Erasmus University Rotterdam

The actuality, fairness and feasibility of the Dutch pension plan

Lessons the Dutch can draw from Germany, Sweden and Denmark

E.D.B. Koenders (313461)
Public Administration, International Public Management and Policy
Faculty of Social Sciences
Erasmus University Rotterdam

1st Supervisor: Dr. J.L.M. Hakvoort
2nd Supervisor: Dr. H.J.M. Fenger
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PREFACE

As a final step in my Master degree International Public Management and Policy I now present you my final thesis. This thesis is a cross-national comparative case study on pension reforms in Sweden, Denmark, Germany and The Netherlands.

The process of producing this thesis has been the most demanding assignment at the university. And now, after a few years of hard working and ups and downs, I am ready to put my knowledge gained at the Erasmus University Rotterdam into practice. I would like to thank the professors who transmitted their knowledge about the topics we discussed in class. A special thank goes to Dr. Hakvoort, my supervisor who guided me through this process and advised me on different aspects of this thesis. I would like to give another special thanks to my second reader Dr. Fenger as well for his fast en critical response on my concept-thesis and overall work.

In addition, I would not have been able to get through all these years without the help and the support of people that stand close to me. Especially my girlfriend deserves some recognition for putting up with my frustrations during the process and advising me when necessary.

Emanuel Koenders
Rotterdam, January 2011

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LIST OF ABBREVIATIONS AND ACRONYMS

AFM	Authority of the Financial Markets
AOW	Algemene Ouderdomswet
ATP	Allmänna tillägspensionssytem
CDA	Christian Democratic Party
CDU	Christian Democrats
CO	Coordinating Consultations on Occupational Pensions
CSO	The Elderly Union
CSU	Christian Social Union
D66	Democraten 66
DAF	Deutsche Arbeitsfront
DB	Defined Benefit
DC	Defined Contribution
DNB	De Nederlandse Bank
GRV	Gesetzliche Rentenversicherung
ISG	Indicators Sub-Group
ITP	White-collar workers
KTP	Local government institutions
LO	Danish and/or Swedish Confederation of Trade Unions
NDC	Notional Defined Contribution
PAYGO	Pay-As-You-Go
PvdA	Labor Party
PVK	Pension Insurance Chamber
RFV	Riksförsäkringsverket
SER	Social Economic Council
SP	Central government
SP	Social Democrats
SPD	Social Democrats
SSA	Sveriges Socialdemokratiska Arbetareparti
STP	Blue-collar workers
SVB	Sociale Verzekerings Bank (Social Insurance Bank)
VBL	Federal Government and the Länder
VERP	Voluntary Early Retirement Program
VNO-NCW	Association of employers
VUT	Vervroegde Uittreding
WAO	Wet Arbeidsongeschiktheid
WW	Werkloosheidswet
ZBO	Independent Governing Body

CHAPTER 1: DIAGNOSING THE PROBLEM

In this thesis I will discuss pension schemes in a cross-national setting. Pensions are an institution that constitutes one of the building blocks of our society (Ebbinghaus, 2005) and this building block comes forth out of welfare states.

Since Europe consists of many countries there are certain similarities, but there are also many dissimilarities in the arrangement of their welfare states. According to Ferrera, Esping-Andersen and other authors (Bonoli, 1997, pp. 355-357) European countries can be grouped together when looked at certain characteristics. A geographical cluster of Nordic, Northern/Southern Continental and Anglo-Saxon countries can be made by looking at how much states spend on social security. Since my main focus for this thesis is the Netherlands, and this is a high-spending Northern Continental country, I will elaborate my research with comparable, high-spending countries, being Germany as a Northern Continental country and Sweden and Denmark as Nordic countries.

Next to the institutional design of welfare states, the pension institution is interesting to research due to its high volatility at the moment. In many countries in the world there is a growing ageing problem. A large group of people is growing old, will eventually stop working and will cause old-age dependency ratios to increase. This growing group forms a threat to the financial stability in a country, since all elderly will eventually make use of their pension plans and an increase in the use of the health sector is also expected. This demographic and economic change has been an eyesore to many governments since the late 1980s. There is a pressure to reform the pension system however, since it has become an institution during the years, this cannot be easily implemented.

