this shows that there is an urgent need for complementary, well-regulated funded pensions which are able to reliably fill the huge gaps teared up by the public pension reforms in the last decade.

Myopia Regulation

Despite the meagre and falling benefits of the unfunded pillar, the erection of occupational funded pension plans as well as individual participation in the third pillar remains voluntary without automatic enrolment until today. This is so although the Japanese government proclaimed already in the 1990s that public benefits should be moderate in order to create room for complementary solutions (Conrad 2002, 115) and although it has explicitly recognized the importance of `self-help´ via the second and third pillar as a measure to fill the gaps resulting from the cuts made in 2004 in the unfunded part of the pension system (Katsumata 2004, 56 f.). However, in practice, this role is hardly adopted by the two funded pillars. Household coverage of personal pension plans is on the rise, but stood at just 22% in 2001 (Takayama 2005, 14), and occupational pension coverage is also limited: according to Katsumata (2004, 58), only 30% of all Japanese employees are provided with corporate pensions. Implicit discrimination between workers of companies with different sizes (Thränhardt 2003, 71) is as high as is explicit discrimination between full-time- and part-time employees within companies, as the latter is not legally prohibited (INPRS 2003, 105).

Up to the two reforms of occupational pensions in 2001 (see below), three types of corporate pension plans in Japan could be distinguished.

Firstly, Retirement Allowance Plans based on book reserves invested in the employer`s company similar to those in Germany. These plans are not legally regulated (INPRS 2003, 104). Consequently, pension rights are poorly protected in this scheme, because in the case of employer`s insolvence, the status of pension claims is equal to that of a normal creditor. The continuance of those schemes was increasingly disincentivised as tax-deductibility of related benefit liabilities were continuously reduced during the last decades from 100% at the origin in 1952 to 0% in 2004 (Takayama 2005, 10).

Secondly, `Employees` Pension Funds (EPFs)´, which were legally established in 1965 by an Amendment of the Employees` Pension Insurance Act of 1944. As EPFs must have at least 500 full-time employees (INPRS 2003, 103), they are particularly widespread in medium and larger Japanese companies. EPFs are DB plans that need the approval of a company union representing at least one third of all full-time employees or the consent of at least 50% of full-time employees. Employees can partially contract out of the earnings-related unfunded part of the public system by participating in EPFs, which then pay the related benefits (`substitutive part´) and has to provide a top-up (`additional part´) of at least 30% of the substitutive part. Since 2001, this requirement is reduced to 10% (Casey 2004, 7). In turn, employees pay a

lower contribution rate to the public system. EPFs have a clear obligation to maintain a minimum solvency level of 90%, which is to be ensured by a regular actuarial review at least every 5 years and the obligation to meet reported shortfalls within a specified time of 7 years. However, no sanctions are legally provided for if this time schedule cannot be met (Casey 2002). Only those benefits related to the substitutive part (which alone does not guarantee continuance of former living standard) are secured against bankruptcy of the fund through a mutual insurance scheme inaugurated by the Pension Guarantee Programme in 1989.

Thirdly, `Tax Qualified Retirement Plans (TQRPs)´, which were legally introduced through the `Corporate Tax Act´ in 1962 and could be met first and foremost in small and medium Japanese companies. They must have at least 15 members. TQRPs are also DB plans, but of a pure complementary nature, that provide no possibility of contracting out of the EPI. TQRP-benefits are not guaranteed and hence often lost if the employee changes the employer (independent of employment duration). Benefits in this scheme are also weakly protected in the case that the employer becomes insolvent, because no minimum funding standards were prescribed and TQRPs are not covered by bankruptcy insurance. According to the Defined Benefit Occupational Pensions Act of 2001, no new TQRPs will be approved and all existing plans have to be wound up or transformed into another type of pension plan until 2012 (INPRS 2003, 104). A central reason for this was that the non-vesting rules of TQRPs blocked labour mobility, what is nowadays no longer seen as appropriate as the Japanese economy increasingly abandons its traditional lifetime employment system under the influence of Shareholder Value ideology (Streeck & Yakamura 2002).

The majority of EPFs and TQRPs suffer from severe solvency problems, because they had to guarantee an interest rate of at least 5,5% up to 1997, although market interest rates were considerably lower since the bursting of the Japanese bubble economy of the early 1990s (Conrad 2002). Additionally, solvency problems of these pension plans were hidden for a long time by accounting rules which valued assets according to (higher) book value instead of (lower) market value without any adjustments. Moreover, surpluses accomplished in the past were often (mis)used for higher benefits or building institutions for employees` leisure activities. In 2002, total underfunding of all EPFs alone reached 15% of GDP (Casey 2004, 15). As a result of these intense financial difficulties, many pension funds went bankrupt and several Japanies companies closed their pension schemes, so that the total number of EPFs shrunk from 1900 (1996) to 1650 (2002) and those of TQRPs fell from 90000 (1994) to 65000 (2002) (ibidem). The reserves of the EPF bankruptcy insurance fund were diminished so strongly that it began to refuse payment claims in 1998 (Thränhardt 2003, 69). Many plans

were also closed to new members and converted to the new DCCPF plans (see below) because of the introduction of the International Accounting System (IAS) in April 2001, under which company`s pension obligations and solvency deficits have to be recognized in their balance sheets, which impinges on the evaluation of their performance on capital markets, thereby making issuance of company shares and bonds more difficult resp. expensive.

Since the occupational pension reform in 2001, two main further types of plans are available to employers, namely `Defined Benefit Corporate Pension Funds´ (DBCPF), established by the `Defined Benefit Occupational Pensions Act´ and `Defined Contribution Corporate Pension Funds´ (DCCPF), established by the `Defined Contribution Occupational Pensions Act´. DBCPFs and DCCPFs may replace the closed TQPP-schemes, but companies are also allowed to convert EPFs into DBCPFs or DCCPFs (Casey 2004, 4).

DBCPFs can be DB or Cash-Balance Plans (Shinkawa 2005, 173) and are strictly complementary to the public pension scheme without a substitutive part. No minimum number of members is required. A further difference to EPFs is that benefits in DBCPFs are not secured by bankruptcy insurance, because Japanese employers resisted the introduction of such a system here because of well-known moral hazard problems (Morito 2002, 20). Whereas minimum funding rules of DBCPFs and those relating to actuarial review are similar to EPFs, informational duties relating to asset allocation are more stringent under the former. The number of members in DBCPFs increased from 44000 (2002) to 585000 (2004) (Ministry of Social Affairs 2005, 144).

DCCPFs, which were introduced mainly because of the introduction of IAS[92] and for promoting occupational plans among small and medium companies[93] in order to raise total coverage, are modeled after 401(k)-plans in the US and have to offer at least 3 different investment portfolios with a possibility to redirect investments at least every 3 months. Their establishment needs the approval of a company union. Only employers are allowed to contribute to the plan and contributions vest only after 3 years of employment. Employees whose employer does not have established such a DC plan may join a personal DC plan managed by the National Pension Fund Association (NPFA). The number of members in DCCPFs increased from 88000 (2001) to 940000 (2004) (ibidem, 152).

As complementary pension saving in the second and third pillar in Japan remains a purely voluntary matter without automatic enrolment in any scheme even after the occupational

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[92] DC plans create no liabilities for the company and therefore do not have any negative effects on the evaluation of a company`s performance in capital markets.

[93] As these can hardly sustain the liabilities inherent in the heretofore exclusively permitted DB schemes.

pension reform in 2001, the shaping of Myopia Regulation in Japan corresponds to Neoliberal Voluntarism so that it is assigned the value of 0.

Early Withdrawal Temptation Regulation

Early Withdrawal Regulation differs between DCCPFs on the one hand and DBCPFs and EPFs on the other hand.

Early withdrawals before the legally prescribed minimum retirement age of 60 are not allowed under DCCPFs (Conrad 2002, 104; Shinkawa 2005, 173; Morito 2002, 7; Takayama 2005, 12). If an employee changes his or her employer, the capital may be left in the individual account of the plan or may be transferred to a personal DC plan (INPRS 2003, 106). Thus, the regulation of DCCPFs is in accordance with Social-Democratic Collectivism[94].

What concerns DBCPFs and the additional part of EPFs, things are a bit different. If an employment-relationship is terminated, only long-term employees with a plan membership of at least 20 years receive a deferred pension. But medium-term employees with at least 3 years but not more than 20 years are granted an immediately payable lump sum (INPRS 2003). The consequence is that…

„Japanese corporate pensions and retirement allowances are much more like severance pay, rather than retirement benefits.“ (Morito 2002, 11)

Furthermore, employees with less than 3 years of employment have no legal right to the capital accumulated or part of it under DBCPFs or EPFs[95]. This means that pension rights of long-term employees are firmly locked-in (social-democratic collectivist form of regulation), whereas accumulated pension capital of medium-term employees is not (Neoliberal

[94] However, employer contributions in DCCPFs - employee contributions are not permitted here - do vest only after 3 years. This means that employees with an employment duration of less than 3 years lose their accumulated rights completely, so that only pension rights of medium- and long-term-employees are protected. This rule with its huge dose of employer paternalism, trying to induce good conduct on the part of the employee in the company, is one of a few remaining instances of a conservative form of regulation in the countries examined here.

[95] It is usual practice to reduce the sums accumulated even for employees with high employment durations if they terminate voluntarily. The amount of those reductions is not legally regulated and lies within the full discretion of the company (INPRS 2003, 106). The new exception to this are DCCPFs where reductions of this kind after the 3-year vesting period are prohibited (Morito 2002, 14).

voluntarist form of regulation) and short-term employees lose all accumulated pension rights (conservative form of regulation)[96].

Containing elements of both Social-Democratic Collectivism and Neoliberal Voluntarism, *the shaping of Early Withdrawal Regulation regards status maintenance in Japan is assigned the value 0,5.*

Volatility Risk Regulation

Whereas personal pension plans are DC, Japanese employers can nowadays choose between EPFs (DB plans), DBCPFs (DB or Cash-Balance-Plans) and DCCPFs (DC plans) and employees are dependent on a strong union if they are keen on a plan with investment security. However, as was shown above, even benefits paid out by EPF are only partially protected against bankruptcy (the additional part is not covered) and solvency rules are lax in practice. Even the insured substitutive part is not that \`defined´ as it seems because bankruptcy insurance does not work properly. DBCPFs are not protected against bankruptcy at all. Corporate DC plans have to provide an *option* consisting of a conservative investment portfolio with a nominal capital guarantee, but this represents no market framing or constraining intervention and in the face of the prevailing low *long term* interest rates of not more than 1% in Japan today (remind that administration costs of probably the same amount have to be deducted from that), it is far from being an optimal investment choice. Takayama sums up the current situation in Japan regarding volatility risk as follows:

„Consequently insured people will face investment risk. The income disparity after retirement will be widened. (…) Missing are better instruments to minimize risks involved in the funded system.“ (Takayama 2005, 29)

Consequently, *the shaping of Volatility Risk Regulation in Japan corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

[96] In TQRPs, which are to be wound up until 2012 (see above), pension rights do not vest at all independent of the duration of employment relationships. So, the shift to DBCPFs and DCCPFs implies a certain strengthening of employee\`s rights, although they are far from usual Western standards with vesting periods normally much shorter than 3 years.

Self-Investment Risk Regulation

Legal regulations for DCCPFs allow the investment in stocks of the company the planholder is employed by without any restrictions. Thus, the Enron scenario is possible in Japan. (Takayama 2005; Morito 2002, 7).
Consequently, *the shaping of Self-Investment Risk Regulation in Japan corresponds to Neoliberal Voluntarism and is assigned the value of 0.*

Choice Risk Regulation

EPFs and DBCPFs provide no choice possibilities for individual employees because they are – formally - DB plans, but they have nevertheless to bear the consequences of bad investment choices made by their employers because of defective or non-existing bankruptcy insurance. DCCPFs prescribe a minimum range of 3 investment portfolios for individual choice, but no maximum. Individual choice in the third pillar is also unconstrained.
In the face of unrestricted choice risk, the shaping of Choice Risk Regulation in Japan is assigned the value of 0.

Administration Charge Regulation

Despite the fact that market returns in Japan are very low since more than a decade now, no special legal measures have been taken to assure that individuals have access to pension plans that do not overtax them by high administration charges:

„There exists an administrative cost problem. This problem will be quite serious especially for the low-income earners." (Takayama 2005, 29)

Consequently, *the shaping of administration charge regulation in Japan is in accordance with Neoliberal Voluntarism and hence assigned the value of 0.*

Longevity Risk Regulation

Retirement allowance plans are usually paid as lump sums. In EPFs, the substitutive part has to be taken out as an annuity (but remind that this part alone does not ensure continuance of

former living standards as it was defined here), whereas the additional part can be received in the form of a lump sum, which is usually the case (Takayama 2005, 11). In DBCPFs, only lump sums are available for retirees who have been members for between 3 and 20 years. Those with longer periods have the choice between a lump-sum and a regular payment with a minimum period of at least 5 years. In DCCPFs, lump sum pay outs are possible (INPRS 2003).

This means that no plan provides for mandatory annuitization up to a level securing continuance of former living standards. Moreover, there are also no financial incentives promoting annuitization, but instead the take-out of a lump sum is incentivised, because it is partially tax-exempt (Shinkawa 2005, 161) (see chapter 4.13.11).

Consequently, *the shaping of Longevity Risk Regulation in Japan regards status maintenance contains no elements of Social-Democratic Collectivism or Social Liberalism but follows broadly Neoliberal Voluntarism and thus is assigned the value of 0.*

Inflation Risk Regulation

With the exception of the substitutional part of EPFs (which does alone not ensure continuance of former living standards), whose benefits have to be indexed in line with the index applied to public earnings-related pension scheme, there exist no legal rules concerning inflation protection of annuities for any type of plan (INPRS 2003, 107).

Consequently, *the shaping of Inflation Risk Regulation in Japan corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

The Japanese state does not pay subsidies for unemployed or child-caring individuals into complementary pension schemes.

Consequently, *the shaping of Lifecourse Risk Regulation in Japan is assigned the value of 0.*

Poverty of Means Regulation

Neither targeted nor universal direct financial support is available from the Japanese state with regard to complementary pension saving (Conrad 2002).

Consequently, *the shaping of Poverty of Means Regulation in Japan corresponds to Neoliberal Voluntarism and is assigned the value of 0.*

Funded Pension Tax System

Japan subjects complementary pensions to an Ett system. Employer and employee contributions to pension funds are tax-deductible. To simplify a bit, contributions to EPFs and DBCPFs are tax-deductible without limits (INPRS 2003), whereas contributions to DCCPFs / individual DC plans are tax-deductible up to an absolute amount of 46000 / 18000 Yen per month (ca. € 368 / € 144) (Takayama 2005, 22)[97]. *Assets* of pension funds are taxed (regardless of net returns) at a rate of 1,173%, but EPFs are exempt from this tax if their assets do not exceed 2,84 times the accrued substitutional benefits (INPRS 2003, 109). Benefits in the form of lump sums are only partially taxed: the lump sum minus a certain deduction (the amount of which depends on the length of plan membership) divided by two is taxed at the personal income tax rate (ibidem). On the one hand, this tax system is less generous than a pure EET system because 1) the absolute cap on deductions for DC plans, which contains tax advantages for high-income earners (but these are often already insured in DBCPFs or EPFs), 2) long-term investment returns are diminished by roughly 1,2 percentage points through the asset tax. However, the tax is under suspension since 1999 until April 2005 (Takayama 2005, 10 & 12), not at least because it would act as a crucial disincentive to voluntary pension saving in the current low-return environment in Japan. On the other hand, the concessional taxation of lump sum benefits makes the system more generous than an EET-system. Moreover, the voluntary nature of the complementary pension system leads to a concentration of these tax advantages on high-income earners. Assuming that the two differing deviations from the EET-ideal promoted by Neoliberal Voluntarism roughly offset each other, which is justified by the fact that the overall size of the tax incentive in Japan is slightly above the OECD average (Yoo & de Serres 2004, 29), *the shaping of the complementary pension tax system in Japan is assigned the value of 0.*

Summary for Japan

Taken together, Japan`s SPRI for its funded pension system assumes a value of 0,04:

[97] For self-employed people, the threshold is 68000 Yen (€ 544).

$$\text{SPRI (JAP)} = \frac{2 \cdot 0 + 0{,}5 + 0 + 0 + 0 + 0 + 0 + 0 + 0 + 0 + 0}{12} = 0{,}04$$

The low SPRI for Japan fits exactly with Shinkawa`s estimation that

„In spite of the degree and extent of its potential impacts, the 2001 reform was not much scrutinized in public debates. Corporate pension is considered to belong strictly to the private sector and therefore have [sic !] nothing to do with political responsibility.“ (Shinkawa 2005, 174)

5.14. The Netherlands

Besides its unfunded first pillar in the form of a residence based, flat-rate citizen`s pension (AOW) indexed to the statutory minimum wage, the Dutch pension landscape is dominated by an earnings-related, fully funded occupational second pillar without a contribution ceiling. The pension funds in this scheme are managed jointly by representatives of Dutch employers and members (workers & pensioners[98]), with equal representation on the boards of the funds required by law.

Myopia Regulation

Whereas the share of the third pillar of total pension income is quite low (Bieber & Schmitt 2004), 94% of the Dutch workforce is nowadays covered by the second pillar (Lütjens 2005). However, neither are employers necessarily legally obliged to provide for the establishment of a pension fund nor are employees necessarily legally mandated to participate in one. But both can be forced to do so if the Ministry for Social Affairs declares – on the demand of the sector-specific social partner organisations representing at least 60% of all sector companies - the participation in a sector-wide pension fund as mandatory. Behind this lies an entrenched concept of solidarity which states that companies should not gain a competitive advantage through lower pension rights of their workers. Hence, in the face of the high effective

[98] An agreement between the Dutch Labour Foundation (STAR) and the umbrella organization of elderly people`s interest group (CSO) was concluded in 2003 prescribing that pensioners have to be given a voice in the institutions responsible for the management of the pension funds (Dutch Government 2005).

participation rate, the system of Dutch occupational pension funds is regularly regarded – like the Danish one - as quasi-mandatory.

Discrimination between part-time and full-time employees is not permitted. The remaining 6% of workers who are not covered are those working for very short times, in companies just founded or on demand and hence with interruptions. During the nineties, intense efforts were made in the context of tripartistic consultations to reduce these remaining gaps by reacting frankly to the flexibilisation of social structures on the Dutch labour market. So, in 1999, a pension fund for workers employed by temporary employment agencies was established that covers all those over the age of 21 who are employed since at least 26 weeks by such an agency. Furthermore, since the end of 2002, discrimination against workers with fixed-term jobs was legally prohibited (Bieber & Schmitt 2004). Dutch occupational pension politics function at least partly according to the mechanism of `corporatistic self-organization in the shadow of (etatist) hierarchy´ theorized by Scharpf (2000, 323 f.): f.e., in the National Action Plan on Pensions of 2002, the government requested social partners to make severe efforts to minimise the few remaining coverage gaps by themselves and warned that it would introduce additional legal regulation in the case that social partners will not be successful.

The coordination of the unfunded universal first pillar and the funded earnings-related second pillar with regard to the goal of the continuance of former living standards is explicit and well-established. Dutch social partners have themselves explicitly committed to the goal that the total sum of the individual pension resulting from the AOW and the occupational pillar enables the retiree to maintain his or her living standard. This was defined as 70% of final gross salary after a contribution record of 40 years (Bieber & Schmitt 2004). The necessary coordination between the two pillars to achieve this functions so that Dutch workers pay contributions into occupational pensions funds only from a certain part of their income. The relevant boundary is set in accordance with the actual amount of the AOW and varies correspondingly[99]. The yearly accrual rates of pension rights (in % of the reference wage) are set accordingly in the second pillar (DRV 2005, 121 f.). According to the OECD, this pillar-coordination secures a net replacement rate of 84,1% for the standard pensioner, which is by far the highest level of all 20 countries examined in this study if we disregard Austria and Italy with their generous unfunded first pillars (VDR 2005, 45 & 123).

[99] This is so because the indexation of the AOW can be decoupled from real-wage growth in times of economic distress according to Dutch social law. In normal economic times, the AOW is linked to the growth of the minimum wage which in turn is normally linked to real wage growth. If the replacement rate of the AOW falls because of such a decoupling, the part covered by the earnings-related occupational system increases correspondingly.

In the face of the high penetration of Dutch corporatism resp. tripartism and the high degree of coordination between the first and the second pillar regards status maintenance, the shaping of Myopia Regulation in the Netherlands is an example of Social-Democratic Collectivist regulation and thus assigned the value of 1.