Forecasts of demographic deterioration and economic downturn are not the only reasons why pensions have to reform. The institution has been established mostly after the Second World War. People gained more benefits and the system became more generous. Since the economic situation improved, the welfare provision became higher and today governments are trying to negate some of the measures taken in more prosperous times.

Political actors fight out strategies of blame-avoidance and credit-claiming. This is another factor why decisions in pension reforms are not and cannot always be taken directly, despite their necessity. Coalition partners do not want to make the decision to retrench current policies, since they might face a severe cut in votes during the following election round. Therefore as much blame is avoided and as much credit is claimed, when reforms are introduced, as possible. Moreover, next to the political actors, pension discussions also involve social partners up to a certain extent. Dutch decision-making is characterized by the polder-model in which tri-partite discussions are entrenched in various decision-making arenas. Other countries involve their social partners in decision-making as well, however in another form than the Dutch do.

Although pensions can be seen as an institution it is hard to research it as a whole, since it contains diverse elements. Therefore, I will specifically research the statutory retirement age of pension schemes. It has already been point of discussion in the Netherlands to increase the eligible age to 66 or 67 years and the 2010 coalition agreement already states that the retirement age will increase to 66, however this measure has not yet been implemented. By increasing the retirement age, the pension system is enabled to meet today's demands better and it can induce preservation of the contribution and/or replacement rate.

Since pension schemes contain many elements, reforming the statutory retirement age is not the only possibility to reform the scheme. By drawing lessons from the most important reforms between 1980 and 2010 of the other three countries next to the Netherlands, I want to find out what these other possibilities are and if reforming the retirement age is inevitable. An overview of the current statutory retirement age can be found in table 1. I have added the average exit age for all four countries, with the intention to emphasize the necessity remaining in the work force for a longer period. The fewer contributors to the pension scheme, the higher the contribution rate will have to be to pay for the current and coming beneficiaries:

	Average Exit Age		Statutory Retirement Age
	2001	2007	Total
NL	60,9	63,9	65*
DE	60,6	62	65**
SE	62,1	63,9	61-67
DK	61,6	60,6	65***

Table 1: Average exit age and statutory retirement age (ISG, 2009)

* Coalition agreement in 2010 states a planned increase to 66, however measure not yet implemented
** 2007 reform decided that retirement age will gradually increase between 2012-2029
*** decided that retirement age will gradually increase between 2024-2027

By researching various factors that influence the statutory retirement age, I hope I can draw lessons for the Dutch from other countries guided by the following main question: *What lessons can the Netherlands draw from other welfare states concerning the reform of the statutory retirement age, when considering demographic and economic factors, monetary policies and the role of actors?*

1.1 DEFINITION OF THE PROBLEM

Aim of research
The main aim for my research is to draw lessons for the Dutch pension system in comparison to three other European pension systems. Since pensions are center to a hot debate in the Netherlands, it is obvious that reforms should follow to make the pension scheme more actual, fair and feasible on the long-term again. I find it most interesting to see what lessons can be drawn from others countries concerning modifications they have made to their schemes to make it sustainable again. I will cross-analyze the Dutch pension scheme with schemes that have similar components, although I do recognize the fact that none of non-indigenous schemes are fully similar. In my pursuit to draw lessons from other countries I hope to be able to give recommendations for the Dutch pension scheme in the end.

Main question
My main research question in this thesis will be:
What lessons can the Netherlands draw from other welfare states concerning the reform of the statutory retirement age, when considering demographic and economic factors, monetary policies and the role of actors?

Sub questions
To be able to answer my main research question I will clarify various components of the question by answering sub questions.

First of all, it is important to understand what the dependent variable exactly means and what it provides its beneficiaries. When this is sorted out, I can proceed to the following questions.

1. *What does the statutory retirement age entitle its eligible beneficiaries to?*

Three independent variables influence my dependent variable. Since I want to draw lessons from other countries I first have to find out what measures have already been taken in the Netherlands concerning these variables. This research will be performed in line with question 2, 3 and 4. Question four will directly be answered for all countries and not only for the Netherlands. This gives me an opportunity to explain path dependence.

2. *Which monetary policy measures have been taken to reform the statutory retirement age?*

3. *Which demographic and economic factors have influenced the reform of the statutory retirement age?*

4. *What roles do actors play in the policy process?*

The last question I will need to answer before I can answer the main question is what lessons can be drawn from the other countries. I will also give a view recommendations based on this and the main question.