Early Withdrawal Temptation Regulation

Early withdrawal of accumulated pension rights is not permitted. In the case that employees change the pension fund as a result of a change of employment, they can defer their accrued rights or transfer them to the plan of the new employer. Since 1994, Dutch occupational funds have instituted a sophisticated system on a national level that secures full portability of actuarial value (Kremers 2002, 300; Döring 2002). This means that employment change is not implicitly actuarially punished by lower accrued pension rights as it is usually the case under company DB plans in the Anglo-American world and elsewhere.
Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in the Netherlands is assigned the value of 1.*

Volatility Risk Regulation

Basically, although there exist no legal prescriptions concerning this issue, almost all Dutch pension funds (95%) are organized as DB funds (Bieber & Schmitt 2004) with strong intergenerational risk-sharing (as described in chapter 3.3.) (Meijdam 2002; Biezefeld 2003). In the 2002 report for the Open method of coordination in pensions, the Dutch Government was very proud of its funded, but solidaristic DB pension system:

„In such a system, younger generations partially compensate for lower returns when investment results are disappointing by paying higher contributions. When returns are healthier, surpluses can be passed on to the next generation.“ (Dutch Government 2002, 19)

The Dutch Government particularly stressed at that time that efficiency and solidarity must not necessarily be antagonists (like the classic text of Arthur Okun (1975) suggested), but can instead be mutually enhancing:

„The solidarity in the second pillar also delivers efficiency gains. In its report entitled Generationally-aware policy the Advisory Council on Government Policy (WRR) compared DB plans with intergenerational solidarity to DC plans without this form of solidarity. The WRR calculated that in the latter schemes people have to pay 25% more contributions to cover the same risk of a decline in the pension result. The WRR concluded that pension accrual on the basis of solidarity is more efficient than individual accrual, particularly if the pension fund attempts to maintain asset buffers and to pass on these buffers to the next age cohorts in the pension scheme. The intergenerational solidarity makes it possible to achieve good investment returns at a relatively low risk for the participants because the risks can be borne collectively." (Dutch Government 2002, ibidem)

However, it was rather silent about the fact that Dutch DB schemes were also structured as final salary schemes, thereby unfairly[100] redistributing from blue collar workers with flat life-long-earning profiles to white collar employees with steep life-long-earning profiles (Biezefeld 2003). But to be sure, this has changed in the mean time: whereas in 2000, 60% of funds were final salary and 32% average salary schemes, the picture has reversed in 2004 when 13% were final salary and 77% average salary schemes (Dutch Government 2005). On the one hand, the shift to the average salary scheme structure has the advantage that unsound redistribution from blue collars to white collars is abolished. On the other hand, it is important to recognize that the shift also implies that reliable indexation of accrued pension rights (that is adjusting former pensionable earnings to real wage growth) now becomes crucial if benefits should remain `defined´ in the strict sense of the word.
However, although not legally mandated, indexation of accrued rights as well as that of current pensions to real wages or at least inflation seemed to be a matter of course until the turn of the century (Dutch Government 2002; van Riel et al. 2002). But then the stock market crash in the first years of the 21th century suddenly uncovered how badly regulated the Dutch DB pension schemes have been. During the 1990s, Dutch DB schemes accumulated huge surpluses because calculations of liabilities were based on a (long-term) capital yield of 4%, whereas actual yields were much higher at that time (f.e. between 1995 and 1999, they amounted to 10% - more than the double amount). Now, a well-regulated DB system like the one advocated by Mogdiliani & Muralidhar (2004) (see chapter 3.3.) would have at its disposal clear, transparent and firm rules that would specify up to which solvency level (f.e. 125%) such surpluses have to be used to build up reserves (as buffers against possible future

[100] Unfairly in the sense that the same productive performance (measured in life-long working hours x wage) did not yield the same pension rights.

financial market downturns) and would have at its disposal also clear, transparent and firm rules that state how further surpluses above that level are distributed to what extent to which party (f.e. a third to employers via temporary lower employer contribution rates, a third to employees via temporary lower employee contribution rates and a third to retirees via temporary higher pension benefits). And a responsible, forward looking government and its regulators would have secured that social partners take the prudent long-term view embodied in those regulations, assuring that these rules were adhered to.
But not so in the tripartistic Dutch sector pension culture. Instead, the use of surpluses was not systematically regulated and were hence often used for wildcat ad-hoc-measures: taking contribution holidays and / or transferring money from the funds back into the company:

„A former trade union official and manager of one of the funds sums up the situation as follows: favourable share price trends between 1998 and 2000 tempted quite a few funds to pursue a short-term give-away policy in which contributions were slashed and monies were pumped back into the companies` coffers."[101]

"…the social partners themselves are also responsible for the current problems because they set the contribution levels too low in the preceding years. These low contributions – in some cases culminating in exemptions from paying contributions for employers and employees, or even pay-outs from the pension funds – often served to lubricate collective bargaining or diminish the hardship during reorganisations".[102]

However, it would be unjust to shift the whole responsibility to Dutch social partners. Dutch economic policy – keen on holding contribution rates down in order to keep unemployment as well as the amount of tax-advantaged pension saving in check - was also tempted by the lure of myopia:

„This distorted image helped to create the opportunity, in 1989, for a draft act to be sent to parliament, a draft act that was withdrawn only last year, which intended to counter the creation and maintenance of structural solvency surpluses by pension funds. Those were the days ! Yet it put pension funds under pressure to avoid the creation of (substantial) solvency

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[101] See „Supervisory body for occupational pension funds issues more stringent rules" under www.eiro.eurofund.eu.int/2002/10/feature/nl0210102f.html. Website visited on September 29, 2005.
[102] See „Occupational pension issues place increasing pressure on industrial relations" under www.eiro.eurofund.eu.int./2004/09/feature/nl0409104f.html. Website visited on September 29, 2005.

surpluses and to reduce pension contributions. Apart from impending Government measures to skim off pension funds` solveny surpluses, contribution policies also came under pressure from agreements between the government and the social partners. (…) At the same time, many pension funds allowed contribution discounts while some went so far as to refund contributions. They might now, in 2005, have had many billions of euros, tens billions in all, at their disposal if contribution discounts had been limited."[103]

The consequence of this culture obsessed by short-terminism was that the much needed buffers against the stock-market downturn after 2000 were often not available. The resulting costs had to be borne in the form of higher average contribution rates (sharply rising from 8,2% (1997) to 14% (2004) (EU Social Protection Committee 2005, XX)) as well as interrupting the indexation of pension benefits to inflation resp. to real wage growth which was taken for granted before 2000. Thus, solidarity of inter-generational risk-sharing was not abandoned (both contributors and retirees had to bear part of the misery), but it does not have to be stressed that such actions undermines the trust in the system and that the related procyclical behaviour is detrimental to the economy (heating up inflation by contribution holidays or refunds during the economic boom in the 90s and deepening the recession by curtailing demand through hightening contribution rates and cutting pension benefits after 2000).

Further costs of such a regulatory vacuum consist of the legal disputes which arose shortly after indexation of pensions was reneged in several funds and which are hard to resolve – exactly because clear and transparent adjustment rules were missing:

„The construction company HBG is one of a number of companies against which retired employees have instituted legal proceedings in the hope of forcing the company to redeposit into its pension fund money previously transferred for other purposes. Over the past few years, HBG has reportedly taken surplus profuts from the fund, but now finds itself facing a shortfall of dramatically lower share prices. The former employees are demanding a supplementary deposit of no less than € 76 million over and above the extra 14 million the company has already paid into the fund. For the time being, HBG is refusing to do so. (…) The company claims that it was entitled to skim off surplus profits of € 79 million from the pension fund between 1996 and 2000. Former employees, on the other hand, allege that this

[103] Speech of Mr. D.E. Witteveen, Director of De Nederlandsche Bank, in the Congrescentrum Orpheus in Apeldoorn on September 12, 2005 under the title „Towards a healthy pensions sector". See www.dnb.nl/detail.jsb?lang=en&pid=tcm:13-61463-64. Website visited on September 29, 2005.

measure helped to present the company`s operating results in a favourable light, while significant losses were booked in Germany. Over the same period, employees enjoyed non-contributory occupational pensions. However, pensioners now claim that the company`s transfer out of the fund of positive investment results has left insufficient leeway for the creation of much needed reserves. (…) sharply declining capital reserves have made it impossible to pay out annual pension adjustments in line with price increases."[104]

These problems have provoked the Dutch supervisory body for pension funds, the PVK, to install new, stricter solvency measures which are so severe that they could be said to throw out the baby with the bathwater. From 2007, a regulatory framework called `Financieel Toetsningskader (FTK)´ requires Dutch pension funds to maintain reserves so high that they are able to sustain a 25% drop in asset prices, which means that funds with a portfolio consisting of 50% equity and 50% bonds have to strive for a coverage ratio of 130%, which they are allowed to reach within 15 years (EIRO 2002). If the coverage level falls below 105%, recovery up to this level has to be reached within one year. This means that Dutch pension funds are not permitted to take a long-term perspective, with tolerating *rule-based temporary* underfunding down to a certain minimum solvency level (f.e. 80%) in times of financial market crises (as the CFDB system of Mogdiliani & Muralidhar (2004) described in chapter 3.3. does). Instead they are forced to *short-term* matching of assets and liabilities. While one might argue that this raises security, Wheelan (2005) has convincingly criticized such an approach, because it partially prevents DB schemes from taking a long-term view and exploiting the related efficiency gains. This is so because the requirement to match assets and liabilities in the short-term leads to a move from high-return assets (equities) into low-return assets (bonds). Furthermore, such an approach reinforces the procyclicity of contribution policy. Commentators of the Dutch financial community have recognised these problems with the new approach, too:

„As the FTK will force pension funds to more closely match the risk profile of their assets with that of their liabilities, the weight of fixed income securities will increase in investment portfolios. While a lower risk might be beneficial from an ALM perspective, the shift out of equities into bonds will also result in a lower average expected return on assets. This in turn is negative, as it will make the Dutch pension system more expensive. This could force Dutch

[104] See „Supervisory body for occupational pension funds issues more stringent rules" under www.eiro.eurofund.eu.int/2002/10/feature/nl0210102f.html. Website visited on September 29, 2005.

pension funds to raise the average pension contribution. Whenever cover ratios reach the danger zone, contributions will be raised. Consequently, contributions will not only become higher on average, but will also become more volatile…" (Noorman 2004, 10).

However, one cannot candidly advise to install a solvency regime which enables Dutch pension funds to take a long-term view (like the one advocated by Mogdiliani & Muralidhar 2004) because the Dutch DB pension system is not instituted as a single scheme on a centralized national level (so that there would be quasi no bankruptcy risk), but in the form of several parallel schemes, partially even on a very decentralized, company level. This means that bankruptcy risk is relevant here, so that allowing even rule-based temporary underfunding would be risky, at least if no bankruptcy insurance scheme exists - and the Dutch pension scheme does not have a bankruptcy insurance scheme[105] at its disposal.

The whole problem is further aggravated by the introduction of the International Financial Reporting Standards (IFRS) for listed EU companies in 2005. For Dutch firms listed on the stock market with company pension funds, this means that the actual market value of the assets and liabilities of their funds will be included in their balance sheet. The consequence of this is that company results will become – ceteris paribus - more volatile, thereby increasing the necessity to short-term matching. Some observers even argue that all this might lead Dutch companies to switch to DC plans, because these kind of schemes do not have to be inserted in companies` balance sheets (Noorman 2004) – because they imply no liabilities for the company. This is indeed what is happening at the moment with regard to several Dutch company pension schemes, although not what concerns sector pension schemes:

"At a number of companies pension risk is being shifted towards the employees. Akzo Nobel (chemicals) has reached agreement with trade unions to switch completely to a DC occupational pension scheme for its 12000-strong workforce. The move was prompted by Akzo`s desire to dispense with responsibility for uncertain burdens arising as a result of the DB pension schemes negotiated to date. The desire has been amplified as a consequence of the recent introduction of International Financial Reporting Standards (IFRS), obliging companies to offer more insight into their financial risks, including potential pension obligations. Similar schemes have beein introduced at SNS Reaalgroep (banking/insurance),

[105] Of course, if one would be erected, decisive would be to prevent moral hazard (e.g. excessive risk-taking) by making the amount of insurance contributions dependent on the degree of risk involved (likelihood of the plan sponsor becoming insolvent, riskiness of the portfolio, degree of underfunding, etc.). However, this also can have its drawbacks as f.e. proper firm specific risk pricing can be the decisive factor pushing the weakest firms into bankruptcy (Steward 2005, 4).

Philips (electronics), VendexKBB (retail trade) and DSM (chemicals). (…) it is noteworthy that this appears to be the case only with company-level pension funds for the time being."[106]

Furthermore, other Dutch company pension funds have gone not so far but have made revaluation not only of current benefits, but also that of accrued pension rights resulting from former pensionable earnings completely conditional on investment success - not only according to real wage growth but also what concerns adjustment to inflation. The Dutch government, formerly so proud of its solidaristic DB system in the 2002 pension report to the Open Method of Coordinatio (see the quote above), now, only 3 years later, simply states - as if this would mean nothing - :

*„This guideline [Guideline 271 of the Council for Annual Reporting in the Netherlands based on IAS 19, a section of the IFRS, T.H.] acts as an incentive for some employers to convert their scheme from a DB to a DC scheme. As far as the pension scheme member is concerned, it remains a defined benefit scheme with regard to **nominal** entitlements, but the indexation is determined by surplus interest on the contribution. This means that investment risks are borne to a greater extent than before by the pension scheme members." (Dutch Government 2005; my stressing, T.H.)*

Significantly, Dutch trade union officials react in an apathetic, almost obedient manner:

"While trade unions are still less than enthusiastic about the changes, they see no alternative that can prevent them. In the words of a Christian Trade Union Federation official: `The old situation provided more certainty for employees. But something has to change if companies wish to retain their credit assessment and continue to invest. It is in our interest to find ways to cooperate.´"[107]

So, can the Dutch second pillar still be categorized as a DB system or was it recently transformed into a DC system ?

Firstly, the developments of shifting financial market risk completely to single pension investors are limited to a limited part of the company pension fund part at the moment (EIRO

[106] See „Occupational pension issues place increasing pressure on industrial relations" under www.eiro.eurofund.eu.int./2004/09/feature/nl0409104f.html. Website visited on September 29, 2005.

[107] See "Pensions remain key issue in collective bargaining" under www.eirofund.eu.int/2005/07/feature/nl0507102f.html.

2004), which is much smaller than the sector-wide pension fund part (see chapter 4.14.6.). Intergenerational risk-sharing in company pension funds was always necessarily restricted as even great companies are sometimes not too big to fail or to contract, so that the stability or even the continuity of the contribution base is not guaranteed. This restricts the extent to which contribution rates can be increased in the case of investment losses, because workers may choose companies with lower contribution rates[108].

Secondly, accrual rights are generally fixed in sector-wide pension funds (2,25% per year for average salary schemes[109] (VDR 2005, 122)) and these funds still index accrued pension rights at least in line with inflation (EIRO 2004). That financial market risk was not totally passed on retirees` back can be seen in the huge increase of the average contribution rate (see above) as a response to the stockmarket downturn. The great majority of Dutch pension funds still apply a significant form of intergenerational sharing of financial market risk, which is the central characteristicum of a DB scheme. The real problem is that the system is not rule-based and transparent yet as it would be if one would apply f.e. the Musgrave Rule[110] to this problem:

„In recent years, many arrangements have been converted from final pay to average pay schemes, with conditional indexation of pension accruals and benefits. Through this development, our system seems to be shifting towards a DC system, for lower than expected investment results and reduced indexation will result in lower benefits. However, it certainly still is not a DC system in all respects. In a DC system, the risks are entirely borne by the individual worker, while [Dutch, T.H.] average pay schemes are characterised by risk sharing and intergenerational solidarity. If returns are lower than expected, the active and next generation may be resorted to in order to safeguard post-actives` benefits." (Wellink 2005)

[108] To a lesser extent, this applies also to sector-wide funds, because even national economic sectors can break down. Therefore, a centralized, national DB scheme has a functional advantage in this respect, because the contribution base is much broader (consisting of flourishing economic sectors, too) and its continuity is – ceteris paribus - more secure. However, such a scheme may be felt to be too far away from people`s everyday life and too „bureaucratic", lowering identification with it (thereby perhaps promoting contributory evasion). Hence, funded DB schemes can be said to face a trade-off between vulnerable closeness and stable estrangement.

[109] This leads to a high replacement rate of 90% of average reference wage for the standard pensioner. So even if real wage growth is high in the meantime, there is a buffer of 25% to reach a real net replacement rate of 65%.

[110] This would imply that losses resulting from severe financial market downturns would be split so that the retired and the active generation would each incur a fair part of that loss: if f.e. the share of all active members is equal to 2/3 of the sum of all active and retired people in a society, the retired would have to incur 1/3 of that loss, whereas the active members would have to incur 2/3. On this way, everybody would incur the same loss and the relative income position of every individual would remain the same.

"Transparency is a very topical theme for pension funds in the Netherlands. (…) Deficits are not identified in time, and once they are established, it is not always clear by which party they should be absorbed." (ibidem)

In order to increase transparency, the bipartite foundation of Labour has recently published a non-binding `Indexation Matrix´, an instrument to specify under what conditions pension funds are permitted to withdraw to what extent from full indexation (Banrink & Vroom 2005). Such a structure comes close to the rule-based adjustment mechanism advocated under the Musgrave Rule.

A binding, transparent adjustment mechanism based on a stringent conception of intergenerational equity understood by all system participants is all the more needed in the Netherlands in the coming years of demographic ageing to prevent wildcat distributional battles. This is so because the expected increase of the ratio of contributors to pensioners makes the contribution rate levied by a DB system much more sensitive to changes in the rate of return because the contribution base in comparison with the amount of total pension rights accrued (liabilities) will be reduced (Meijdam 2002). In the Netherlands, the ratio of pension liabilities to the wage contribution base will go up from 2,6 today to 4,5 (2030). A negative return shock diminishing the value of pension assets by 10% to be outweighed by contribution rate increases only over 10 years would require an increase of 2,5 percentage points now, but a hike of 4,5 percentage points in 2030 (Van Ewijk & Van de Ven 2003).

To sum up: Dutch sector pension schemes remain fully-funded DB schemes with a strong dose of intergenerational sharing of financial market risk (albeit not well-managed) – a unique[111] phenomenon in the range of all countries examined here. The share of Dutch company plans that have been recently transformed to DC plans remains limited at the moment. Therefore, the Dutch funded pension system can still be classified as a DB system with intergenerational risk sharing. Therefore, *the shaping of Choice Risk Regulation regards status maintenance in the Netherlands corresponds to Social-Democratic Collectivism and thus is assigned the value of 1.*

Self-Investment Risk Regulation

A maximum of 5% of total assets of a pension fund are allowed to be invested in shares and bonds of or loans to the sponsoring employer(s). This may be enhanced to a maximum of 10%

[111] Bar the small country of Iceland. Remind that Finland`s system is not fully funded (only to 25%).

only under the provision that the pension fund holds assets in excess of liabilities that cover the additional 5% (INPRS 2003). Thus, the promised benefits, which are incorporated by the liabilities, are protected by the strict employer investment restriction rule advocated by Social Liberalism and Social-Democratic Collectivism.

Consequently, *the shaping of Self-Investment Risk Regulation in the Netherlands is assigned the value of 1.*

Choice Risk Regulation

As the huge majority of Dutch occupational pension funds are basically organized in line with the DB principle, the possibility of individual investment choice is not available in order to prevent moral hazard (excessive risk taking). According to a recent representative survey performed by De Nederlandsche Bank, the majority of Dutch individuals are not keen anyway on switching to a DC system with individual choice: almost three quarters preferred the current DB system compared with a DC system (van Rooij, Kool & Prast 2004, 15). Moreover, people are willing to pay for the security of guaranteed benefits (van Els, van den End & van Rooij 2004).

Consequently, *the shaping of Choice Risk Regulation regards status maintenance in the Netherlands is assigned the value of 1.*

Administration Charge Regulation

The main emphasis in Dutch complementary pensions is clearly on the rather centralized, monopolistic occupational pillar instead of on the decentralized, competitive third personal pillar. Until now, Dutch governments were far from keen on promoting individualised pension saving in the third pillar. Besides the fact that the second pillar has no contribution ceiling, this can be seen by the fact that in 2001 a law was passed that restricted tax advantages (see chapter 4.14.11.) to those pension savings that serve to reach a replacement rate of 70% of the last salary (Lütjens 2005), which is the explicit goal of the second pillar. Savings above that threshold do not receive any beneficial tax treatment any longer. Thus, tax advantaged pension saving in the individualised third pillar is restricted to fill the (rather little) gaps that the second pillar leaves behind.

Moreover, Dutch occupational pension funds are predominantly *sector-wide* non-profit funds (covering 77% of all members), organized as mutually owned financial conglomerates

providing all services to member companies in-house. Criteria for opting-out are severe (Kremers 2002, 304): as it is basically possible, but very difficult in practice to opt out of a sector-wide pension scheme in order to establish a company pension fund (ibidem, 315) (even if equivalent or superior in benefit terms !), almost only great, globally operating Dutch companies like Phillips or Akzo Nobel possess the informal influence and social power to refuse sector pension scheme adherence, if they want so. Moreover, the Dutch practice of compulsory sector pension scheme membership was legally approved and defended against European Competition law (as embodied in the articles 85 and 86) by the European Court of Justice with reference to European Social Law as embodied in Article 3 (1) (g) and (j) of the treaty of Rome and Article 1 of the Agreement on Social Policy (OJ 1992 C 191). The Court refused the request of some Dutch companies to organize separate company pension funds with the help of out-house insurance companies and averted the therein lying attack on the monopoly status of Dutch non-profit sector pension funds arguing that the objectives of EU Competition policy must be balanced against objectives of economic and social cohesion (Clark & Bennett 2001).

Clark & Bennett correctly suspect that the monopolistic Dutch arrangement is naturally vulnerable to principal-agent problems, providing agents (scheme board members appointed by the social partners) with opportunities for patronage and rent-seeking, so that their investment performance may be lower than competitive for-profit insurance companies, all the more so as transparency about costs and investments was not well established in the Dutch occupational pension sector for a long time. However, the authors forget to mention that Dutch pension law provides for a members` council elected by employees and pensioners which has merely an advising function to the board but also disposes of the right to take legal action if the board does not follow its recommendations[112] (Bieber & Schmitt 2004). Moreover, systematic information on asset allocation and returns is now published on a comparable basis in the Netherlands and the available international comparative investment

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[112] Of course, member`s representatives in this council may be captured by the board, may be uninformed, subject to status quo bias or whatever. But it is far from sure that the reform to the Dutch system advised by Clark & Bennett (2001), namely letting companies choose their financial providers themselves, would make anything better, because there would also be principal-agent problems (e.g. companies choosing their house bank as provider to secure rents (cheaper credits) despite the fact that it might not be the cheapest pension provider, moving the resulting costs to ignorant members) - plus the well-known higher transaction costs of a decentralised system. The problems associated with completely decentralized, that is individual choice, were already shown in chapter 3.5. No system will function appropriately without an appropriate civic culture – you cannot insure against reckless materialistic selfishness. The Scandia scandal in Sweden shows this well. Bruno Frey (1997; 2005) has repeatedly shown that institutions building only on distrust in people`s honesty and actors` opportunism may (not: must) make all things worse instead better, because extrinsic motivation is promoted at the cost of intrinsic motivation and selfishly actors will always find a way to circumvent regulatory legal constraints to pursue their particularistic interests. Maybe this is the case in building funded pension schemes also.

performance data (see Kremers 2002, 304 f.) do not bear out the suspects of Clark & Bennett (2001). According to Davis (2004), Dutch sector schemes are low cost schemes.
So, the Dutch culture of corporatistic solidarity – enriched with some transparency and measures for voice - seems to have successfully contained particularistic rent-seeking at least in the past so that the following statement with its somewhat somnambulistic trust in the Dutch system, which might appear naive in the eyes of a public choice theorist, is justified at least until now:

„There is in the Netherlands no `competition between pension funds. And there is also no need for `competition´. (…) The social partners in these branches or companies decide on the premium schemes, they pay the premiums and administer the pension fund. Because they pay the premiums themselves, they have the best incentive for effective and efficiently governed pension funds." (Peter Stein, Pension Expert in the Dutch Ministry of Social Affairs and Employment) (Stein 2000, 202)

The Dutch practice reflect the Social-Democratic Collectivist approach to lowering administration costs by collective pooling of assets within centralized non-profit entities (sector-wide or great company funds) managed by the social partners, thereby exploiting economies of scale, avoiding switching and marketing costs as well as business` profits. Consequently, *the shaping of Administration Charge Regulation in the Netherlands is in accordance with Social-Democratic Collectivism and thus assigned the value of 1.*

Longevity Risk Regulation

Pension rights accrued under occupational pension funds have to be completely paid out in the form of life-long annuities (INPRS 2003, 131).
Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in the Netherlands follows the prescriptions of Social-Democratic Collectivism and is therefore assigned the value of 1.*

Inflation Risk Regulation

There are currently no legal prescriptions with regard to adjustment of occupational pensions to inflation. Normally, the social partners do adjust current benefits at least to inflation, but

adjustment is generally conditional, that means subject to success of financial investments (Lütjens 2005) and yearly determined by scheme boards under the participation of the members` council (Bieber & Schmitt 2004). Consequently, there is no safety for the retiree at the moment. It remains to be seen whether well-organised Dutch pensioners, who are since 2003 granted a right to be represented on the boards of pension schemes are able to enforce pressure to reach their goal of unconditional inflation indexation of occupational pensions. At the moment, the PVK strives to prescribe adjustments for inflation (Lütjens 2005) and politicians discuss to make inflation indexation mandatory by law (Biezefeld 2003), but Dutch employers consider this as unaffordable and threaten do leave the funds in such a case.
Therefore, *the shaping of Inflation Risk Regulation regards status maintenance in the Netherlands at the moment corresponds to Neoliberal Voluntarism and is therefore assigned the value of 0.*

Lifecourse Transition Support Regulation

Unemployed people are covered by the second pillar provided that they are at least 40 years old and have accumulated pension rights in the occupational scheme in the preceding time. Dutch social partners have instituted a fund administrated by the Dutch Social Insurance Bank which pays contributions on behalf of those people during the period they receive benefits from the statutory unemployment insurance (Bieber & Schmitt 2004).
Whereas the risk of unemployment can thus be said to be covered at least partially, no provisions at all are made by the Dutch state or the social partners to support individuals out of the labour market because of an engagement in child care (Lütjens 2005). So, the Dutch regulation of Lifecourse Risk Regulation displays elements of both Social-Democratic Collectivist engagement and Neoliberal Voluntaristic indifference.
Consequently, the shaping of Lifecourse Risk Regulation in the Netherlands is assigned the value of 0,5.

Poverty of Means Regulation

The Dutch state does not directly subsidise pension saving in occupational funds. Hence, *the shaping of Poverty of Means Regulation regards status maintenance in the Netherlands is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Complementary pension saving in the Netherlands is taxed according to the principles of the EET-system (Yoo & de Serres 2004, 27).
Contributions are tax-deductible up to an accrual rate of 1,75% resp. 2,25% of the final resp. career average salary per year, investment income is tax-exempt, but benefits are taxed in line with the personal income tax rate (INPRS 2003, 132).
Consequently, *the shaping of the pension tax system in the Netherlands follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for the Netherlands

Taken together, the Netherland`s SPRI for its funded pension system assumes a value of 0,71:

$$\text{SPRI (NED)} = \frac{2\cdot 1 + 1 + 1 + 1 + 1 + 1 + 1 + 0 + 0{,}5 + 0 + 0}{12} = 0{,}71$$

5.15. New Zealand

New Zealand has an absolutely unique pension system. At the moment, it consists solely of an – extremely popular (Weaver 2002) - universal[113], tax-financed, unconditional flat-rate citizens` pension providing a married couple with a guaranteed net replacement rate currently set at 65% of average earnings and a single person with at least 43,25% (St. John 2005, 3). To be sure, 15 years of Labour and Conservative governments with a quite neoliberal stance[114] (beginning with the so-called `Rogernomics´[115] in 1984 and ending with the defeat of the Conservative coalition led by the National Party in 1999) had eroded the replacement rate of the universal citizens` pension from an all-time height of 90% in 1986 down to 65% (for a

[113] Between 1985 and 1998, the scheme was affluence-tested in the form of a tax surcharge for high-income pensioners which in practice affected 16% of all pensioners (St John & Willmore 2000, 9).
[114] See Fellmeth & Rohde (1999) for a detailed overview of welfare policy and politics in New Zealand during that time.
[115] Named after the neoliberal economic restructuring program worked out by Roger Douglas, finance minister of the Labour Government between 1984 and 1990.

married couple) today[116] - without grandfathering the cuts because they were mainly effected through the retrenchment technique of `drifting´ (Hacker 2004). This shows that even universal programs can be quite vulnerable in hard times - and their future generosity difficult to predict for someone now in the mid of working age !.
However, envisaged deeper cuts were prevented by a handful of large and well-organized lobby organisations of elderly people (Weaver 2002). Despite the diminishing of the relative value of the pension, the program remains very effective even today what concerns the goal of poverty prevention (Willmore & St John 2000, 8), obviating the administrative costs as well as the application discouraging effects of means-tested old-age welfare programs like they prevail for instance in Britain. Moreover, to judge the replacement rates given above accurately, it has to be recognized that the rate of home ownership among the elderly in New Zealand (83%) (Willmore & St John 2000, 3) is the highest one in the whole OECD (Wheelan 2005, 23), not at least because of high state subsidies (ibidem) for this purpose.
To smoothe the expected increase of the tax costs of the program, it is now partially prefunded through a central fund managed by an independent board and to be regularly filled by revenue means with an amount of a certain % of GDP.

Myopia Regulation

However, these intense forms of government activity what concerns the universal citizens` pension and promoting homeownership are strikingly contrasted with an absolute renunciation of state activity with regard to an earnings-related pillar – be it unfunded or funded, public, occupational or personal – like it prevails in every of the other 19 OECD-countries examined here. At least until 2007 (see below), New Zealand will not dispose of a meaningful, explicitly recognised, that means regulated earnings-related pension pillar. To be sure, this was not so much because of a complete lack of governmental effort, but rather because of the fact that no basic consensus between different parts of the political elite could be reached regarding the question whether such a pillar should be instituted, and if so, how such a pillar should be basically organized.
Firstly, in 1974, a Labour Government enacted legislation to introduce an earnings-related, funded, contributory, tax-advantaged second pillar whose assets were to be managed by the government. But this pillar was abandoned only 9 months of operation later after the National Party had won the election in 1975, attacking the pillar as a socialistic one and as a huge tax

[116] It would have fallen to 60% if the coalition led by the National Party had won the election in 1999.

grab. It is noteworthy that it was this National Party Government (and not some Labour Government) that instead transformed the formerly means-tested first pillar into the universal citizens` pension of today (Weaver 2002).

Secondly, in 1997, a coalition government of the Conservative National Party and the Nationalist `New Zealand First´ Party proposed a plan to gradually phase out the universal first pillar and to replace it by a mandatory, earnings-related funded pillar with individual accounts to be managed by competitive private pension providers. Contributions were planned to rise from 3% in the beginning to 8% in 2003. Whereas inflation protected annuitization would have been mandatory, charges would have been not regulated by the state and no capital sums would have been guaranteed. However, individuals not achieving a target capital sum of 120000 New Zealand Dollars would have been subsidized by the state, whereas those above that threshold would have had the right to receive a refund of their further contributions. The then prevailing coalition government promised to offset the additional contributions by tax cuts. However, as the reform proposal as such (and not merely the form of it) was not only strongly attacked by the left opposition and the powerful interest organisations of the elderly, but heavily disputed amongst the coalition partners, too, and even within the two parties (two thirds of National Party cabinet ministers were against it), a popular referendum about the reform plan was agreed (Weaver 2002, 21 ff.). Popular participation (80% of those entitled) in this referendum was as high as the rejection of the plan (a staggering 92,8% of participants voted against it) (PPI 2005, 1; St John 2005, 23).

At the same time, the change from the former EET complementary pension tax regime to a TTE regime (see chapter 4.15.11.) in the beginning of the 1990s - without compensating this move through direct subsidies at that time - contributed to the demise of the (largely unregulated) occupational pensions sector: private sector employee coverage shrunk from an already low level of 18,5% (1993) to an almost negligible level of 11,4% in 2003 (St John 2005, 14).

However, in early 2005, the centre-left government under prime minister Helen Clarke dared a new attempt, proposing to institute a retirement savings program called `Kiwi Saver´. If the relevant legislation will be implemented as planned in 2007 - what can be regarded as relatively probable in the face of the (albeit narrow) election victory of the centre-left coalition in mid 2005 -, all employees over the age of 20 starting a new job will be automatically enrolled into this retirement savings program with a contribution rate of 4%. But employees can also either opt out of the scheme completely or opt into a higher contribution rate of 8% if they wish so.

In the face of the fact that the pension saver is automatically enrolled only in the 4% contribution rate, which even together with the citizens` pension will – under the assumption of a reasonable rate of return – alone not be sufficient to achieve continuance of former living standards, *the shaping of Myopia Regulation regards status maintenance in New Zealand does not correspond to Social Liberalism and is not assigned the value of 0,5 , but that of 0,* because it remains a completely voluntary matter whether the employee chooses the higher 8% which may be[117] – together with the quite generous citizens` pension and the high degree of homeownership - enough to secure continuance of former living standards (if defined as a minimum net replacement rate of 65%). Furthermore, the targeted coverage rate of 25% of private sector employees after 5 years officially proclaimed by the current finance minister (PPI 2005, 1) is quite modest.

Early Withdrawal Temptation Regulation

According to the current proposal, savings under the Kiwi Saver are explicitly aimed at providing financial means for old age and are therefore locked in until the retirement age of the citizens` pension. Borrowings against the account are not permitted. The two exceptions to this general rule are a) that a right to premature withdrawals is granted for transferring the accumulated capital after a minimum of 3 years of contributions into a deposit on a first home and b) that early access is permitted in the case of financial hardship. Whereas the general rule and exception a) is in line with Social-Democratic Collectivism, exception b) represents a leakage that this ideology would not tolerate and which reflects concerns stemming from Neoliberal Voluntarism.

Containing elements of both Social-Democratic Collectivism and Neoliberal Voluntarism, the shaping of Early Withdrawal Regulation regards status maintenance in old age in New Zealand is assigned the value of 0,5 (if the Kiwi Saver will be implemented in the form as it is currently planned).

Volatility Risk Regulation

Kiwi Saver will be a DC scheme without any legally backed rate of return guarantees and no automatic enrolment into Life-Cycle-Funds.

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[117] Exact computations of expected or officially targeted total replacement rates are currently not available.

Consequently, *the shaping of Volatility Risk Regulation regards status maintenance in New Zealand corresponds to Neoliberal Voluntarism and is assigned the value of 0.*

Self-Investment Risk Regulation

Whereas investment funds to be registered under the Kiwi Saver scheme can be expected to be subject to the ban on self-investment and to a legal investment limit of no more than 5% in a single entity as it is common practice for commercial Anglo-American investment funds, nothing concerning this regulatory issue has been explicitly specified yet in the available official documents.

Contrary to that, self-investment of the few occupational pension funds in the sponsoring employer is not legally forbidden, but only subject to a simple informational duty preventing nothing (as in Ireland): trustees are required to inform fund members if more than 10% of assets are invested in the sponsoring employer and / or an entity associated with the sponsoring employer.

Consequently, *the shaping of Self-Investment Risk Regulation in New Zealand corresponds to Neoliberal Voluntarism and thus is assigned the value of 0.*

Choice Risk Regulation

What concerns the Kiwi Saver scheme, the government currently plans to determine minimum criteria to be met by the providers willing to get registered for the Kiwi Saver scheme and wants to choose providers via a tender process. Further details how this will look like have not been specified yet. However, it is already clear that individual investment choice will not be significantly constrained. In its own words:

„However, the government is seeking to permit a wide range of other providers to encourage competition and innovation and reduce distortions to financial markets."[118]

This is an almost perfect reflection of Neoliberal-voluntarists` conviction that endless individual choice will automatically enhance personal welfare. Consequently, *the shaping of Choice Risk Regulation regards in New Zealand is assigned the value of 0.*

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[118] See „Securing Your Future: questions and answers – 19 May 2005" under www.securingyourfuture.govt.nz/qanda.asp. Visited on 23.08.2005.

Administration Charge Regulation

The government currently plans to have contributions to the Kiwi Saver be centrally collected and distributed to the private providers by the Tax System Administration. It also wants to negotiate down fee levels with providers and will also pay the remaining fees for those savers making contributions for at least 3 years up to a certain threshold not determined yet[119]. This approach of using governmental administrative schemes and bargaining power to save administration costs and cap fee levels as well as the commitment to conditionally support savers are all consistent with the strong form of Social Liberalism. However, contrary to this approach, choice is not restricted to a few funds and passively managed portfolios, thereby promoting the competitive element of Neoliberal Voluntarism.
As the shaping of Administration Charge Regulation in New Zealand contains elements of both Neoliberal Voluntarism and the strong variant of Social Liberalism, the value of 0,375 is assigned (if the Kiwi Saver will be implemented in the form as it is currently planned).

Longevity Risk Regulation

Neither occupational pension legislation nor the current Kiwi Saver scheme plan prescribes that retirees will have to buy an annuity nor that they receive financial incentives for doing so. According to St John (2003), the annuities market in New Zealand is almost non-existent as annuities are very expensive for persons with average life expectancy, a fact which she attributes to the mechanism of adverse selection. St John (ibidem) heavily criticizes that the missing regulation puts middle-income earner in New Zealand at the risk of either outliving one`s resources (those above the citizens` pension) or restraining one`s expenditure level too much. No government in New Zealand to date has considered the potential social value of annuities seriously.
Consequently, *the shaping of Longevity Risk Regulation regards status maintenance in New Zealand is assigned the value of 0.*

Inflation Risk Regulation

Adjustment of the optional annuities to inflation is subject to trustee discretion and employer consent in the few occupational pension plans (INPRS 2003) and no sort of inflation

[119] ibidem

protection is currently planned to be introduced in relation to the optional annuities within the Kiwi Saver scheme. According to St John (2003), it is a major weakness of the pension system in New Zealand that middle-income earner`s pension capital is totally subject to the risk of inflation as no inflation-indexed annuities are available because of a lack of market demand (as the theory of money illusion would expect).
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in New Zealand is in accordance with Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

There are neither conditional nor automatic support measures provided or planned to be introduced by the state especially targeted at unemployed or childcaring persons with regard to complementary pension saving.
Consequently, *the shaping of Lifecourse Risk Regulation in New Zealand is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.*

Poverty of Means Regulation

Besides the fee subsidy after 3 years, the government also plans to support Kiwi Savers with an one-time, flat upfront subsidy of 1000 New Zealand Dollars. Furthermore, it will also provide a yearly subsidy of further 1000 New Zealand Dollars up to 5 years (that is, a total maximum of 5000 New Zealand Dollars) for accumulated savings transferred from the Kiwi Saver scheme into a first home deposit. So, the strong tradition of supporting home ownership in New Zealand is reinforced. Promoting material security in retirement mainly via subsidizing home ownership and not so much via subsidizing capital market investments may indeed be a worthwhile strategy as home ownership will be perhaps an asset with a more stable personal utility value than ownership of financial papers whose exchange value will be heavily subject to possible financial market downturns. However, in the face of the rather moderate amount of the subsidy, the Kiwi Saver scheme makes sense only for people without debt.
This strategy of universal (not targeted) and conditional (not automatic) subsidization is similar to that of Austria and the Czech Republic and thus lies also between Social Liberalism and Social-Democratic Collectivism *so that the value of 0,75 is assigned for the Poverty of Means Regulation in New Zealand.*

Funded Pension Tax System

A further particularly unique feature of New Zealand`s complementary pension system amongst OECD countries is its tax regime. Up to the late 1980s, an EEt system was applied – employee and employer contributions as well as capital yields of pension funds were tax-exempt and annuities taxed according to the personal income tax rate with up to a quarter taken as a lump sum being also tax-free. But since the tax reforms of 1988 and 1990 instituted by the then Labour Government, complementary pension savings are taxed according to the TTE principle: employer and employee contributions are taxed at the full personal income tax, i.e. have to be taken out of after-tax income and cannot be deducted from taxable income, capital yields are subject also to capital income tax, while benefits are tax-exempt.
This system is exactly identical with the notions of Social-Democratic Collectivism. This is so because it prevents not only revenue losses, but also the regressive tax advantages typical especially for the EET regime common in most OECD countries. Thus, it is not appropriate to condamn `Rogernomics´ as being only `neoliberal´:

„…abolition of tax concessions that favor the better-off will also make our tax-benefit system more truly progressive.“ (Roger Douglas 1987 quoted by St John 2005, 5)

In turn, the revenue savings helped to afford the quite generous citizens` pension (St John 2005) as well as the three forms of direct subsidies related to the Kiwi Saver Scheme. Various tax policy commissions in New Zealand have examined the issue of tax subsidies, but none up to date has recommended their reintroduction (Willmore & St John 2000, 20). The current government also sticks to that view through its decision in favour of a universal and conditional, but direct flat-rate subsidy and is currently the only one of the countries examined here that explicitly refuses an EET system because of its regressivity:

„The government is not considering upfront tax incentives. (…) Their abolition in the mid-1980s represented sensible tax-policy on both equity and efficiency grounds.“ (Ministry of Finance 2002, quoted by St John 2005, 13)

In an official document organized in form of a question-answer structure explaining the Kiwi Saver scheme, it reads:

„Why is the government not providing tax cuts instead [of direct subsidies, T.H.] ? (…) they reward the better off disproportionately.“[120]

So, *the shaping of the pension tax system in New Zealand is in line with Social-Democratic Collectivism and therefore assigned the value of 1.*

Summary for New Zealand

Taken together, New Zealand`s SPRI for its funded pension system assumes a value of 0,22:

$$\text{SPRI (NZL)} = \frac{2 \cdot 0 + 0{,}5 + 0 + 0 + 0 + 0{,}375 + 0 + 0 + 0 + 0{,}75 + 1}{12} = 0{,}22$$

5.16. Poland

In 1999, Poland transformed its unfunded, `earnings-related´, but as heavily as intransparently redistributive DB system mistrusted by the majority of the population into a three-pillar-system whose form was influenced (but not wholly determined) by a scientific member of the World Bank, Michael Rutkowski. The reform was politically marketed as guaranteeing `Security through Diversity´.

The categorial first pillar includes a price-indexed minimum pension currently amounting to 23,6% of the average monthly wage subject to a minimum contribution record of 20 (women) resp. 25 (men) years (Government of Poland 2005).

Myopia Regulation

The first pillar is represented by a mandatory, unfunded NDC-system. These individual notional accounts receive a defined contribution payment of 12,22% of monthly gross wages and are credited with a (notional) return equalling the rate of the growth of the contribution base[121] (Chlon-Dominczak 2001, 117) instead of average real wage growth (per capita) as in a

[120] „Securing Your Future: questions and answers – 19 May 2005“ under www.securingyourfuture.govt.nz/qanda.asp. Visited on 23.08.2005.

[121] Remind that growth can imply negative growth, too.

usual unfunded DB system. Thus, possible adjustment costs resulting from long-term fertility rates below the reproductive level and decreasing employment are completely shifted to pensioners instead of contributors. Costs stemming from increasing life-expectancy have also be borne by Polish pensioners alone because under the new system, benefits at retirement will be calculated under consideration of an estimate of the average life-expectancy of the cohort to which the retiree belongs.

The second pillar consists of a mandatory, funded DC system with individual accounts managed by competing private for-profit pension funds into which 7,3% of monthly gross wages are paid.

The third pillar is made up of voluntary, mildly tax advantaged (TEE-system) funded occupational pension funds (`Employee Pension Plans (EPP)´). However, in practice, their current role is very limited as they had only 77200 members in September 2004 (Ratajczak 2005, 202).

In 2004, a fourth pillar was erected by establishing voluntary, mildly tax advantaged (TEE-system) `Individual Retirement Accounts (IRA)´. Here, high governmental expectations (2 mio. new IRAs in the first year (Ratajczak 2005, 200)) were also disappointed, because not more than 180.000 accounts were opened until the end of 2004 (Government of Poland 2005, XX) and much of these simply represented sheer tax-evading transformations of old, already established (but hitherto not tax-advantaged) individual retirement savings accounts (Ratajczak 2005, 200). A reason for this could be that the contribution ceiling for the first two mandatory pillars is quite high (250% of average salary).

According to the OECD, the first and second mandatory pillar together will provide a net replacement rate of 69,7% (VDR 2005, 129) for the standard pensioner. This is above the threshold of 65% applied here, albeit quite narrowly. Consequently, *the mandatory shaping of Myopia Regulation in Poland corresponds to Social-Democratic Collectivism and is thus assigned the value of 1.*

Early Withdrawal Temptation Regulation

With the exception of disability, withdrawal of funds before the minimum retirement age of 60 (women) resp. 65 (men) are neither permitted in the first nor in the second pillar (INPRS 2003).

Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in Poland is assigned the value 1.*

Volatility Risk Regulation

Whereas the funded second pillar has a quite complex system to minimize the risk of choosing single underperforming providers (see chapter 4.16.5), volatility risk protection in the sense of mitigating or neutralizing overall asset fluctuations which affect the whole financial market does not exist in the Polish second pillar.
Consequently, *the shaping of Volatility Risk Regulation regards status maintenance in Poland corresponds to Neoliberal Voluntarism and is thus assigned the value 0.*

Self-Investment Risk Regulation

In line with Social Liberalism and Social-Democratic Collectivism, pension funds in the second pillar are not permitted to invest more than 5% in assets of a single entity, regardless of which kind (Chlon-Dominczak 2002, 132; INPRS 2003). They are also not allowed to invest in the assets of the company managing the pension fund or in the assets of a company of one of its shareholders.
Consequently, the shaping of Self-Investment Risk Regulation in Poland is assigned the value of 1.

Choice Risk Regulation

Individual provider choice in the second pillar is neither abandoned nor is it constrained (via competitive bidding for market participation). Nevertheless, the Polish second pillar has a non-negligible form of state intervention that restricts the extent to which the individual choice of a fund with underperforming investment performance can hurt the individual.
Private providers participating in the Polish second pillar have to guarantee a certain minimum rate of return, which is, however, not fixed for all times but varies in line with the average development of the financial market. The minimum rate of return to be credited to every individual`s pension savings account is either equal to 50% of the weighted[122] average rate of return of all private providers in the second pillar market or is equal to the weighted average rate of return of all private providers in the second pillar market minus 4% - whichever of the two is lower (Ratajczak 2005). The minimum rate of return has to be credited every two years. Underperforming funds who did not achieve the minimum rate have

[122] Weighted according to the market share of the providers.

to supplement the accounts of their customers accordingly by taking the necessary financial means out of a reserve, which each pension fund is required to build up to an amount of 1,5% of the fund`s total assets (Chlon-Dominczak 2002, 133). If this reserve is exhausted, financial means have to be taken out of the fund`s capital. In the case that even this is not sufficient, the pension fund has to declare bankruptcy and will be overtaken by a competitor. In this case, the minimum rate of return to customers` accounts will be financed under recourse to a national bankruptcy fund set up for this purpose (containing a value of 0,1% of total assets in the second pillar scheme), which is financed via insurance premiums by all private providers in the second pillar market. So, there is a significant amount of redistribution inherent here in this form of Choice Risk regulation as all contributors finance the central bankruptcy fund in order to help those people who choose strongly underperforming funds. And if all measures set out above fail, the Polish tax-payer via the Polish treasury is envisaged to help out (ibidem).

Nevertheless, it is very important *not to confuse* these reserves in the Polish second pillar with solvency reserves built up in order to provide the possibility of an intergenerational smoothing / evening out of cohorts` replacement rates like it is f.e. the case in the funded part of the Finnish DB scheme with its solvency target zone between 116% and 132%. Contrary to Finland, the reserves in the Polish second pillar serve not to smoothe or even out cohorts` investment performance (*inter*generational rate-of-return smoothing), but only serve to limit the range of investment return variability within generations (constraining *intra*generational rate-of-returns). Therefore, not volatility risk (see chapter 4.16.3.) is regulated, but only choice risk. And even the extent of constraining the financial consequences of individual`s pension company choice is (necessarily[123]) quite limited in the Polish second pillar. If we take a reasonable long-term real rate of return assumption for a 40-year-period of 3,5%, the Polish system just ensures that no individual will make a loss of more than -0,5%.

As individual investment choice is neither abolished nor constrained and instead is completely open as Neoliberal Voluntarism recommends it, but the possible individual financial losses / underperformance resulting from it are limited through moderate state intervention which is in line with the Social-Democratic Collectivist value of security, *the shaping of Choice Risk Regulation in Poland is assigned the value of 0,5*.

Of further concern is the technique choosen to handle the contributions of those people who do not actively opt for a certain pension fund. Whereas the Swedish strategy of specifying a state-administrated default fund has been a very successful one achieving a clear above-

[123] Necessarily because limiting the spread of companies` investment performance too strongly would undermine the functioning of the market incentives on which the system is plain and simple built.

market-performance (Thaler & Cronqvist 2004), in Poland, a provider lottery is organized for those non-choosing people. Only those pension funds with a rate of return above the average and a market share below 10% are in this lottery. Despite the fact that it seems quite questionable whether one should use these ignorant non-choosers to fight against oligopolistic market structures (which was the explicit aim of it (Ratajczak 2005), it would nevertheless be interesting to empirically investigate under which system non-choosers fare better: the Swedish etatist default-fund or the Polish provider lottery.

Administration Charge Regulation

Firstly, in line with Neoliberal Voluntarism, the *total* amount that Polish pension funds in the second pension pillar are permitted to charge is – in the end - not capped[124] and hence not significantly regulated. To be sure, the maximum amount of the monthly administration fee (3,5% of contributions in 2014) and the maximum amount of the monthly asset management fee (basic part up to 0,045% of assets and variable[125] part up to 0,005% of assets) are regulated. But funds may also account for `other transaction costs´ whose amount is not regulated (according to Ratajczak 2005, 194). However, the strategy of holding charges down by competition is hampered by the fact that Polish pension investors rarely choose between competing funds on charge levels (Chlon-Dominczak 2002, 182), although this would be a good general measure of performance (Cronqvist 2004). Instead, many people – as in Sweden (Cronqvist 2004) – are subject to extrapolation bias and chase past performers: potential performance was the second most important criterium for fund choice (Chlon-Dominczak 2002, 182), although it is no appropriate criterium (Cronqvist 2004). Even according to own statements, sheer coincidence (`First agent encountered´) as well as mere advertisements influenced more people in their decision than the adequate criterium of charge levels (ibidem). Furthermore, the market is said to be intransparent as well as oligopolistic (Ratajczak 2005, 201).

Secondly, the structure of the fees that private providers may apply is restricted to be expressed in % of contributions and % of assets and is hence significantly regulated. Absolute flat-rate charges are not allowed, thereby protecting accounts of low-wage-earners with smaller balances.

[124] This was explicitly confirmed to me by Mrs. Joanna Ratajczak-Tucholski from the University of Posnan (Poland) in personal communication on December 19, 2004.
[125] This part is dependent on the rate of return of the pension fund.

Thirdly, switching costs are also significantly regulated: changing a provider after 2 years of membership has to be handled without deducting charges; the amount of the fee for switching the provider before that time incurs costs ranging between 5% to 40% of the minimum wage depending on the exact length of the period (Chlon-Dominczak 2002).

Thus, administration charge regulation in Poland contains elements both of Neoliberal Voluntarism and the weak form of Social Liberalism. Therefore, *the shaping of Administration Charge Regulation in Poland is assigned the value of 0,125.*

Longevity Risk Regulation

Complete annuitization of pension capital accumulated in the first and second pillar is mandatory (Chlon-Dominczak 2002), so that Longevity Risk Regulation in Poland is classified as belonging to the Social-Democratic Collectivist type.

Therefore, *the shaping of Longevity Risk Regulation regards the protection of former living standards in Poland is assigned the value of 1.*

Inflation Risk Regulation

Annuities resulting from capital transformation in the first and second pillar have to be indexed at least in line with inflation (INPRS 2003; VDR 2005, 129).

Consequently, *the shaping of Inflation Risk Regulation regards the protection of former living standards in Poland is in line with Social-Democratic Collectivism and thus is assigned the value of 1.*

Lifecourse Transition Support Regulation

In the case of career breaks resulting from maternity leave, childcare leave and unemployment, contributions for the first pillar, but also contributions for pension funds in the second pillar are financed by public agencies (EU Social Protection Committee 2005; Chlon-Dominczak 2002; Ratajczak 2005, 192). Contributions for periods of unemployment are based on unemployment benefits. Contributions granted for periods of maternity leave (between 16 and 18 weeks) are based on the maternity allowance equalling 100% of the average wage in the last 12 months before the birth. Contributions for child care are granted

for a maximum of 3 years and based on a care credit amounting to 420 Zloty (roughly 18% of the average wage)[126]. Support is not conditional on making own contributions.
Consequently, *the shaping of Lifecourse Risk Regulation regards status maintenance in Poland is in accordance with Social-Democratic Collectivism and thus assigned the value of 1.*

Poverty of Means Regulation

There are neither automatic nor conditional direct state subsidies for pension saving in the first, second, third or fourth pillar in Poland. Hence, *the shaping of Poverty of Means Regulation regards the continuance of former living standards in old age in Poland is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Pension saving in the two mandatory pillars in Poland is subject to the EET principle (Yoo & de Serres 2004, 27). Contributions are tax-deductible, investment income is not taxed (contrary to a 19% capital tax on normal saving investment returns), but pension benefits are fully taxed according to the personal income tax rate.
Consequently, *the shaping of the pension tax system in Poland follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for Poland

Taken together, Poland`s SPRI for its mixed pension system assumes a value of 0,64:

$$\text{SPRI (POL)} = \frac{2 \cdot 1 + 1 + 0 + 1 + 0{,}5 + 0{,}125 + 1 + 1 + 1 + 0 + 0}{12} = 0{,}64$$

The Polish value has to be put in perspective: if the rate of return assumption of 3,5% made by the OECD in its computations is only marginally missed, the benefit level resulting from the two mandatory pillars will easily fall below the net replacement rate of 65%.

[126] I am very grateful to Mrs. Joanna Ratajzak-Tucholski from the University of Posnan (Poland) for providing me with these detailed informations. Personal communication on December 19, 2005.

5.17. Sweden

Besides a price-indexed guarantee pension replacing the former universal flat-rate citizens` pension, which is tested (`only´) against income from the earnings-related system, Sweden combines

- a mandatory unfunded NDC scheme[127] (with a contribution rate of 16%)

- a mandatory funded system with individual accounts publicly administrated but privately managed assets called Premium Pension (with a contribution rate of 2,5%)

- quasi-mandatory occupational schemes (with contribution rates varying between 2,5% and 4%)

in order to enable workers to hold their accustomed living standards in old age. What concerns the latter, one has to differentiate between

- the ITP-scheme, which is based on a contract concluded in 1960 between the Swedish employers` federation (SAF) and the confederation of salaried employees` unions (PTK),

- a supplement to that scheme called ITPK introduced in 1991

- the SAF-LO scheme based on a contract between the SAF and the confederation of wage earners` unions (LO), that was introduced in 1999 replacing an older scheme called STP.

Myopia Regulation

According to the OECD, the standard pensioner achieves a net replacement rate of 68,2% (VDR 2005, 135), if benefits resulting from the three (quasi)mandatory programs are added together. Although this is surely not in line with the (outdated) image of a generous Social-

[127] The NDC scheme establishes a notional account with contributions credited with the rate of **per capita** real wage growth. But as this would hardly ensure that the contribution rate will not rise in the future, an automatic stabilizer reducing the notional return accordingly comes into effect as soon as the balance ratio (capitalized value of contributions + buffer funds divided by the pension liability) sinks below 1 (Sunden 2004, 6 ff.). Thereby, adjustment costs resulting from low fertility and / or low employment rates (minus the buffer funds) are passed on to (future) retirees.

Democratic Swedish welfare state, it is nevertheless (although narrowly) above the threshold of 65% applied here.
Consequently, *the mandatory shaping of myopia regulation with regard to the continuance of accustomed living standards in Sweden is in line with Social-Democratic Collectivism and thus assigned the value of 1.*

Early Withdrawal Temptation Regulation

Early withdrawals before the legal minimum retirement age of 61 are not permitted in the mandatory systems, even not for supporting homeownership (Sunden 2004). The same applies to occupational pension funds (INPRS 2003, 416).
Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in Sweden is assigned the value 1.*

Volatility Risk Regulation

The premium pension is basically a DC system without any guarantees (Schwarze 2004) what concerns the accumulation process. However, an often not mentioned, though important fact is that the system provides a fixed guaranteed minimum rate of return for annuity conversions, thereby sheltering people against one of the two aspects of volatility risk, namely interest rate volatility:

„In order to reduce interest rate risk, the Swedish government guarantees a minimum rate of return of 2,7% for converting account balances to annuities.“ (Turner 2005, 2)

The SAF-LO for blue collar employees is a DC system (INPRS 2003, 417), whereas the main part (ITP) of the white collar employee pension scheme is a DB system. ITPK, providing a small top-up in addition to this, is a DC system. However, what concerns the ITP, an employee can, subject to certain conditions, opt out of this system and opt instead into an alternative ITP where she or he makes the investment decisions and which is a DC scheme (Köhler 2005, 98 ff.).
As Swedish complementary funded pensions exhibits elements of Neoliberal Voluntarism as well as those of Social-Democratic Collectivism, *the shaping of Volatility Risk Regulation in Sweden is assigned the value of 0,5.*

Self-Investment Risk Regulation

The risk of excessive investment in the sponsoring employer is prevented by a legal rule prescribing that no more than 10% of total assets may be invested in a single company (INPRS 2003, 415).
Consequently, *the shaping of Familiarity Bias Regulation in Sweden is assigned the value of 1.*

Choice Risk Regulation

In September 2005, citizens investing in the premium pensions could choose between 705 funds managed by 82 providers (Premium Pension Committee 2005, 45) (value of 0). Providers have to sign a contract with the PPM and accept some basic minimum criteria for registration (the most important of which is the charge regulation, see the next chapter), but are f.e. not required to offer sufficiently diversified portfolios (Schwarze 2004).
Swedish workers in SAF-LO are also free to choose the insurance company for the investment of their assets (value of 0) (INPRS 2003, 413). The same holds true for ITPK (value of 0). As ITP represents a DB system, there is normally no room for individual choice, but remind that Swedish employees may opt out of it and select a DC system with individual choice instead (value of 0,5).
As the Neoliberal Voluntaristic principle of free individual investment choice clearly dominates the Swedish funded pension landscape, *the shaping of Choice Risk Regulation in Sweden is assigned the value of 0.*
The problems with this free-choice approach were already detailed in chapter 2.5 with reference to Cronqvist`s empirical investigation. In accordance with that, a representative survey performed in April 2005 by Demoskop revealed that only 6% of participants in the PP scheme fully agreed with the statement that they have sufficient knowledge to manage their PP savings (Premium Pension Committee 2005, 38). And indeed, for the average participant, to renege on active choice would have been a much better strategy than to make an active choice, because the default fund, to which the contributions of those who make no active choice are allocated, achieved a much better rate of return (-29,9%) than the average actively chosen fund (- 39,6%) in the period between 2000 and 2003. Moreover, the default fund was awarded the highest possible 5-star-rating by the fund-rating service Morningstar, whereas the average actively selected portfolio would have received only a 3-star-rating (Cronqvist &

Thaler 2004, 427)[128]. In spite of the often bad investment performance of their initial portfolios, only very few participants altered their choices, displaying a high level of inertia: until the end of April 2005, just 12% of the pension savers switched at least once (Premium Pension Committee 2005, 36).

Now, has the Swedish government leaded by the Social Democrats reacted to the problems related to overwhelming choice ? To be sure, it has recently at least recognized that the average citizen may have considerable difficulties with making an appropriate choice in the face of so many investment offers and has ordered an evaluation:

„The Swedish National Audit Office notes that in many cases pension savers have found it difficult to cope with their role as managers and choose funds that perform well. The sheer variety of funds to choose between is felt by some pension savers to be a problem."[129]

Interestingly, the evaluation commitee under the leadership of the Swedish economist Karl-Olof Hammarkvist broadly sticked to the principles of Neoliberal Voluntarism and advised to improve the structure of the information provided in a way that is in accordance with the Neoliberal notion of \`social policy for the market´ and its basic reliance on the rational actor:

„The committee\`s basic stand is that a fund category or type of fund cannot in itself be considered unnecessary or impractical in a well compiled portfolio for pension investments. To ***reduce*** *[not: get rid of, T.H.] the risk of systematically poor outcomes one solution might be to develop a better decision-making support to help pension savers evaluate their choices instead of excluding certain categories of funds. (…) Pension savers that elect to be guided throughout the process should be presented with a limited selection of broad, cost-effective funds, which means they are guided to a highly diversified fund portfolio managed at low fees. (…) It should also be possible to inform pension savers if the development of the value of their accounts has been considerably less than of some relevant index, so called wake-up calls." (Premium Pension Committee 2005, 46 ff.; my stressing, T.H.)*

Administration Charge Regulation

[128] Nevertheless, the pension saver has not the possibility to choose the default fund once he or she has made an active choice.

[129] „Evaluation of the premium pension system" Press Release from June 23, 2004 of the Swedish Finance Ministry. Accessible under www.sweden.gov.se/sb/d/586/a/26809/m/wai from October 17, 2005.

The particular institutional structure of the PP scheme shows that keeping administration charges down was a special concern of its political inventors. Individual accounts are not managed on a decentralised basis by the endless number of private providers, but are instead administrated by a single central public authority, the Premium Pension Authority (PPM). After Swedish citizens have notified this authority of their fund(s) chosen, the latter distributes the contributions on an aggregated, anonymous basis accordingly to the private pension funds. In this way, administration costs should be reduced by centralizing paperwork, bulk trading of fund switches and the elimination of commissions to individual sales agents.

The PPM uses also its bargaining power in order to force providers to pass the lower administration costs on to their customers in the form of lower charges. This is done by a complicated formula which determines the permitted level of charges a certain fund may levy, depending on its price charged for voluntary savings, the value of mandatory contributions attracted by the respective fund and total assets managed in the PP scheme. The aim of this is to ensure that the insured benefit from gains resulting from increasing economies of scale. Assuming a 1% charge on assets in the voluntary sector, funds attracting a small amount of mandatory PP-contributions may charge round about a maximum of 0,85%, whereas very large funds may charge not more than 0,15% (Whitehouse 2000). Funds are also forbidden to levy switching charges, irrespective of how frequently a participant changes fund and/or provider (Weaver 2005). The actual average fee per fund amounts to 0,43% of assets per year (Sunden 2004), to which the fee levied for the administrative work of the PPM must be added (0,3%) so that a total charge level of 0,73% results. However, the PPM has committed itself to reduce its fee to 0,1% within 15 years and it is expected that the total charge level will fall to 0,25% in the future as the system matures (Weaver 2005).

Interestingly, Administration Charge Regulation in Swedish occupational pension funds is very similar to the kind applied in the PP scheme, because here, different, but structurally equivalent organizations (called Fora in the SAF-LO scheme resp. SPP in the ITP(K) scheme) erected by the social partners fulfil the same functions as the PPM.

To sum up, the Swedish style of administration charge regulation is similar to the Social-Liberalistic ideal type, although not identical with it. Whereas both create a administratively centralized, institutional market, cap charges at a meaningful level, allow charges only to be expressed in % of assets and forbid switching costs, the Swedish system does not restrain choice to a handful of passively managed index funds as the Social Liberal ideal type does, but allows endless choice as Neoliberal Voluntarism advocates. Therefore, the Swedish

Administration Charge regulation contains elements both of Neoliberal Voluntarism and the strong form of Social Liberalism.

Consequently, *the shaping of Administration Charge Regulation in Sweden is assigned the value of 0,375.*

Longevity Risk Regulation

What concerns the PP scheme, annuitization is mandatory (Sunden 2004). However, participants can select between a fixed or a variable life-long annuity, whose amount fluctuates according to financial market developments. Whereas the regulation is basically in accordance with the Social-Democratic ideal type, the possible introduction of volatility risk in the retirement phase clearly represents an option that this ideology abhors. Contrary to that, Neoliberal Voluntarism would welcome this choice option as people are offered the possibility to select according to their alledgedly well-defined risk preferences, but it would also require to offer the lump sum option. So, the Longevity Risk Regulation in the PP scheme is an intermediate case mixing elements of both ideal types.

Likewise, in Longevity Risk Regulation of Swedish occupational pension schemes also elements of both ideal types can be found. In the SAF-LO and ITP, benefits can be only received as a fixed pension (INPRS 2003, 417), but in the ITPK scheme, the retiree can select between a fixed or variable life-long annuity or an annuity paid for between 5 and 10 years[130].

Whereas SAF-LO is in line with Social-Democratic Collectivism, ITP(K) contains elements of free choice in accordance with Neoliberal Voluntarism that Social-Democratic Collectivism finds much too risky.

Containing elements of Social-Democratic Collectivism and Neoliberal Voluntarism, the shaping of Longevity Risk Regulation in Sweden is assigned the value of 0,5.

Inflation Risk Regulation

Pension capital saved under the PP-scheme converted into annuities is not inflation-indexed (Turner 2005, 2).

Consequently, *the shaping of Inflation Risk Regulation in Sweden is in line with Social-Democratic Collectivism and thus is assigned the value of 0.*

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[130] I thank my colleague Uwe Schwarze for this information.

Lifecourse Transition Support Regulation

Pension rights in the PP scheme accrue also in times of unemployment insurance and in years spent for childcare, because the Swedish state pays the relevant contributions on behalf of those persons (Sunden 2004, 5; Scherman 2004, 164). However, no such support exists what concerns occupational pension schemes[131].
As the shaping of Lifecourse Risk Regulation in Sweden exhibits elements of Social-Democratic Collectivist engagement as well as those of Neoliberal-Voluntaristic indifference, the value of 0,5 is assigned.

Poverty of Means Regulation

The Swedish state does not directly subsidize citizens saving for old age in the funded systems.
Consequently, *the shaping of Poverty of Means Regulation in Sweden is in line with Neoliberal Voluntarism and thus assigned the value of 0.*

Funded Pension Tax System

Funded pensions in Sweden are subject to an EtT system. Contributions are tax-exempt (as long as they do not result in a replacement rate exceeding 70% (INPRS 2003, 419)), pension investment yields are taxed concessionary at a rate of 15% (Yoo & de Serres 2004, 28; INPRS 2003, 419) compared to a 30% rate on other personal capital income (Ganghof 2001, 20), benefits are fully taxed according to the personal income rate. Thus, the Swedish systems is very similar to the Danish one, in the end representing an Neoliberal-voluntarist system (EET) with a half-hearted social-democratic injection (t = the 15% on investment yields).
Following from the fact that the system is dominated by pension taxation principles of Neoliberal Voluntarism coupled with a small element representative of Social-Democratic Collectivism, the shaping of the funded pension tax system in Sweden is assigned the value of 0,25.

Summary for Sweden

[131] Thanks to Annika Sunden from the Centre for Retirement Research (CRR) in Boston for providing me with this information. Personal Communication on January 18, 2006.

Taken together, Sweden`s SPRI for its funded pension system assumes a value of 0,51:

$$\text{SPRI (SWE)} = \frac{2 \cdot 1 + 1 + 0,5 + 1 + 0 + 0,375 + 0,5 + 0 + 0,5 + 0 + 0,25}{12} = 0,51$$

5.18. Switzerland

The institutional foundations of the pension system in Switzerland are laid down in the Swiss constitution prescribing a three pillar concept, which was anchored there through a public referendum in 1972.

Myopia Regulation

The first unfunded and contributory but heavily redistributive pillar is represented by the halfly price-, halfly wage-indexed AHV (`Alters- und Hinterbliebenenvorsorge´), aiming to protect Swiss citizens against poverty in old age. Although all *citizens* are insured here and have to pay at least a minimum contribution, the AHV alone does not suffice to reach this goal in practice. Therefore, 14% of AHV beneficiaries receive means-tested, halfly price-, halfly wage-indexed supplementary benefits (`Ergänzungsleistungen´, EL) in order to lift them up on a benefit level of 28% (single persons) of the average wage (Souza-Posa & van Dam 2002). Whereas the means-tested EL help to keep the contribution rate of the AHV in check, the flip-side of the means-test is that over one third of potential recipients do not claim their legal entitlements to EL (Leimgruber 2003, 18).
The second pillar of the Swiss system consists of a mandatory occupational pension system which was legally instituted in 1985 by the BVG (`Berufliches Vorsorgegesetz´). The pillar is said to be jointly managed by employers and employees (Thompson 2000), but one has to be cautious in this point. It must be differentiated between (groups of) employers or professional associations who operate their own pension funds (`Pensionskassen´) on the one hand and small and medium-sized employers on the other hand who join collective foundations (`Sammelstiftungen´) – covering 0,9 mio. individuals (Bättig 2005) of the 3,14 mio. (Rechsteiner 2000, 27) totally insured in the second pillar – who have a collective insurance contract with a life insurance company managing their assets and administrating the plan.

Whereas the former are jointly managed, the latter are in practice dominated by life insurance societies and employers (see chapter 4.18.3. for further details).

Contribution rates increase with age and have to be deducted only of the `coordination wage´, that is that part of the wage which lies within the range of 40% and 120% of average earnings (obligatory part of the second pillar), although many funds (covering 64% of the workforce) apply a higher threshold than the legal minimum of 120% (non-obligatory part of the second pillar)(Queisser & Whitehouse 2003). Interestingly, the employee coverage rate of the legally mandated BVG (roughly 75%) (Souza-Posa & van Dam 2002) is significantly below the coverage rate of the quasimandatory systems in Denmark and the Netherlands. This is so because part-time employees and workers belonging to the group of the working poor which earn less than 40% have not to be covered. This is justified by the argument that the AHV would suffice to enable these persons – if they achieve a full contribution career - to maintain their former living standards, which is in line with calculations made by the OECD (VDR 2005, 138). The Swiss standard pensioner, too, achieves a replacement rate of 67,3% (VDR 2005, 138), which is above the 65%-criterium applied here, albeit only narrowly.

As the explicit coordination of the mandatory first and mandatory second pillar enables Swiss pensioners – in times with average returns – to maintain their living standard in old age if this is defined as a minimum net replacement rate of at least 65%, the mandatory shaping of Myopia Regulation regards status maintenance in Switzerland is in line with Social-Democratic Collectivism and thus assigned the value of 1.

Looking back in history, the rise of the three pillar doctrine in general and the compulsory, quasi-universal nature of the second pillar in particular is to be understood as a (willy-nilly) defense measure of bourgeois political forces, insurance companies and Swiss employers in times of a – seen from a Swiss perspective - quite strong leftist Zeitgeist (Queisser & Vittas 2000, 3). These social groups considered the pension project pursued by the small Communist party and New Left groupings, namely the replacement of the hitherto selective occupational pensions by an expanded AHV, as the biggest socialist challenge in the last decades. Hence, Swiss employers and leading Swiss insurance companies were heavily involved in the launch of a constitutional initiative aiming to block a drastic expansion of the AHV once and for all times by anchoring the three-pillar-doctrine in the federal constitution (Leimgruber 2003, 12 ff.). According to Andreas Brunner, CEO of the electro-engineering firm Landis & Gyr, the central strategic aim of the BVG was to placate this Zeitgeist and the Swiss Social Democrats to...

„...make unattractive a further expansion of the AHV“ (Brunner quoted by Leimgruber 2003, 17).

So, the left project was overwhelmingly defeated (with only 17% of voters agreeing) in favour of the three pillar doctrine (by a clear majority of 77%) (ibidem).
The third pillar subsumes different forms of voluntary saving in individual accounts and covers a relatively small part of the Swiss income package in old age due to the importance of the non-obligatory part of the occupational pension pillar (Souza-Posa & van Dam 2002): 39% of members were affiliated to funds with no upper contribution ceiling and only 36% belonged to plans applying the legal 120%-minimum (Queisser & Whitehouse 2003). The extent of the non-obligatory part of occupational schemes is furthered by the fact that there exists no limit on the amount of tax-exempt contributions in the second pillar whereas this is the case in the third pillar (Queisser & Vittas 2000, 44).

Early Withdrawal Temptation Regulation

Early withdrawals are not permitted. The only relevant exception to this constitutes the right to borrow (a part of) the accumulated capital in order to finance homeownership (INPRS 2003, 319).
Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in Switzerland is assigned the value of 1.*

Volatility Risk Regulation

Until 2002, the Swiss second pension pillar was very similar to a DB system. Strictly speaking, it was a scheme specifying age-related minimum contribution rates (for men: 7% between 25 and 34, 10% between 35 and 44, 15% between 45 and 54 and 18% between 55 and 65 (INPRS 2003, 318)), a fixed conversion factor for annuitization of 7,2% as well as a guaranteed minimum nominal rate of interest of 4% on the contributions paid in. The latter was set in accordance with the assumed long-term nominal wage growth (Rechsteiner 2000), thereby expressing the aim to revaluate past contributions in line with inflation and real wage growth in order to guarantee status maintenance of pensioners. Provided the assumptions concerning long-term nominal wage growth would turn out as roughly correct, the minimum life-time average contribution rate of 12,5% and the minimum nominal rate of interest would

achieve a second pillar replacement rate of 36%[132], which together with the AHV would result in a replacement rate between 60% and 70% (Queisser & Whitehouse 2003). The sole difference to a pure DB system lied in the fact that nominal wage growth during the career could eventually reveal itself to be considerably higher than the guaranteed interest rate of 4% (and possible surpluses).

However, even more than the Dutch system, the Swiss mandatory occupational pension scheme was a badly managed system de-facto DB system because it was badly regulated.

To begin with, Swiss solvency rules require that pension funds have to guarantee a solvency of 100% at any time, instead of in the long term. This increases the share of assets with a low long-term return and hence makes the whole system more expensive:

„If complete solvency resp. the achievement of a certain minimum rate of return has to be prooved at any time, the length of the investment horizon is reduced what results in massive revenue losses. (…) Pension funds should be able to exploit the long term horizon of asset value development and should be allowed to shift away from short-term return targets." (Zimmermann & Bubb 2002, 14 f.; my translation)

However, of utmost importance is the misregulation revealed by the stock market crash at the beginning of the century. In the aftermath of that, the Swiss government lowered the guaranteed rate of interest to 2,25% (2003)[133], thereby responding to complaints of Swiss pension insurance companies (who would like to see it being completely abolished) and their threats to withdraw from BVG business. As it was laid down in law that from then on minimum interest rates are to be re-evaluated every 2 years with regard to the then prevailing market rate of returns of government bonds and other securities, this constituted at the same time a shift to a DC system: benefits depend on current average financial market developments. However, the decision to adjust the guaranteed interest rate downwards provoked an outright political turmoil with Swiss unions and the left denouncing what they regarded as a \`Lex Rentenanstalt´ (the name of the leading Swiss life insurance company \`Swiss Life´) and a \`Rentenklau´ (theft of pensions) amounting to 20 mio. Swiss Franc.

The latter term refers to the assertion that Swiss life insurance companies managing the collective foundations (Sammelstiftungen) would have gained huge excess yields on their assets (above the guaranteed rate of 4%) during the times of relatively high interest rates and

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[132] 40 years of 12,5% result in a retirement capital of 500% of the average wage, 7,2% of which results in a replacement rate of 36%.

[133] In 2005, it stands at 2,5% (James 2005, XX).

the stock market boom in the 1980s and 1990s, but which they did not pass on to the insured. Instead, they would have used these excess means to finance increases of dividends, share buybacks and management compensations (Rechsteiner 2002). The argument was that if these excess yields had been transformed into reserves, the later cutbacks to the guaranteed minimum interest rate would not have been necessary. In response to these political attacks, the Geschäftsprüfungskommission of the Eidgenössischen Räte ordered an expert`s report[134] to be established by the `Parlamentarische Verwaltungskontrolle´ (parliamentary body to control public administration) in order to examine the distributive processes within the Sammelstiftungen.

This scientific investigation came to some striking conclusions showing how the effective elimination of member control in the collective foundations and the associated single plans furthered serious inequities. It seems reasonable to attribute this at least partially to the structural weakness of Swiss unions compared to their counterparts in the Netherlands, where defective institutional structures like those that will be described below are rather unknown until today.

Firstly, the report pointed out that Swiss life insurance companies do not have to adequately separate assets relating to the BVG-business from their other assets concerning different insurance branches (and, consequently, they did not do so). This was only recently changed as a result of the first revision law of the BVG passed in the fall of 2003 (Rechsteiner 2003). In the past, this fact gave them great leeway to distribute their investment yields to the different purposes in a discretionary manner, which means that customers in the BVG business may not have received their appropriate (proportional) share of the investment gains, because no public authority controlled these distributional decisions:

„In the extreme case, the responsible management theoretically is able to use gains related to Swiss domestic business for investments in foreign markets.“[135]

The probability of inappropriate surplus distributions to the detriment of a collective foundation was further heightened by a curious institutional opportunity structure: the boards of the collective foundations, whose legal responsibility is to control whether the respective life insurance society fulfils its contractual obligations (e.g. provides an adequate share of excess yields) and to distribute excess yields on the respective single plans, were (almost)

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[134] The report was written under the guidance of Prof. Heinz Schmid from the University of Bern.

[135] Quoted by René Lenzin, „`Rentenklau´ nicht belegbar“ Accessible under www.tagesanzeiger.com/dyn/news/schweiz/388731.html viewed on October 8, 2005.

exclusively dominated by representatives of the life insurance society themselves. Hence, the members of the plans are not only not appropriately represented on these boards, but the representatives of the life insurance society themselves had to proove whether the distributional actions of their colleagues or their superiors were in line with the contractual obligations of the life insurance society, too. The first revision law of the BVG in 2003 did not really change these structures (Rechsteiner 2003).

Moreover, the report had to accept that the adequacy of these internal distributions and that of the share of excess yields received by the collective foundations could not be investigated in an statistically appropriate manner required for well-founded statements because neither the insurance companies nor the public authorities had to collect the relevant empirical data (and, consequently, it was not done) – what appears to be quite curious in the face of totally managed pension assets amounting to a few hundreds of billions of Swiss Francs. Therefore, the report could neither reliably negate the thesis of the pension theft nor was it able to approve it in a statistical sense. However, the report refers to examples which are in line the pension theft thesis:

„The expert came to the conclusion that (semi-)autonomous pension funds gained and distributed much higher surpluses than the collective foundations of life insurance companies. This judgement is substantiated with reference to several examples – albeit a statistically well-founded statement is not possible because of insufficient data." [136]

According to Vontobel (2004) the suspect of a pension theft is well-founded by the divergence between the rate of return credited annually to the collective foundations (4 – 5,5%) on the one hand and the overall market return (7,7% between 1985 and 2001) exhibited by the Pictet-Index for pension fund assets (an index which reflects conservative asset portfolios with an equity share of roughly 25% typical for Swiss pension funds). If compound interest is taken into account, the effect of this divergence is more than considerable: a rate of return divergence amounting to 2,5 percentage points equals a halving of the pension !

A partially substitutive, partially complementary approach to the explanation of the Swiss occupational pension crisis maintains that occupational plans, similarly to their Dutch counterparts, did not build up meaningful reserves during the good market environment in the 1990s, because nothing was legally specified with regard to the use of surplus gains above the

[136] Untersuchung zur Problematik der Überschussverteilung in der beruflichen Vorsorge. Bericht der Geschäftsprüfungskommission des Nationalrats auf der Grundlage einer Analyse der Parlamentarischen Verwaltungskontrolle vom 22.06.2004, page 3 (my translation).

average market rate. Whereas it would have been possible for pension plans to cushion the fall in the rate of return in the aftermath of the financial market in 2001 by taking precautionary measures in the foregoing decade (Bütler 2003, 14 & 31), a significant part of the responsible actors at the decentralised level took the myopic course:

„Excess returns in good times were often spent on adjusting pension benefits not only to inflation but also to wage growth or on financing generous early retirement packages. Another way to distribute high returns was a reduction of contribution rates. Many pension funds did not even collect contributions for some period of time or reimbursed employees and employers at the end of the year. (…) The few advocates of prudential reserve management were not really taken seriously. (…) The definition of property rights in the Swiss second pillar has been fuzzy. A lesson that can be drawn from the recent crisis is that transparent adjustment rules should avail for potential crisis." (Bütler 2003, 12 & 17)

However,

„...long term planning (and regulation) are difficult in the presence of political pressure to increase benefits when capital reserves are high." (ibidem, 18)

Secondly, what the report could found out despite the missing data was that those surplus shares received by the collective foundations were distributed inequally amongst the single company pension plans (`Vorsorgewerke´) adhering to such a foundation. Thus, often only a part of these plans received surplus shares at all and plans with more members received disproportionately more than those with a low number of members. A reason for this can be seen in the fact that it were the representatives of the life insurance company (exclusively) dominating the board (and not representatives of the single plans) who determined the distribution of the surplus assigned to the collective foundation among its member plans (Vorsorgewerke) and who had an incentive to favour plans with a greater member and contribution base (which are more interesting from a business perspective). Moreover, the possibility that special treatments were coupled to business contracts in other areas was also not excluded by the report, albeit this could not be verified, too.

Thirdly, even within those single plans receiving surplus shares, only 50% of members` pension accounts were actually credited with excess gains above the guaranteed minimum return of 4%. Again, this was furthered by an institutional opportunity structure. Formally, the

distribution of surpluses within a single plan (Vorsorgewerk) was a matter of the personal provisions commission (Personalvorsorgekommission), in which the members have to be equally represented. In practice, however, these commissions existed and exist only on the paper. Instead, the respective life insurance company makes a proposal in this regard to the respective employer, whose signature was sufficient to legitimate it, because the affiliation contracts between the single plan (Vorsorgewerk) and the collective foundation (Sammelstiftung) usually specify that the responsibility concerning the distribution of surpluses amongst the members of the plan is delegated to the employer.
Last but not least, the report established that distributed excess yields were often used in order to decrease employers` contribution rates in a one-sided manner which can be explained by the business incentives of the representatives of the respective life insurance companies responsible for the proposal of the distribution of the surplus within a plan. Recently, this was declared illegal by a decision of the Swiss federal court.
In the aftermath of the market downturn in 2000, the Swiss BVG was transformed into a DC systems with a variable rate of return guarantee which passes volatility risks onto single cohorts instead of building up reserves and/or adjusting contribution rates to cope with it in a collective manner. It can be expected that the return guarantee will be lowered to as far as 0% (nominal capital guarantee), if there is a severe financial market slump. Hence, the shaping of Volatility Risk Regulation in Switzerland combines elements of Neoliberal Voluntarism and Social-Democratic Collectivism and is thus assigned the value of 0,5.

Self-Investment Risk Regulation

Not more than 10% of total assets are allowed to be invested in the sponsoring employer (ibidem).
Consequently, *the shaping of Self-Investment Risk Regulation in Switzerland is assigned the value of 1.*

Choice Risk Regulation

Individual employees do not possess the right to select a particular pension fund or investment strategy on their own but have to accept the choice made by their employers on behalf of them. Contrary to Finland, the risk bearing on the employees resulting from a bad provider choice of her or his employer is only limited, but not totally irrelevant as each provider has at

least to provide the minimum rate of return and a bankruptcy fund (Sicherheitsfond BVG[137]) steps into the breach if a pension plan is not able to deliver the minimum benefits.

As elements of Neoliberal Voluntarism (the fact of choice and competition between providers at all, no total security) and of Social-Democratic Collectivism (limited risk bearing on the side of the employee, no direct choice) are combined, the shaping of Choice Risk Regulation in Switzerland is assigned the value of 0,5.

However, the issue of individual choice of fund is continously debated in the Swiss press in the latter years with prominent Swiss economists (e.g. David Gerber, Heinz Zimmermann, Jörg Sutter) as well as those of the OECD (Queisser & Whitehouse 2003) setting the agenda. They argue that the threat of exit exerted by market choice will force providers to offer the best and most suitable products, downplaying the issue of perhaps much higher administration costs (like particularly the British case shows) and neglecting the Swedish experience of providers playing on people`s psychological biases detailed in chapter 2.5. However, as Swiss employers and the majority (85%) of pension funds have their own reasons for rejecting such free choice proposals (using occupational pensions for company restructuring resp. fear of being loosers of the competitive process) (PRASA 1999), it is completely open how the Swiss system will develop in the future what concerns the issue of individual choice of fund.

Administration Charge Regulation

The Swiss funded pension system is clearly dominated by the second occupational pillar. The third pillar is clearly of minor importance what concerns status maintenance. But in clear contrast to the Netherlands or Denmark, asset-pooling is performed on a decentralized company or multi-employer level, with the average size of the fund as low as 735 members. Like the Finnish system, the Swiss system combines a moderate dose of Social-Democratic asset-pooling and a moderate dose of Neoliberal-Voluntaristic competition in order to contain administration costs. Life insurance companies compete one with another for the respective collective insurance contracts to be concluded with employers on behalf of their staff.

In the face of the high share of (very) small occupational funds, the resulting operating costs of the system (between 0,4% and 0,5% of assets yearly (Queisser & Vittas 2000, 53)) seem to be surprisingly low. They are higher than in strongly regulated centralized systems like the Federal Thrift Savings scheme in the US or the (former) Danish ATP scheme, but are lower

[137] However, even the regulation of the bankruptcy fund is problematic insofar as it is mainly financed in a PAYGO-manner (Bütler 2003, 10), which exerts procyclical effects: contribution rates go up in bad times when funds` difficulties are greatest.

than those of unregulated decentralized systems with purely individualized schemes. However, the authors suspect that these data may not reflect the whole picture because many Swiss employers would absorb a significant part of the administrative costs which are not accounted for in the calculations above.
As administration charge regulation in Switzerland contains elements of Neoliberal Voluntarism and Social-Democratic Collectivism, the shaping of Administration Charge Regulation in Switzerland is assigned the value of 0,5.

Longevity Risk Regulation

At retirement, the entire accumulated capital can be received in the form of an annuity or of a lump-sum, provided that the respective pension fund allows for it (Souza-Posa & van Dam 2002), which many do (Bütler 2003, 2). Swiss social partners have not issued any binding rules concerning this question at a central level – even if they would want to, they would probably not have the necessary power in Switzerland`s decentralized labour relations regime. Moreover, the Swiss state - intentionally or unintentionally - even incentivizes the take-out of lump sums via tax advantages compared to annuities (ibidem, 20). This sort of regulation furthers the former option even more than the neutral regulation advocated by Neoliberal Voluntarism.
Despite this fact, most Swiss people (two thirds) choose to fully annuitize their capital. This high share shows that aversion against annuitization may not only be based on institutional leeway, but may also have a cultural component. However, the high take-up rate of annuities may also be partially related to the fact that the conversion factor of 7,2% introduced in 1985 remained unchanged for a long time in spite of increasing life expectancy. As the amount of the factor is based on the assumption that an average Swiss man will live 13,88 years from age 65, which in reality now lives 16,8 years (Murer 2005), this represents a redistribution from the contributors in favour of the retirees. Although the Swiss government has finally reacted on this development in the first revision of the BVG in 2003 by lowering the conversion factor to 6,8% up to 2014, this remains a rate actuarially in favour of retirees, especially if the current trend of rising life expectancy continues (James 2005).
As it is legal regulations (or equivalent, i.e. binding central corporatistic or tripartistic agreements) and not the actual, chageable majoritarian behaviour of single actors which matter for the evaluation of regulatory regimes, the shaping of Longevity Risk Regulation

regards status maintenance in Switzerland is assigned the value of 0, because annuitization is neither obligatory nor fiscally incentivised.

Inflation Risk Regulation

The adjustment of pensions in line with inflation is at the discretion of the management boards of the pension funds, so that it is always conditional on sufficient investment returns (Queisser & Vittas 2000, 7; INPRS 2003, 319).
Consequently, *the shaping of Inflation Risk Regulation regards status maintenance in Switzerland is in accordance with Neoliberal Voluntarism and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

The Swiss state makes no payments on behalf of unemployed or child caring individuals to support their saving efforts in the second and third pillar.
Consequently, *the shaping of Lifecourse Risk Regulation in Switzerland is in accordance with Social-Democratic Collectivism and thus assigned the value of 0.*

Poverty of Means Regulation

There are neither automatic nor conditional state subsidies for pension saving in the second or third pillar in Switzerland.
Hence, *the shaping of Poverty of Means Regulation in Switzerland is in line with Neoliberal Voluntarism and therefore assigned the value of 0.*

Funded Pension Tax System

Pensions in the second and third pillar in Switzerland are subject to an EET-system (Yoo & de Serres 2004, 28): employee and employer contributions are tax-deductible, investment income accrues tax-free, but pensions are taxed as income. Lump-sum benefits are taxed more generously than annuities (INPRS 2003, 321).
Consequently, *the shaping of the funded pension tax system in Switzerland follows Neoliberal Voluntarism and is therefore assigned the value of 0.*

Summary for Switzerland

Taken together, Switzerland`s SPRI for its funded pension system assumes a value of 0,45:

$$\text{SPRI (SWI)} = \frac{2 \cdot 1 + 1 + 0{,}5 + 1 + 0{,}5 + 0{,}5 + 0 + 0 + 0 + 0 + 0}{12} = 0{,}45$$

5.19. United Kingdom

The first pillar of the British Pension system consists of three different tiers:
- a contributory, redistributive, but categorial flat-rate PAYGO pension scheme (`Basic State Pension´) indexed to prices,
- an earnings-related, but redistributive PAYGO pension scheme (`State Second Pension´) indexed to prices, which will be also transformed into a contributory flat-rate system in 2007 (Blake 2004)
- means-tested benefits (`Pension Credit´) indexed to real wages in order to top up very low incomes of poor pensioners resulting from incomplete working careers and low wages. As in Switzerland, an important problem here is the fact that up to a third of pensioners entitled to these benefits do not actually claim them (Ring 2005, 348). Moreover, the number of those entitled will rise enormously (up to more than two thirds in 2050), if the Basic and the State Second Pension will further increase in line with prices and the Pension Credit level will grow according to real wages. In turn, this raises incentive problems as the means-test discourages saving in occupational and personal pension schemes, because the implicit marginal tax rate of the test regards private pension income lies between 40% and 93% (Davis 2004, 10). This is also a reason for financial providers to abstain from selling private pension savings products to persons on low and moderate earnings, fearing to be possibly accused of mis-selling in the future.

Whereas participation in the Basic State pension scheme is mandatory for workers and self-employed people, employees may opt-out of the State Second Pension in order to opt in the second (occupational) or third (personal) pension pillar, which are both fully funded. In this case, they get a rebate on their public contributions which then has to be paid into the relevant occupational or personal scheme.

In 1999, a special sort of personal pension scheme with some particular features (see chapter 4.19.6.), the so-called `Stakeholder Pension´ scheme was introduced, which is primarily targeted at full-time workers with annual earnings between £ 9500 and £ 21600 often employed in sectors with low occupational pension coverage (Blake 2004, 27). In order to increase the distribution of the stakeholder pension, all employers with more than 5 employees have the duty to conclude a contract with a provider and offer a take-up possibility to their workers (for whom subscription remains voluntary). However, the scheme was by far not as successful as expected because 82% of offered schemes have no members (Davy 2004), not at least because roughly two thirds of British employees work in companies with not more than 5 workers (Nöcker 2002).

42% resp. 22% of all employees are members in an occupational resp. personal pension scheme (Davis 2004). Whereas membership in British occupational pension schemes constantly declines (Ring 2005, 352), growth of personal pension membership is hampered by a lack of consumer confidence: less than half of British respondents of a representative survey said that they trusted insurance and pension companies (Ring 2005, 62). This was mainly caused by the mis-selling scandal and by the Equitable Life Crisis, with the oldest, venerable British life insurance company guaranteeing a rate of return which it could not fulfil in the end. The crisis appears to be so severe that even one industry executive was provoked into saying that reestablishing consumer trust would not be a realistic goal (ibidem, 63).

In total, the British pension system seems to be nutcrackered between a) consumers` distrust of personal pension providers, b) the enduring cost disease of the personal pensions market caused by its conventional – necessarily expensive - institutional structure, c) companies` flight from occupational schemes and d) the government`s eagerness to reduce the importance of the two unfunded contributory flat-rate schemes.

Myopia Regulation

Participation in one of the two funded pillars – above the eventual payment of the contracting-out rebate – is not mandatory. The current government sticks to this approach:

„It is for individuals and families to decide for themselves what income they wish to receive in retirement.“ (United Kingdom National Strategy Report on Adequate and Sustainable Pensions 2005, 6).

There is also no automatic enrolment mechanism, although the government has recently indicated that this technique is under evaluation at the moment (ibidem, 14). However, until now, governmental rhetoric is clearly dominanted by Neoliberal ideas promoting information, education and activation (Mann 2005, 4).

Irrespective of whether an employee with average wage earnings stays in the State Second Pension or contracts out and pays the mandatory minimum contribution (the contracted-out rebate of 4,6% of earnings) into a second or third pillar pension scheme, the resulting benefits will by far not be sufficient to achieve continuance of former living standards in old age (Blake 2004, 51; Davis 2004). Nevertheless, a significant share of participants of DC schemes just contribute the small contracted-out rebate instead of the 11% needed for a pension equalling two thirds of the final wage (Davis 2004, 17). According to the OECD, a British standard pensioner insured only in the mandatory part of the British pension system receives a net replacement rate of just 47,6% (VDR 2005, 152).

Consequently, *the voluntaristic shaping of Myopia Regulation in the United Kingdom corresponds to Neoliberal Voluntarism and is assigned the value of 0.*

Early Withdrawal Temptation Regulation

The British pension law is very strict concerning early withdrawals as it legally forbids early withdrawals before the age of 50 / 55 (2005 / 2010) in occupational and approved private pension schemes[138].

Consequently, *the shaping of Early Withdrawal Regulation regards status maintenance in the United Kingdom is in line with Social-Democratic Collectivism and thus is assigned the value of 1.*

Volatility Risk Regulation

What concerns the occupational sector, DB plans (`COSRS´) clearly prevailed up to the turn of the century with 90% of occupational pension members being insured in those plans (Davis 2004). In the first decades after the Second World War, this was explicitly furthered by the British State as occupational plans were required to be organized as salary related schemes

[138] Minor exceptions to this which are not relevant in the context of our SPRI-concept here are cases of severe illness with a remaining life expectancy below 1 year, unvested employee contributions, accumulations of negligible amounts, and accumulations related to non tax-advantaged contributions. I thank my colleague Patrick Blömeke for these detailed informations.

working on a DB basis if they wanted to attract employees willing to opt out of the second tier of the first pillar (formerly SERPS). A further opting-out conditionality known under the term `Guaranteed Minimum Pension (GMP)´ was that an occupational scheme had to provide benefits not below the level targeted by SERPS (25% of the best 20 years). However, in the 1980s, things began to change. In 1988, contracting out was extended to money purchase (DC) (`COMPS´) and personal pension schemes who do not have to provide for a certain minimum benefit, but just have to ensure that a minimum contribution equalling the contracting out rebate is paid in. Nevertheless, British employees who had opted in occupational plans could still rely on a Guaranteed Minimum Pension as SERPS-benefits were only reduced by the benefit level actually achieved by the occupational plan. So there was a total benefit threshold defined by SERPS below which noone who had opted out could fall. However, even this form of the GMP was abolished in 1997, so that there exists no benefit floor for those in DC plans any longer (Nöcker 2002).

Whereas DB plans remained dominant during the 1990s, they are now on the rapid decline as 80% of those in the private sector were closed until 2003 (Davis 2004, 13 f.). This was prompted particularly by the severe degree of underfunding caused by the financial market crisis in the aftermath of 2000 which burdens company balance sheets and companies` credit assessments. The average funding level for the top 100 UK companies stood at 80% at the end of 2002, being partially also a consequence of tax rules having discouraged the build up of meaningful reserves (see chapter 4.19.11.) during the bull market in the 1990s (Davis 2004, 12).

Personal pension schemes are pure DC plans. However, in April 2005, the British government has introduced automatic enrolment in a Life-Cycle-Fund with regard to the Stakeholder Pension Scheme. This means that the stakeholder pension saver must state in writing if she or he prefers another option. The explicit aim of this represents, according to the words of the government, to reduce the risk to scheme members (Government of the United Kingdom 2005).

Volatility Risk Regulation in the occupational pension scheme is in line with Neoliberal Voluntarism, as new employees will be confronted predominantly with DC schemes (if they get an offer at all). Differing from that, the Volatility Risk Regulation in the Stakeholder Pension scheme is in line with Social Liberalism.

Combining Neoliberal Voluntarism in the occupational pension scheme with Social Liberalism in the personal pension scheme, the shaping of Volatility Risk Regulation in the United Kingdom is assigned the value of 0,25.

Self-Investment Risk Regulation

Since the Social Security Act was legislated in 1990, investment of assets in the sponsoring employer of an occupational pension plan or related entities may not exceed 5% (Nöcker 2002; Blömeke 2004).
Consequently, *the shaping of Self-Investment Risk Regulation in the United Kingdom is assigned the value of 1.*

Choice Risk Regulation

Bar the declining DB sector, individual choice in funded pension schemes in the United Kingdom is neither abandoned nor constrained.
Consequently, *the shaping of Choice Risk Regulation in the United Kingdom is assigned the value of 0.*

Administration Charge Regulation

In the face of the high charge levels in the private pension retail market reaching levels of between 2% and 3% of assets (Davis 2000), the New Labour Government imposed a 1% ceiling on the fee level and required providers to charge fees only in % of assets. It also abolished the formerly usual practice of punishing provider change by exerting high switching costs. These measures intended to promote the diffusion of Stakeholder Pension Schemes by making them affordable especially for low- and medium-income earners. But it is quite doubtful if Stakeholder Pensions are so favourably priced as the government praises them. When investigated in detail, it shows that the permitted maximum charge level equals 1,087% and not 1% - which seems to be a negligible difference, but these little differences accumulate over time so that such a quite high level will diminish the accumulated pension capital by roughly 25%. The symbolic character of the `1%´ gets even more clear when account is taken of the fact that providers are allowed to levy some further `hidden´ charges (for conversion and asset dealing) (Nöcker 2002).
In spite of this, provider protest against these restrictions was and is intense, arguing that these `low´ fee levels would make Stakeholder Pensions almost unsaleable. Finally, in 2005, the New Labour government responded to these claims by increasing the allowed charge level to 1,5% for the first ten years of membership. Seen over 25 years of accumulation, the average

annual fee amounts to 1,17% of assets – of course, plus the `hidden´ charges set out above. The New Labour government argued that this reform would increase the take-up probability because now it would be sufficiently economic for providers to sell the Stakeholder policies to earners with lower and medium earnings. Curiously, it did not answer the perfectly obvious question how people on lower incomes can afford this `cheap´ pension with a roughly 30% provider tax on total accumulated savings ! In reality, the reform of the government finally puts to an end the hope of Blake (2004, 31), that the (alledged) charge cap could induce providers to switch from expensive active asset management to less expensive (and also more successful (Blake 2004, 49)) passive index-management.

Like Ireland`s PRSAs, Administration Charge Regulation of Stakeholder schemes is an example of the weak form of Social Liberalism. However, the administration costs of the now booming DC schemes are not regulated at all despite the fact that these can be high as the example of 401(k) plans in the US shows (see chapter 4.20.6.).

Thus, *with regard to the shaping of Administration Charge Regulation in the United Kingdom, one has to differentiate between the occupational sector (Neoliberal Voluntarism) and the personal sector (weak form of Social Liberalism). Consequently, the value of 0,125 is assigned.*

Longevity Risk Regulation

Longevity Risk Regulation differs slightly between COSRS, COMPS and Personal Pension schemes. What concerns COSRS, 75% of the accumulated capital has to be converted into an annuity. Benefits stemming from COMPS have to be fully annuitized. Of those entitlements accumulated in Personal Pension schemes exceeding the amount attributable to the contracted-out rebate (which has to be fully annuitized), 75% have to be taken in the form of an annuity. In order to widen the possibilities of coping with the risk of low interest rates diminishing the value of available annuities at the time of retirement, annuity purchase can be postponed until the age 75. In the meantime, monthly benefits in the range of between 35% and 100% of what an annuity would have paid at the time can be withdrawn (INPRS 2003, 443).

All three pension schemes basically reflect the Social-Democratic belief that retirees must be forced to take out annuities, because otherwise they take the lump-sum option, which is not good for them. However, there is some influence of Neoliberal Voluntarism here, too, because

retirees are granted partial choice and may take an – albeit small - part of the accumulated capital as a lump-sum.

Therefore, *the shaping of Longevity Risk Regulation in the United Kingdom regards status maintenance is assigned the value of 0,75, because the ideology of Social-Democratic Collectivism dominates smaller elements representative of Neoliberal Voluntarism.*

Inflation Risk Regulation

Since the Pension Act of 1995, that part of the annuities paid under occupational and personal pension schemes which is related to the contracted-out rebate had to be indexed to inflation up to a maximum of 5% (`Limited Price Indexation (LPI)´) (INPRS 2003). However, recently, the LPI was reduced for DB plans to 2,5% and completely abolished for occupational and personal DC plans by the Pension Act in 2004 (Department for Work and Pensions 2005, 13; Blömeke 2005, 7). Remind also that 80% of DB schemes are now closed to new members.

Although the UK is one of the few countries where inflation-indexed annuities are sufficiently available, approximately only 10% of pensioners did so with regard to the voluntary part (Munnell & Sunden 2004), so that money illusion is a serious issue.

As that part of the British funded pension landscape that will dominate in the future (DC) does not provide obligation of or automatic enrolment in inflation protection, *the shaping of Inflation Risk Regulation in the United Kingdom regards status maintenance broadly follows Neoliberal Voluntaristic principles and thus is assigned the value of 0.*

Lifecourse Transition Support Regulation

The British state does not pay subsidies for unemployed or child-caring individuals into complementary pension schemes.

Consequently, *the shaping of Lifecourse Risk Regulation in the United Kingdom is in accordance with Neoliberal Voluntarism and thus assigned the value of 0.*

Poverty of Means Regulation

Neither targeted nor universal direct financial support is available from the British state with regard to complementary pension saving.

Consequently, *the shaping of Poverty of Means Regulation in the United Kingdom is in line with Neoliberal Voluntarism and thus assigned the value of 0.*

Funded Pension Tax System

Occupational and personal pensions in the United Kingdom are subject to an EEt-system (Yoo & de Serres 2005, 26 & 28): up to generous margins, employee contributions are tax-deductible and employer contributions do not count as taxable income, investment yields accrue tax-free (in DB plans: if the funding level remains at not more than 105%, thereby discouraging the build-up of reserves), annuities are taxed according to the personal income tax rate, and lump-sums can be received tax-free. Because of the tax-free lump sum, the British taxation regime is even more liberal than Neoliberal Voluntarism would prefer.
Consequently, *the shaping of the complementary pension tax system in the United Kingdom is assigned the value of 0.*

Summary for the United Kingdom

Taken together, the United Kingdom`s SPRI for its funded pension system assumes a value of 0,26:

$$\text{SPRI (UK)} = \frac{2 \cdot 0 + 1 + 0{,}25 + 1 + 0 + 0{,}125 + 0{,}75 + 0 + 0 + 0 + 0}{12} = 0{,}26$$

5.20. United States

The pension system of the United States consists of 1) an unfunded, price-indexed, earnings-related but quite strongly redistributive[139] first pillar (`Social Security´) which includes a minimum pension, 2) a means-tested, price-indexed complementary program for poor pensioners (`Supplementary Security Income´(SSI)), and 3) voluntary saving plans especially in the occupational sector. There exists also a personal pillar named `Individual Retirement

[139] With incomes up to 22% of the average wage replaced by 90%, those between 22% and 133% of the average wage replaced by 32%, and those between 133% and the contribution ceiling (250% of the average wage) replaced by 15% (VDR 2005, 153).

Accounts (IRA)´ erected in 1974, but in 1996, only 6% of eligible taxpayers contributed to such accounts (Gale & Orszag 2004).

Myopia Regulation

An average US-American earner with a full contribution career achieves a net replacement rate through Social Security alone of 51,0% (VDR 2005, 155), so that funded pension benefits are indispensible for the average US-employee to ensure continuance of her/his former living standards. Despite this, participation in the funded pillars is not legally required and no automatic enrolment in the dominant occupational plan, the `401(k) plan´, is legally stipulated, so that only 14% of 401k-plan sponsors in 2002 had adopted automatic enrolment (Munnell & Sunden 2004). According to Kaplan (2004), just 56% of full-time private sector employees top up their Social Security benefits by participating in a funded pension plan.
Moreover, discrimination between employees of the same company regards participation in a 401(k) plan is only partially mitigated, but not really outruled. In order to qualify for the tax advantages (see chapter 4.20.11.), coverage of non-highly compensated employees must reach 70% of the coverage rate of highly compensated employees, so that the company can exclude at least 30% of non-highly compensated employees but will still enjoy tax advantages for its pension plan. Additionally, many part-time workers can also be easily excluded (Munnell & Sunden 2004).
Consequently, *the voluntaristic shaping of Myopia Regulation in the United States is in line with Neoliberal Voluntarism and thus assigned the value of 0.*

Early Withdrawal Temptation Regulation

What concerns the now dominating 401(k)-plans, participants are allowed to withdraw funds not only in order to buy or build an own house, but they are also permitted to do it for education, medical expenses and in times of financial hardship. There is also the option of cashing the money at the time of job change. However, with regard to the latter, in 1986 the Congress enacted a financial incentive to preserve the money saved by stipulating that sums cashed out prematurely are subject to a 10% penalty deduction in addition to the income tax (Munnell & Sunden 2004). All in all, slightly less than one quarter of the accumulated sums distributed at the time of job termination is spent (instead of rolled-over to a different retirement account) and therefore subject to the 10% penalty tax.

As early withdrawal regulation of the now dominant pension plan type in the US combines Social Liberalist elements (financially punishing early withdrawals) with Neoliberal Voluntarist leakages (free access in case of medical expenses and financial hardships), *the shaping of Early Withdrawal Regulation regards status maintenance in the United States is assigned the value of 0,25.*

Volatility Risk Regulation

During the Golden Age of the Welfare State, the occupational pension fund landscape in the US was largely dominated by plans structured according to the DB principle. However, workers not seldom experienced a sudden loss of the promised retirement security when their company went insolvent. The best known example of this is the case of the automobil factory Studebaker in Indiana, which was closed in 1964 while the pension plan of the firm was underfunded by 80% (Sauviat 2005, 13), thereby leaving its employees with massively reduced pension rights. US legislation finally reacted on such problems nearly a decade later with the passing of the `Employees` Retirement Income Security Act (ERISA)´ in 1974, introducing minimum vesting standards, minimum contribution requirements, some minimum funding requirements and a mandatory insolvency insurance program operated by a public agency called Pension Benefit Guarantee Corporation (PBGC)[140]. In 1988, the premiums to be paid by employers to the PBGC[141] were made dependent on funding status, so that underfunded plans had to pay higher premiums than fully funded plans.

However, all this did not only increase the security of employees` pension rights, but it did also increase the administrative costs of their employers as well as the investment risk to be borne by them. Over the period 1981 to 1996, these costs as a percentage of the payroll nearly tripled. In order to avoid these costs, employers increasingly resorted to DC plans sanctioned under Section 401(k) of the Internal Revenue Code called `Cash or Deferred Arrangements´ which were not subject to such intense regulations and risks. Of course, other factors like the constant de-unionization of the American economy since the early 1980s played also their role in this shift from DB to DC. Thus, whereas in 1975 DC plans accounted for just over one third of all contributions to funded pensions in the US, in 1998 they received 80% (Gale & Orszag 2003).

[140] In 2003, the maximum amount paid by the PBGC for a retiree whose pension plan went insolvent stood at $ 3665 per month. This means that high-income earners may loose a great part – sometimes more than half - of their promised benefits despite the insurance program (Fischermann & Buchter 2005; Munnell & Sunden 2004; Peters 2005, 173 f.).

This trend continues and has even reinforced in the aftermath of the stock market crisis beginning in 2000. The few remaining large US companies with DB plans increasingly use chapter 11 of the US bankruptcy law for corporate reorganization in order to get rid of their pension commitments and the related huge deficits in their plans (exceeding a staggering total of $ 350 billion today (Ferris 2005, 2)). These deficits are the result of loopholes in funding rules which made possible the systematic understating of liabilities, contribution holidays and lobbied politicians making the already weak funding rules nearly meaningless, thereby countering PBGC`s efforts to strengthen the funding regime (Steward 2005, 14):

„The issue is more that political interference stops the PBGC exercising the powers which it has.“ (ibidem, 15)

Implicit maximum funding rules related to tax revenue concerns also added to the problems. With the help of chapter 11, US companies are now shifting the deficit burden onto the PBGC, provided that they can proove that shedding of pension rights is necessary for their survival on the market, what is often the case (Buchter 2005). As the PBGC cannot react on this by increasing contribution rates because these are under the control of the Congress (and, hence, subject to political rather than to economic concerns), the agency now is massively in the red with a deficit of $ 23,3 billion in 2005 expected to grow further because the organisation estimates that it is exposed to further $ 96 billion stemming from companies likely to become insolvent in the near future (Steward 2005, 12). Hence, a bail out by the US government might become necessary at some time.
With 401(k) plans structured according to the DC principle now clearly dominating the US occupational pension scene, the shaping of Volatility Risk Regulation in the United States is assigned the value of 0.

Self-Investment Risk Regulation

DB plan participants are sheltered against self-investment risk by the legal specification that no more than 10% of total plan assets may be held in the stock of the sponsoring company. Contrary to this, 401(k) plan legislation does not contain such a restriction. The consequence is that approximately 20% of 401(k) plan participants hold more than 20% of their portfolio in the stock of their own company. In some cases, concentration of 401(k) assets in company stock can reach staggering shares: the share of company stock on total assets in the company

plan equals 63% in the case of Campbell Soup, 66% at Gillette, 74% at Mc Donalds, 81% at Coca-Cola, 82% at Anheuser Busch, 86% at Pfizer, 88% at Dell Computer, 90% at Abbott Laboratories, and 96% in the case of Proctor & Gamble (Kaplan 2004, 72 f.). One reason for the high incidence of self-investment in the US is that 401(k) legislation does not forbid the employer to make their matching contributions in the form of company stock and also does not declare illegal the widespread practice of imposing age-related selling restrictions on employees with regard to these assets. For example, employees of Enron could not sell their Enron equities in their 401(k) account until they got 50 years old or left the company (Kaplan 2004). Other employers lure employees into company stock by offering financial incentives like purchase discounts.

When legislative initiatives emerged before and in the wake of the Enron crisis on the part of the Democrats to put limits on self-investments in 401(k) plans, US employer sponsor organisations like the ERISA Industry Committee (ERIC) (2002) threatened that employers would decrease or even completely withdraw their matching contributions:

„If employers are prohibited from requiring their contributions to defined contribution plans to be invested in employer stock, they are likely to curtail their contributions, thereby reducing employees`retirement saving.“

This could be quite problematic for the voluntary occupational pension system in the US all the more as employer matchings are an important incentive for employees to join these plans according to empirical investigations. Furthermore, Neoliberal ideological concerns are put forward to justify the absence of a cap on employer stock. So, the US Treasury Department argued that such caps would violate private property rights (Kaplan 2004). In the face of these ideological and political concerns, the Bush administration only considered implementing a ban on selling restrictions for company stock that was held for at least 3 years. Even this would however be much ado nothing because the second important reason for the high incidence of employer stock in 401(k) savings accounts is that many employees like to have these assets in their portfolio. As a lot of people think that investment in their own company is safer than in a diversified stock fund (Kaplan 2004, 75), even participating employees who are not lured or forced to hold company stock, invest a large proportion of their 401(k) assets in employer stock.

With 401(k) plans now clearly the dominant form of funded retirement saving in the US, the shaping of Self-Investment Risk Regulation in the United States is assigned the value of 0.

Choice Risk Regulation

401(k) plans offer a quite wide range of individual investment choice options, with plans counting at least 10000 participants offering on average 38 and those with at least 5000 participants exhibiting a variety of on average 22 investment choices. 50% of 401(k) participants can select between at least 16 alternatives. Elton et al. (2004) have shown in a representative study of 400 plans that the adequacy of the range of investment options selected by employers was suboptimal in 62% of the cases leading to an important average cost of 300% of terminal wealth. Therefore, the estimation made by Börsch-Supan (2004, 16) that, contrasting with the negative UK experience cumulating in the Mis-Selling-Scandal, a consistent market regulation would have reduced the uncertainty of US pension investors, is more than dubious.

401(k) plans have to offer at least 3 alternatives, but there are no restrictions regarding a maximum, so that plans are even moving towards a completely open choice structure. This development is spurred by the fact that lawyers begin to sue employers for improperly chosen investment options and reinforced by a statement of the US Department of Labor saying that the employer has a fiduciary duty to choose the offered investment vehicles in a prudent way. Some authors argue that employers can circumvent these fiduciary reguirements by providing a completely open choice structure (Perun 2004). Even if this would be true, it was already shown in chapter 3.5. under reference to Cronqvist (2004) that endless choice can be a very problematic feature of a funded pension plan if judged by the adequacy of choice and employees` likely retirement wealth.

Indeed, empirical studies of the selection results in the US, too, show that a considerable part of the individual choices made can be regarded as quite problematic insofar as more than half of 401(k) participants either have invested all in stocks or invested nothing at all in stocks, which both is not in line with the principle of diversifivation advocated by economic portfolio theory, because the chosen strategies are either too risky or too conservative.

Consequently, the shaping of Choice Risk Regulation in the United States is assigned the value of 0.

Administration Charge Regulation

Administration charges of 401(k) plans are not legally regulated and are – not at least because of the wide range of choice options usually available – very high for occupational plans:

annual administrative costs range between 0,3% and 3% (Furman 2005, 6), those of the *average* 401(k) plan amount to no less than 1,44% of assets (Thompson 2002, 30), reducing total accumulated pension capital by a (roughly) 30% de facto tax.
Consequently, the shaping of administration charge regulation in the United States is in accordance with Neoliberal Voluntarism and thus is assigned the value of 0.

Longevity Risk Regulation

Whereas the remaining minority of DB plans are required by law to provide annuities, 401(k) plans are not only allowed to pay out benefits as lump-sums, they were recently also permitted to erect plans which do not provide for an annuity option at all. This possibility to relinquish the annuity option, indeed exploited by a third of companies with 401(k) plans, enables them to save associated administrative costs. However, for the individual saver, this makes the annuity option even more expensive (and unattractive), because costs are considerably higher when annuities are purchased on the retail level than when they are bargained on the wholesale level. The result of this institutional structure is that only a quarter of pensioners take *a part* of their 401(k) benefits in the form of an annuity (Thompson 2002).
Consequently, *the shaping of Longevity Risk Regulation in the United States regards status maintenance is assigned the value of 0, because it is in line with Neoliberal Voluntarism.*

Inflation Risk Regulation

Occupational pension legislation does not prescribe inflation protection of annuities neither for DB nor for DC plans. According to Thompson (2002), price indexed annuities are even not available in the US at all.
In the face of the regulatory indifference as regards inflation protection of retirement capital in the US, *the shaping of Inflation Risk Regulation in the United States is assigned the value of 0.*

Lifecourse Transition Support Regulation

Neither unemployed nor child caring individuals receive subsidies for occupational pension saving.

Consequently, the shaping of Lifecourse Risk Regulation regards status maintenance in the United States is in accordance with Neoliberal Voluntarism and hence assigned the value of 0.

Poverty of Means Regulation

The American State does not use subsidies to support its citizens in relation to occupational pension saving.
Hence, *the shaping of Poverty of Means Regulation regards status maintenance in the United States is in line with Neoliberal Voluntarism and thus is assigned the value of 0.*

Funded Pension Tax System

Complementary retirement saving in funded pension schemes in the US is taxed according to the EET principle (Yoo & de Serres 2004, 28): up to a generous threshold of $ 15000 (those aged under 50) resp. 20000 (those aged 50 or more) per month in 2006 (Kaplan 2004), employer contributions made on behalf the employee do not count as taxable income and employee contributions can be deducted from taxable income. Investment income earned by pension funds is tax-exempt, but receipt of pension benefits is taxed (Munnell & Sunden 2004).
Consequently, *the shaping of the complementary pension tax system in the US follows the lines of Neoliberal Voluntarism and thus is assigned the value of 0.*

Summary for the United States

Taken together, the United States` SPRI for its funded pension system assumes a value of 0,02:

$$\text{SPRI (USA)} = \frac{2 \cdot 0 + 0{,}25 + 0 + 0 + 0 + 0 + 0 + 0 + 0 + 0 + 0}{12} = 0{,}02$$

6. The Balance-Sheet: Retrenchment, Replication or Restructuring ?

According to the ***global diffusion hypothesis***, predicting ***retrenchment*** of collective responsibility for the continuance of former living standards in old age in favour of the diffusion of ***conventional markets*** across different welfare state cultures, we would have to expect a quite low average SPRI for our countries examined here. Indeed, the distribution of country cases is left-sided as the majority (70%) of the 20 OECD countries examined here exhibit a value below the mid-point of the SPRI-scale (0,5). However, whereas the average SPRI of all 20 OECD-countries examined here (0,356) is significantly below the mid-point of the SPRI-scale, it is nevertheless far from the value of 0 that an extreme version of the global diffusion hypothesis would have predicted. Thus, on average, there is a general, but moderate overall tendency of countries to put more weight on individual responsibility for achieving status maintenance in old age than on collective responsibility as regards the regulation of funded pensions. Consequently, at the moment, the global diffusion hypothesis is only partially confirmed: the majority of countries displays a moderate inclination to further individual rather than collective responsibility.

However, this general moderate tendency towards individual responsibility is in its extent refracted by the respective nation-specific welfare cultures. The degree to which countries fall back upon principles of individual responsibility regards funded pension regulation differs according to their traditional welfare culture. This can be seen by the fact that the correlation between the SPRI (dependent variable) and the Gini Coefficient (independent variable)[142] of these countries is r = – 0,37 [143], so that the ***national homology hypothesis***, expecting ***replication*** of national ***welfare state cultures*** in the regulatory intensity of funded pensions, is partially confirmed. To be sure, the connection is not perfect, what can be attributed to the general moderate influence of globally spreading individualistic social policy conventions pointed out above. Especially striking in this regard are the outlier countries Czech Republic, France and Japan, which – contrary to the national homology hypothesis - exhibit a (clear) above-average degree of equality but display an above-average, high degree of individual responsibility as regards the regulation of their funded pension system.

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[142] The hypothesis is that welfare cultures traditionally stressing solidarity and equality (expressed in the Gini-Coefficient – independent variable) tend to institute regulations which display higher degrees of collective responsibility (expressed in the SPRI – dependent variable) – NOT THE OTHER WAY AROUND !!!

[143] Data for Gini-Coefficients are of 2004 according to the UN Human Development Report. (2004) Iceland had to be excluded from the correlation analysis because its Gini-Coefficient was not available.

This seemingly paradoxical fact of both a moderately confirmed national homology hypothesis and a moderately confirmed global diffusion hypothesis can be explained in more detail as follows:

The group of `European Funding Necomers´ (Sweden, the former communist countries Poland and the Czech Republic and especially the so called `Bismarckian´ countries like Austria, France, Germany, Italy and Belgium) that only *recently* (in the mid- to late 1990s) assigned the responsibility for the achievement of status maintenance to funded pensions, exhibiting a Gini-Coefficient of 0,2925 , which is below the average of the countries examined here (0,3324), displays an average SPRI of 0,35. So, *on average,* this group did not follow the group of `Anglo-American Traditional Funders´ (Australia, Canada, United States, Ireland, New Zealand, United Kingdom) with its strongly individualistic regulatory stance (average SPRI of 0,17), which relies since long - already during the Golden Age of the welfare state - heavily on funded pensions what concerns status maintenance and which displays a rather high degree of inequality (average Gini-Coefficient of 0,362). Otherwise, if `European Funding Newcomers´ would have followed the `Anglo-American Traditional Funders´, a much stronger confirmation of the Global Diffusion Hypothesis and a nearly outright rejection of the National Homology Hypothesis would have been the consequence.

However, nor did the `European Funding Newcomers´ join the group of `European Early Funders´ (the Netherlands, Switzerland, Iceland, Finland and Denmark) with its – *on average* - rather collective regulatory stance (average SPRI of 0,66), which also has a below-average Gini-Coefficient (0,293) like them but chose the funded path for the goal of status maintenance much earlier, that is more or less before the mid-1990s. Otherwise, if `European Funding Newcomers´ would have followed the `European Early Funders´, a much stronger confirmation of the National Homology Hypothesis and a nearly outright rejection of the Global Diffusion Hypothesis would have been the consequence.

Instead, the group of `European Funding Necomers´ *on average* chose an intermediate stance between these two `extreme´ groups. This shows the importance of timing: European countries with their higher degrees of equality generally put *on average* more weight on collective responsibility what concerns the regulation of funded pensions. However, those European countries that moved in earlier times (between 1950 and 1990), in which a more collectivist Zeitgeist than today prevailed (the group of `European Early Funders´), put more weight on collective responsibility than do the European countries that only recently – in times in which a more individualistic Zeitgeist prevails – shifted the responsibility for the achievement of status maintenance partially from unfunded to funded systems. Interestingly,

the average SPRI of the `European Funding Newcomers´ is nearer to the average SPRI of the `Anglo-American Traditional Funders´ than to the average SPRI of the `European Early Funders´. This may be an indication for a greater importance of the influence of the current individualist Zeitgeist compared to the influence of a traditional rather collectivist national welfare culture (expressed in the degree of equality in a country).

Now, what`s with the two `extreme´ groups of the individualist `Anglo-American Traditional Funders´ and the quite collectivist `Early European Funders´ ? Can one denote their development as path-dependent ? Yes and no. On the one hand, the current trend from collective DB schemes towards DC schemes with individual choice is much more pronounced, intense and widespread in the group of `Anglo-American Traditional Funders´ than in the group of `European Early Funders´. On the other hand, in both groups, *modest* trends to reduce their individualist resp. collectivist `extremeness´ in *some* dimensions can be *partially* detected.

1) In the group of `Anglo-American Traditional Funders´, New Zealand currently makes some (limited) efforts towards a slightly higher collectivist responsibility for status maintenance in the form of the planned `Kiwi Saver´. A similar, though partially failed trend can also be seen in Australia, where the 15% mandatory contribution project of the defeated Labour Government failed and stopped at the 9% insufficient for status maintenance, but where the Conservative Government has introduced conditional state subsidies for low-wage earners to achieve this goal. In Ireland and the UK, a personal pension saving scheme with charge regulation (though with rather limited significance) and automatic enrolment in a Life-Cycle-Fund was introduced, and the issue of collective responsibility for status maintenance is publicly discussed here, particularly in Ireland. In the UK, the government contends to *„explore“* Automatic Enrolment (Government of the United Kingdom 2005, 14) and the report of the Pensions Commission – broadly welcomed as a „good basis of debate“ by the government - has recently proposed a reform model (`National Pensions Savings Scheme´) strongly reflecting Social-Liberalist myopia risk, choice risk, administration charge as well as poverty of means regulation – albeit with a low replacement rate target of 45%[144]. However, these signs of more collective responsibility occur on a backdrop of a switch from collective DB schemes to DC schemes with (up to now usually endless) individual choice. Moreover, absolutely nothing of a similar trend towards a bit more collectivist responsibility can be identified in Canada and the United States. The same sort of governmental indifference applies to Japan, the `Asian Funding Newcomer´, which – coming from those countries who

[144] For a short overview see www.ssa.gov/policy/docs/progdesc/intl_update/2005-12/2005-12.html

promised status maintenance almost exclusively by unfunded pensions - has meanwhile joined the formerly strictly `Anglo-American´ group.

2) In the group of the `Early European Funders´, Finland – despite the second highest mandatory pension insurance contribution rate of 21,4% in the whole OECD - and Iceland show a surprisingly high degree of regulatory stability what concerns the high collectivist orientation – despite the fact that significant reforms were made, because these were of a parametric, non-structural kind. In contrast, the other three countries are subject to individualist trends: most modestly, the Netherlands tempered the DB-principle by not revaluing the reference wage despite the shift form the final salary to the average wage system and by some Dutch companies recently switching to DC. More strongly, Switzerland abandoned the firm interest rate guarantee by making its amount dependent on financial market fluctuations and is since some years involved in an obstinate discussion about the alleged merits of (completely) free choice of investment fund advocated by scientists in a recent OECD-Paper (Queisser & Whitehouse 2003). Denmark also flexibilised the formerly firm interest rate guarantee and now has a liberal government that is strongly convinced of the advantages of completely free individual investment choice, with the two little SP and ATP schemes being already accordingly reformed and social partners increasingly under pressure to increase choice in their scheme further, too.

However, these modest signs of some limited, partial movements from the extremes towards the middle ground do not mean that there is a significant overall trend towards genuine ***welfare markets***. Only 17,3% (38 of 220) of all single real-world regulations in the countries examined here are structured partially or completely according to the principles of Social Liberalism.

What concerns the `Early European Funders´, welfare market elements like guiding people through automatic enrolments, structured choice and conditional subsidies are currently not on the agenda. Either the collectivist stance is broadly maintained (Finland, the Netherlands) or the introduction of some individualist elements in a rather collectivist framework is established or discussed (Denmark, Switzerland). What concerns the Anglo-American group of Traditional Funders, in some countries a *few* welfare market *elements* are (halfheartedly) introduced or discussed (Charge Regulation, Life-Cycle Funds, Conditional Subsidies, Automatic Enrolment), but one could surely not speak of genuine welfare markets in these cases at the moment. Whereas it may indeed be true that the welfare of *pension providers* is expanded here, the welfare of *retired people* – which in my understanding should be the defining criterium for defining the term called `*welfare* market´ - is often endangered by high

administration costs, underdiversification of assets, missing inflation protection, regressive tax structures, overwhelming choice options and so on.

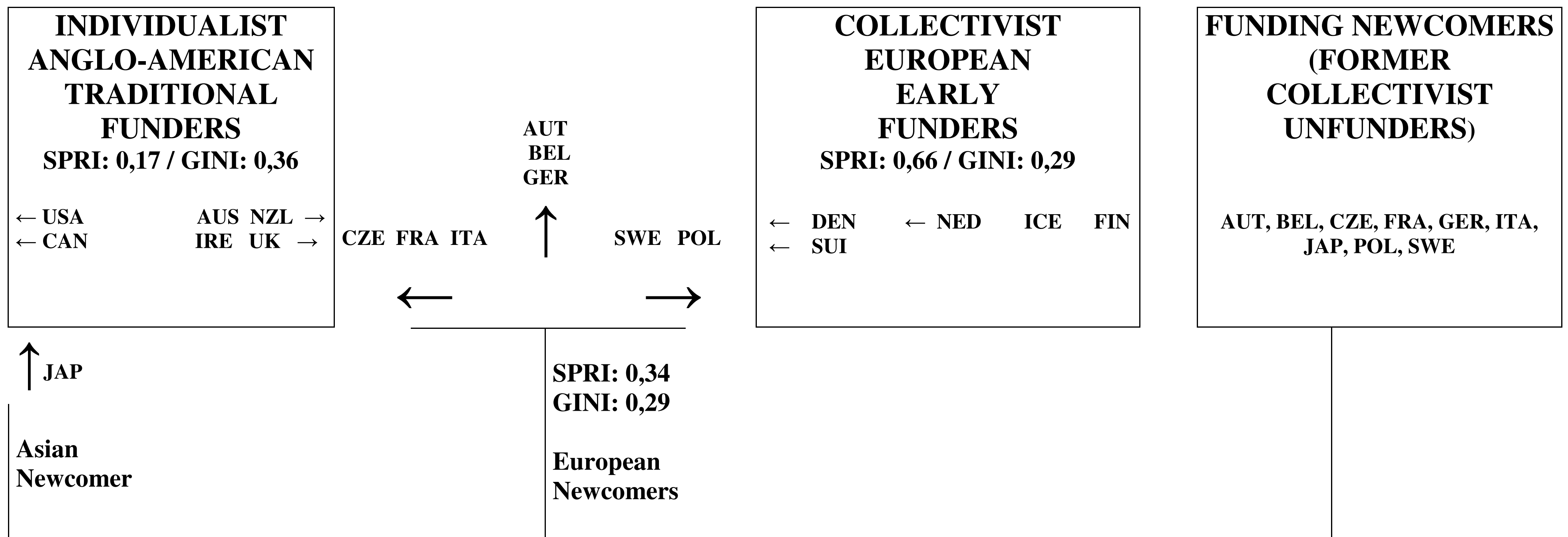
A similar assessment applies to the group of European Funding Newcomers: whereas they surely contain on average some more Social-Democratic elements than the Anglo-American group of Traditional Funders, high administration costs, missing inflation protection, regressive tax structures, overwhelming choice options are also of concern in many of these countries. So, the fashionable term of *welfare* markets should be used with very great caution. More appropriate is to speak of pension markets with a more or less greater number of isolated welfare market and/or welfare state elements whose significance is not seldom exaggerated by some well-sounding Social-Liberalistic political rhetoric who wants to convince us that a balanced way of reform has been found. However, the reality often speaks a rather different language. Consequently, the ***compensation hypothesis,*** expecting a dominant trend of ***restructuring*** of the form of collective responsibility through the erection of genuine ***welfare markets***, is predominantly rejected - at the moment.

However, this is at least partially due to the fact that genuine social-liberalistic ideas concerning the regulation of funded pensions are quite new as they were only recently developed out of the perceived problems of conventional pension markets. In the future, welfare markets may emerge as a result of a transformation what concerns the normative ideas diffused by (nowadays still mostly neoliberally oriented) economists which clearly dominate policy advice in the pension field at the moment. Possibly, behavioural economists with a social-liberalistic inspiration may assume more influence in the future, thereby enhancing the sociodiversity in the pension policy advice culture. So, f.e., Estelle James (2005), scientific advisor to the World Bank, meanwhile promotes some funded pension regulation policy ideas stemming out of the tool box of Social Liberalism. And even Axel Börsch-Supan (2005) now supports the idea of automatic enrolment.

However, especially with regard to the important element of an institutional market with structured and restricted choice and concomitantly low administration costs advocated by Social Liberalism, resistance of provider interests can be expected to be as intense as influential. Ironically, perhaps these ingrained, powerful provider interests – firmly instituted by the critical institutional junctures made by the pension reforms of the 1990s - may in the future be among the factors that cause path dependent inertia and `reform congestion´. So, questionable normative ideas and convictions of past scientific and political elites incorporated in institutions then frozen by commercial interests will be probably playing a

much more crucial role in future funded pension policy than crude functionalist theories of global markets as automatic promoters of national institutional efficiency currently contend.

Unfunding Elephants on the move towards funding



7. Integrating Regulation in Overall Pension Policy Typology

Writing in the end of the 1980s, Palme (1990) constructed a four-fold ideal-typology for national pension systems, operating with the normative principles of need, work merit and citizenship. He differentiated between 1) the `residual model´ based solely on the normative principle of need with Australia, Ireland, the United Kingdom, the United States and Switzerland coming near to it (28% of all countries examined by him), 2) the `income security model´ based solely on the normative principle of work merit with Austria, Belgium, Germany, Italy, Japan and France coming near to it (33%), 3) the `basic security model´ based solely on the normative principle of citizenship with Canada, Denmark, the Netherlands and New Zealand coming near to it (22%), 4) the `institutional model´ based on the normative principles of citizenship and work merit with Finland, Norway, and Sweden (16,6%) coming near to it. However, he did not account for the degree of social policy regulation of funded pensions as the general shift to funding had not occured yet at that time. How can the increasingly important regulatory issues be integrated in a structurally equivalent ideal-typology and what country shifts meanwhile occured can be seen if this is done ?

Despite the shift to funded pensions, all 20 countries examined here still possess some sort of a (more or less extensive) unfunded pension part whose implicit or explicit task meanwhile is predominantly poverty prevention – because for status maintenance, funded pensions are nowadays almost[145] everywhere indispensible. Hence, to establish a typology of the overall pension mix including unfunded and funded pensions, it is necessary to combine the first measure capturing the intensity of funded pension regulation related to the goal of status maintenance (SPRI) with a second measure capturing the decisive *structural* feature of the unfunded part of a country`s pension system aimed at the goal of poverty prevention. Similar to Palme (1990), the decisive feature of unfunded pensions is seen here in the degree of selectivity versus universality of the poverty prevention strategy, because

1) Korpi & Palme (1998 & 2005) and others (f.e. Rothstein 1998; Moene & Wallerstein 1997) have theoretically justified and empirically shown why and that this structural issue is of crucial importance for the political functioning of welfare politics and the outcomes of welfare policies.

2) the feature of selectivity versus universality reflects similar concerns of individual and collective responsibility.

[145] I will account appropriately for the two exceptions to this general rule (Austria and Italy) – see below.

Perfectly selective programs assign the responsibility for poverty prevention first and foremost to the individual. Through means-tested programs, the state steps into the breach only if, after and dependent on the extent to which individuals` own preceding efforts have failed. Thus, the state restricts its activities to the `truly needy´. Furthermore, because these programs receive no support from the middle classes, they are politically highly susceptible to retrenchment strategies (ibidem), especially those of `Decrementalism´ (Pierson 1994, 20) (meaning implicit privatisation through mere price instead of net wage indexation of benefit levels). Consequently, they tend to have on average rather low replacement levels, which in turn even further reinforces the extent of individual responsibility for poverty prevention over time (if a relative instead of absolute concept of poverty is applied).

Contrary to that, in perfectly universal programs, the state makes a preceding general commitment to take over a collective responsibility which covers its whole citizenry irrespective of need and work or contributory merit by granting everyone an equal basic income based on citizenship in order to avoid poverty. Furthermore, because these programs receive strong middle-class support (Korpi & Palme 1998 & 2005), they are politically less susceptible (though, of course, not invulnerable) to retrenchment strategies like decrementalism as are selective programs[146], so that the extent of collective responsibility is stabilized over time.

However, complete selectivity and complete universality are ideal-types, covering only the extreme opposite endpoints on a scale for individual vs. collective responsibility for poverty prevention with some differently mixed grey shadows in between them. In order to account for these shades without becoming too complex, it will be differentiated here in the following between 6 real-world categories of unfunded pension systems which exhibit different degrees of selectivity / universality[147]:

a) An unfunded system which is constituted by one (or more) means-tested program(s) alone (Australia[148]). This kind of system is based on the selective elegibility principle of need.

b) An unfunded system which consists of one (or more) means-tested program(s) plus a mandatory, strictly earnings-related, categorial[149] Paygo program (Austria, Canada, Finland, Italy and Sweden). This kind of system is based on the selective elegibility principles of need and paid work merit.

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[146] This hypothesis is – not in every single case, but in the majority – empirically approved what concerns the indexation of minimum pension benefit levels. See the country overview in VDR 2005, 29 f.

[147] See the descriptions of the unfunded system parts at each of the beginnings of the country subchapters in chapter 4 for the country assignments made in the following.

[148] To be sure, generous thresholds ensure that a high share of the population benefit. However, as shown in chapter 5.1., this will significantly change in the future as the SG program matures.

[149] The term is borrowed from Döring (2002) meaning `related to paid employment´.

c) An unfunded system which combines one (or more) means-tested program(s) with a more or less progressively redistributive[150] and more or less categorial, mandatory Paygo program (Belgium, France, United Kingdom, Ireland, Poland, United States). This kind of system is based on the selective eligibility principles of need and paid work merit, but temper the latter through more or less strong redistributive solidarity in favour of low earners. However, work merit here plays nevertheless a great role even in the most strongly redistributive (flat-rate) type of this system (Ireland, United Kingdom) as paid employment duration influences the amount of the pension received.

d) An unfunded system which is composed of one (or more) means-tested program(s) and a more or less progressively redistributive, non-categorial, that means genuinely citizenship-based Paygo scheme whose financing is based on mandatory contributions for the whole population (Japan and Switzerland). This kind of system reflects some aspects of the three eligibility principles of need, contributory merit and citizenship at the same time.

e) An unfunded system which puts together one (or more) means-tested scheme(s) and a universal citizens` pension whose reception is not conditional on personal contributions but on duration of residence only because it is financed by taxes or tax-like contributions (Denmark and Iceland). This kind of system is structured according to the selective principle of need and the universal principle of citizenship at the same time.

f) An unfunded system which achieves to prevent poverty alone by a universal citizens` pension whose reception is not conditional on personal contributions but on duration of residence only because it is financed by taxes or tax-like contributions (the Netherlands and New Zealand). This kind of system is based solely on the universal principle of citizenship.

Again, - and in difference to Palme (1990) - it is of very great importance to prevent mixing up of real-world-cases (national pension systems) and ideal-types, because this furthers misunderstandings concerning the scientific status and function of ideal-typologies (Kohl 2000, 118 ff.). Hence, one should not use table columns as clearly separated `drawers´ for types in which different countries then are placed[151], but rather work with metric representation instruments, with which we can express f.e. that country A is (round about) 20% or so nearer to ideal-type X than country B but 30% more far away from ideal-type Y. Kohl (2000) has done this in an instructive way with reference to the threefold regime

[150] The minimum condition required here to fulfil this criterion is that the Paygo-System includes at least a minimum pension (which may be subject to minimum contribution record requirements), thereby topping up pensions of former low-wage earners above the actuarially correct pension.

[151] Like Natali (2004) has done.

typology of Esping-Andersen by using a triangle[152]. Here, a coordinate cross will be used as regards the pension policy mix of the 20 countries examined here because 4 main types were already usefully distinguished not only by Palme (1990, 87) but also by Döring (2002, 31 ff.) – albeit without integrating regulatory issues concerning the funded part of the national pension system, what will be done here.

The y-axis of this coordinate cross, the modernised equivalent to Palme`s variable of (collectively ensured) `income security´, has values going from 0 to 1, representing the SPRI of funded pension regulation, that is the degree of regulation intensity reflecting the degree of collective responsibility for status maintenance. Values below / above 0,5 on this y-axis (the point of intersection with the x-axis) indicate dominance of individual / collective responsibility for status maintenance in old age. The x-axis of this coordinate cross, the refined equivalent to Palme`s variable of (collectively ensured) `basic security´, represents the Poverty Prevention Index (PPI) that also has values going from 0 to 1, reflecting the degree of selectivity versus universality, that is the degree of collective responsibility for poverty prevention. The types of unfunded pensions a), b), c), d), e) and f) described above are assigned the values of 0; 0,2; 0,4; 0,6; 0,8 and 1 on this scale. Values below / above 0,5 on this x-axis (the point of intersection with the y-axis) indicate dominance of individual / collective responsibility for poverty prevention in old age.

The four outer corners of an imaginative square around the coordinate cross used here represent the four ideal-types of the national pension mix described below. The fact that a real country case is placed in one of the four field associated with the four corners indicates that it is not absolutely, but mainly, more or less – depending on its exact place - structured according to the normative principle of the ideal-type contained in the corner associated with that field. If a country should find itself placed in the origin of the coordinate cross (where x = 0,5 ; y = 0,5)[153], this would mean that it is institutionally structured according to all four ideal-type ideologies to the same degree.

1) The right lower corner represents the neoliberal ideal-type of pension mix which combines a selective strategy to poverty prevention in old age with an individualistic strategy to status maintenance. Reflecting the normative principle of *general liberty*, individual responsibility

[152] With the 3 corners representing the 3 ideal-types and the country-specific real-world types placed in between them.

[153] To be sure, the origin of a coordinate cross in mathematics is usually defined as (x = 0; y = 0). However, then I would have had to work with negative values for individual responsibility which I found being ideologically too suggestive.

in relation to both goals is stressed, so this ideal-type can be termed a liberal market. It is the modernised equivalent to Palme`s *residual model.*

2) The left lower corner represents the guarantistic[154] ideal-type of pension mix which combines a universal strategy to poverty prevention in old age with an individualistic strategy to status maintenance. Reflecting the normative principle of *basic dignity*, collective responsibility as regards poverty prevention, but individual responsibility concerning status maintenance is stressed, so that this ideal-type can be termed an embedded market[155]. It is the modernised equivalent to Palme`s *basic security model.*

3) The right upper corner represents the meritocratic ideal-type of pension mix which combines a selective strategy to poverty prevention in old age with a collectivist strategy to status maintenance. Reflecting the normative principle of *meritocratic security*, individual responsibility for poverty prevention is assigned, but collective responsibility as regards status maintenance is overtaken, so this ideal-type can be termed a wage-earners` welfare state. It is the modernised equivalent to Palme`s *income security model.*

4) The left lower corner represents the social-democratic ideal-type of pension mix which combines a universal strategy to poverty prevention in old age with a collectivist strategy to status maintenance. Reflecting the normative principle of *comprehensive solidarity*, collective responsibility in relation to both goals is stressed, so this ideal-type can be termed a social-democratic welfare state. It is the modernised equivalent to Palme`s *institutional model.*

So, in order to place countries accurately in this coordinate cross, we have to combine the y-value (SPRI of funded pension regulation) specifying the extent of collective responsibility for status maintenance and the x-value (PPI of unfunded pension structure specified by the types a) – f) described in this chapter).
However, with regard to the x-value, there is one exception to this, namely Australia. Australia has a mandatory funded earnings-related pension that does not suffice to reach status maintenance, but at least implicitly functions as a substitute for other countries`

[154] This term is borrowed from Opielka (2004, 49).
[155] To be distinguished from the concept of *welfare* market conceptualized in chapters 2 and 3. The concept of *welfare* market is not used here in this four-fold ideal-typology of pension mixes because - as was argued in chapter 6 - there are currently only some single welfare-market elements in OECD pension systems but not coherent institutional complexes which resemble the ideal-type of a welfare market. If this should change in the future, a six-fold ideal-typology for the pension mix may be needed.

curtailed unfunded earnings-related part, so that it is not need alone that dominates Australia`s poverty prevention strategy, but paid work merit, too. Therefore, Australia`s poverty prevention strategy is accorded the value of 0,2 instead of 0.

With regard to the y-value, there are two exceptions, namely Austria and Italy. Contrary to all other 18 countries, they still possess unfunded Paygo-systems that *in their current structure* – despite the cutbacks made - will suffice *alone on their own* to provide status maintenance (defined as a minimum net replacement rate of 65%) for the standard pensioner even in the coming decades. According to computations performed by the OECD, the expected net replacement rates for a standard pensioner in both countries are far above that threshold (Austria: 93,2% ; Italy: 88,8%) (VDR 2005, 108 & 127)[156]. This is an important fact that cannot be just ignored because of convenience. The consequence is that in order to do justice to the Austrian and Italian pension mix, we cannot take use their SPRIs *for the purpose of this chapter*. Instead, we need an index capturing the degree of collective responsibility inherent in their unfunded mandatory Paygo-systems.

Therefore, I have developed an index which measures the degree of collectivisation of responsibility for status maintenance in unfunded pension systems, the Collective Responsibility Index (CRI), compiled of the same dimensions as the SPRI, but without the self-investment dimension, because these cannot be usefully applied to an unfunded system. In the following, I compute the CRI for Austria and Italy by using the remaining 10 dimensions.

Participation in the Austrian unfunded Paygo-system is mandatory (value of 1), early withdrawals are not possible here (value of 1), it is still a DB system (value of 1), the system is not subject to choice risk (value of 1), administration costs of the meanwhile centralized, non-profit scheme exploiting economies of scale are quite low (1,8% of total expenditure according to the Austrian Government 2002, 28) (value of 1), take-out of inflation-indexed annuities is mandatory (value of 1 for both dimensions). Periods in which unemployment benefits were received as well as periods of child rearing are recognized in computing the old-age pension. Comparatively, very generous pension credits accrue for non-market work (child rearing) since the pension reform in 2003/2004: pension rights on the basis of a fictitious

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[156] France is a boundary case with an expected future net replacement rate of 65% of the two unfunded systems (VDR 2005, 98). However, because this is the initial replacement rate and pensions are indexed to prices instead to net wages (ibidem, 29), this net replacement rate will fall below the 65% threshold applied here soon after retirement. So, funded pension top-ups from PERP or/and PERCO will be necessary to reach the threshold of 65%. Therefore, France`s SPRI will be used here what concerns the placement of this country in the coordinate cross. Of course, unfunded pensions in Austria (Rürup & Gruescu 2004, 401) and Italy (VDR 2005, 29) are also (planned to be) indexed to prices instead of net wages. However, the extremely high initial replacement rates in both countries function as a buffer that will prevent net replacement rates from falling below the 65% threshold during retirement at least in the majority of individual cases.

wage of currently € 1350 per month for a length of 4 years are credited for each child (Republic of Austria 2005, 23). Consequently, the Lifecourse Transition Support dimension receives the value of 1. What concerns the poverty of means dimension, the value of 1 is assigned again because the Austrian Paygo system is heavily subsidized by the Austrian treasury – it accounts for 23,73% of all expenditure and 2,2% of GDP (Krell 2005, 5 & 10)[157]. Unfunded pensions in Austria are subject to an ET-system, under which state`s revenues are lower than under an TE-system because of the progressive tax scale, so that the value of 0 is accorded fort his dimension.

Taken together, Austria`s CRI for its unfunded pension scheme assumes a value of 0,90:

$$CRI(AUT) = \frac{2 \cdot 1 + 1 + 1 + 1 + 1 + 1 + 1 + 1 + 1 + 0}{11} = 0,91$$

What concerns the unfunded Italian Paygo-system, participation is mandatory (value of 1), early withdrawals are not possible (value of 1), it is a NDC system (value of 0), no individual choice exists (value of 1), organized according to non-profit sector- and occupational lines exhibiting an intermediate degree of centralization (value of 0,5), take-out of annuities is obligatory (value of 1) and pensions` real value is partially protected according to a progressive formula (pensions up to round about two thirds of / up to 1,1 times the average wage / more than this are fully / by 90% / by 75% indexed to inflation) (value of 0,5). People receiving unemployment insurance benefits as well as child caring individuals are credited with some pension rights. Unemployed people accrue rights amounting to the average insurance contribution in the year before the beginning of the unemployment period. Recognition of times spent in maternity leave based on a replacement income of 80% is granted for 5 months. Child care up to 6 months is also credited with contributions based on a parents` allowance with a 30% replacement rate. Further credits for child care based on the double amount of social assistance are granted if household`s gross income does not exceed 2,5 times the minimum pension[158] (value of 1). The Italian state gives regular subsidies to the

[157] This state subsidy to the unfunded system is a (hidden) form of redistribution from the rich to the poor, because financial means stemming from *progressive* taxation are used to keep income-*proportional* benefit levels in the earnings-related system high, which is especially important for those on low incomes.

[158] I am very grateful to Dr. Eva Maria Hohnerlein from the Max-Planck Institute for Foreign and International Law (Munich) for this detailed information. Personal communication on December 9, 2005.

unfunded pension scheme[159] (value of 1). Unfunded pensions in Italy are subject to an ET-system, under which state`s revenues are lower than under an TE-system because of the progressive tax scale (value of 0).

Taken together, Italy`s CRI for its unfunded pension scheme assumes a value of 0,80:

$$CRI(ITA) = \frac{2 \cdot 1 + 1 + 0 + 1 + 0,5 + 1 + 0,5 + 1 + 1 + 0}{11} = 0,73$$

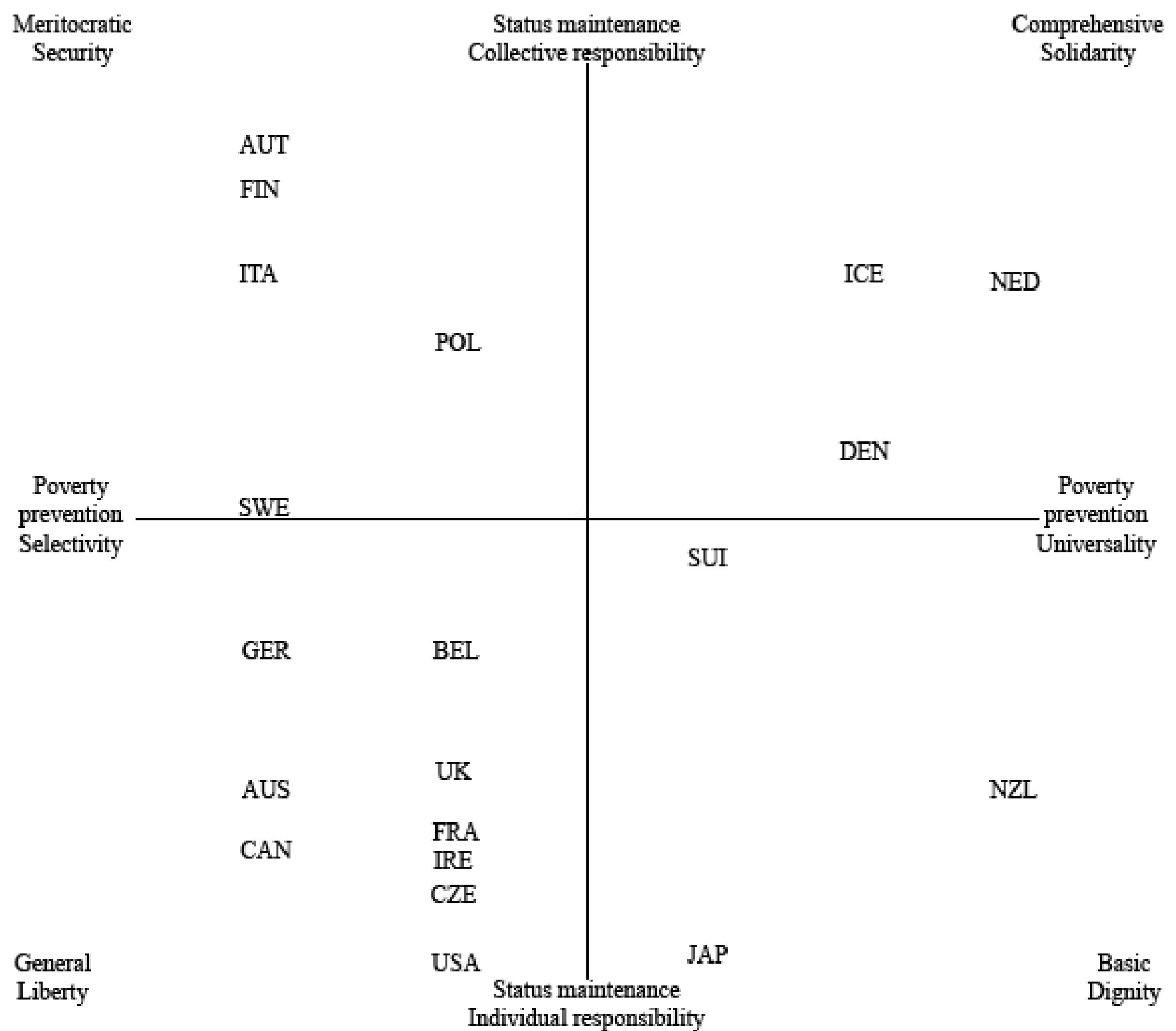
Table 3: SPRI/CPI and PPI of 20 OECD Countries

COUNTRY	**SPRI / CRI** **Degree of Collective Responsibility for Status maintenance**	**PPI** **Degree of Collective Responsibility for Poverty Prevention**
Australia	0,23	0,2
Austria	0,91 (via Paygo)	0,2
Belgium	0,35	0,4
Canada	0,13	0,2
Czech Republic	0,13	0,4
Denmark	0,56	0,8
Finland	0,85	0,2
France	0,17	0,4
Germany	0,35	0,2
Iceland	0,75	0,8
Ireland	0,16	0,4
Italy	0,73 (via Paygo)	0,2
Japan	0,04	0,6

[159] I thank Dr. Eva Maria Hohnerlein from the Max-Planck Institute for Foreign and International Law (Munich) for this information. Personal communication on December 9, 2005.

Netherlands	0,71	1,0
New Zealand	0,22	1,0
Poland	0,64	0,4
Switzerland	0,45	0,6
Sweden	0,51	0,2
United Kingdom	0,26	0,4
United States	0,02	0,4

Diagram 2: Typology of the Pension-Mix



With the help of the coordinate cross, it can be seen that a simple majority, that means almost half (45%) of the countries examined here (Australia, Belgium, the Czech Republic, Canada,

France, Germany, Ireland, the United Kingdom, the United States) pursue a more or less tempered version of the general liberty variant, because individual responsibility dominates both their strategy of poverty prevention and their strategy related to status maintenance. The real world case coming most near to this ideal-type is Canada. In the face of the high risk potential inherent in funded pensions with a regulatory style exhibiting a thorough degree of individual responsibility, a reliable form of poverty prevention would be of utmost importance. All the more concerning is the fact that some of the countries in this field index their last safety nets to inflation only (Belgium, Canada, Germany, Sweden, United States), subjecting future low earners retiring during market downturns to high poverty risk. On the other hand, indexing their means-tested safety nets to net wages reinforces incentive problems related to voluntary pension saving here, so that these countries may confront a dilemma in the future (Sweden being an exception because funded pension saving are (quasi-)mandatory there).

Five countries (25%) (Austria, Finland, Italy, Sweden and Poland) have a pension system whose normative structure is a more or less tempered version of meritocratic security, assuming a high degree of collective responsibility concerning status maintenance, but a low degree of collective responsibility as regards poverty prevention. The real world case coming most near to the ideal-type is Austria.

In exact reverse to that, 3 countries (15%) (Japan, Switzerland and New Zealand) lie in the field of basic security, stressing collective responsibility for poverty prevention, but relying more or less on individual responsibility what concerns status maintenance. The real world case coming most near to the ideal-type is New Zealand.

The last three countries (15%), Denmark, Iceland and the Netherlands, show a relatively high degree of collective responsibility for poverty prevention as well as status maintenance. The real world case coming most near to the ideal-type of comprehensive solidarity is represented by the Netherlands.

If a diagonal is drawn from the upper left to the low right corner of an imagined square surrounding the coordinate cross, shading the (rather) individualist half from the (rather) collectivist half, we see that the slight absolute majority of countries, that is 12 out of 20 countries, belongs to the (rather) individualist terrain. However, from the 8 countries on (rather) collectivist terrain, the majority of 5 are quite near to the boundary, while the same cannot be said of those countries lying on the (rather) individualist terrain. This shows the moderate predominance of the principle of individual compared to collective responsibility in current pension system structure.

Compared to Palme (1990), the part of the general-liberty-model has increased by 17 percentage points, that of the meritocratic-security-model has decreased by 8, that of the basic-dignity-model has diminished by 7 and that of the comprehensive-solidarity-model by 1. Thus, overall, the model with the highest degree of overall individual responsibility has gained at the expense of all other three models whose overall degree of collective responsibility is more or less higher. To a minor extent, this may be due to the fact that the groups of countries examined by Palme and me differ slightly one from another – he did not cover Iceland, the Czech Republic and Poland, and I do not treat Norway – but this surely cannot explain away the general moderate shift from collective to individual responsibility identified here: Canada[160] has shifted from dominance of basic dignity to dominance of general liberty; Belgium, Germany, Japan and France from dominance of meritocratic security to dominance of general liberty[161]; Finland and Sweden [162] from dominance of comprehensive solidarity to dominance of meritocratic security, with Sweden only narrowly above the field of general liberty. So, 7 countries increased the importance of individual responsibility at the expense of collective responsibility, whereas none chose the opposite direction. Even the fact that Switzerland is classified here as belonging *rather* to the field of basic dignity, whereas Palme classified it as belonging purely to his residual model is not due to policy change towards more collective responsibility but instead the consequence of his nominal clear-cut fields, whereas I account for the shades between universality and selectivity, with the Swiss AHV + EL system estimated as being comparatively *rather* universalist than selectivist (compare this gradualist approach with Palme`s clear-cut note on the Swiss case (1990, 98, Footnote 21)).

8. Conclusion

To sum up, the idea of individual responsibility is currently predominant in the institutional structure of OECD pension systems and its importance has significantly increased between 1985 and 2005. However, luckily for those who think that institutional sociodiversity of practical social policy in a globalising world is a value as is the biodiversity of natural species, not in an exclusive way. Moreover, the average dominance of the principle of individual responsibility is *on average* much more tempered in Northern and Continental

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[160] Subjecting the formerly universal OAS to a means-test with price-indexed thresholds.

[161] All by reducing the generosity of the earnings-related Paygo-system below a benefit replacement level of 65% and „compensating" this with a funded pension system which hardly protects against financial market risks and applying individualist principles to the distribution of saving means (partial exception: Germany).

[162] By replacing the citizens` pension by an income-tested basic pension.

European countries than in Anglo-America and Japan. However, the usual geographically oriented division of European welfare states into Social-Democratic `Nordic Lights´ and Conservative Continental Europe currently does not hold any longer what concerns the pension policy mix: What concerns the Scandinavian countries, Finland belongs to the group of meritocratic security, while Sweden meanwhile is categorized as a – albeit strongly tempered - form of general liberty, whereas Denmark lies in the field of comprehensive solidarity, narrowly apart from basic security. As regards Continental Europe, Austria is – still – the best exemplification of the the principle of meritocratic security in the world, while France is a tempered case of general liberty, whereas the Netherlands represents the best available real-world example for comprehensive solidarity. So, what concerns the pension policy mix, the cards of comparative social policy analysis were partially newly shuffled in the last 20 years since Palme wrote his analysis.

It will be exciting to investigate how countries will react to the regulatory challenges identified here, especially in the face of structural financial market downturns possibly lying ahead (Davis & Li 2003; England 2001) in an increasingly volatile era of Shareholder Value Capitalism (Aglietta & Rebérioux 2004). Thus, Sisyphus and his pension rock keep on rolling (perhaps with an even increasing pace): what is currently sold as the once and for all solution of today`s problems will be the problems of tomorrows` days.

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