5. *What lessons can be drawn from the empirical analysis of Germany, Sweden and Denmark for the Netherlands?*

1.2 RESEARCH DESIGN INTRODUCTION

The research will be a comparative case study. In this design my dependent variable is *statutory retirement age.*
The three independent variables that influence the dependent variable are (1) *demographic and economic factors,* (2) *monetary policies* and (3) *role of actors.*

To see whether 'W', 'X', 'Y' and 'Z' truly co-vary I will research the variables over the last 30 years. Even though I am able to prove that 'W', 'X', 'Y' and 'Z' co-vary it does not mean that the three variables are the sole factors to influence the pension programs. To strengthen my design I will research more countries in the EU besides the Netherlands. When the same co-variation is observed the outcome of the research will be more valid. The countries I will further research are Germany, Sweden and Denmark, since those countries fulfill the criteria.

Why have I chosen for a comparative case study? I have a study with mainly quantitative data. It requires repeated observations from the same phenomenon to prove my hypotheses. When this study is linked to several other cases, I will even be more able to prove the hypotheses.

I have not chosen for an interrupted time series design since I am measuring more than one intervention. I do want to research my (in)dependent variable at frequent time intervals, but the time series design would not fully support my research. Nor have I chosen for a single case study. I want to be able to prove my hypotheses. When I choose for more than one case, I will be better able to do this.

Reliability
The reliability of this research is quite high, since the research will not involve any questionnaires and/or interviews that can cause a malfunction in the reliability. The research will be performed by frequent desk research and comparison of earlier reports on the topic. I will work by triangulation to keep the level of reliability high. When I find a source that supports my central question and/or hypotheses, I will see to it that this will not be the only source I consider to base my conclusions on. By collecting multiple sources on a subject, one raises the probability of the correctness of the sources. When only one source is used to prove a case there is a chance that the source is invalid.

Validity

Internal: to maintain a high internal validity, I will see to it that the researched data will be equal for all researched countries (according to one certain terminology). The main country of research is the Netherlands, however to research my central question, I will compare the Dutch pension system to three other European countries' systems. These countries all have the following characteristics: high replacement rate of pension plans, increasing old-age dependency ratios, decreasing fertility rate and an increasing life expectancy at 65.

External: in order to maintain a certain generalization, I will use several control groups/countries next to my main country of research, which is the Netherlands. Due to the divergent differences in the European pension plans it is nearly impossible to generalize the outcomes of the thesis directly to the Dutch plan. However, the outcome can be used for further investigation. Welfare states are not all the same, but have made their own decisions resulting in different models. Therefore one European system can never exist. I will have to be careful when making my recommendations, since I have to consider the difference of the Dutch system compared to other systems hence its complexity to transfer measures that might seem interesting, but are not fair and/or feasible to implement.

1.3 RELEVANCE FOR PUBLIC ADMINISTRATION

The relevance of this research question for political administration is first of all to be able to find out which of the current Dutch pension system policies can be changed, when the system is benchmarked with other countries' systems. By benchmarking the policies, the best practices can be observed and where needed and possible (partly) implemented. As a result, an improved system can be established. Momentarily, pensions are part of an important debate in Dutch politics and the previous cabinet already made an important decision on how to change it. Despite already having made the decision, the decision has been declared 'controversial' by Dutch parliament since the cabinet has fallen. The new cabinet is therefore assigned to decide on the measure again and has done so according to the coalition agreement of 2010. Nonetheless, the decisions have not yet been implemented. It has to implement policy in uncertain times of changing welfare to alter policy where needed, however to maintain the status quo or maintain financial and budgetary stability (Zeitlin & Trubek, 2003: 122). Whatever it decides it should not decide incoherently causing eroding pensions and many other complications for the welfare state. I find this trade-off interesting to research and want to find possible solutions for the decision-making process of the Dutch government in its pursuit of maintaining the welfare state.

1.4 THESIS OVERVIEW

Chapter 2 will offer a framework of applicable theories I want to use to support my research. This will be followed by chapter 3 in which I explain how I operationalize my theories and what methodology I use throughout my research. Chapters 4 – 7 are empirical analyses of subsequently the Netherlands, Germany, Sweden and Denmark. These empirical analyses are further analyzed in chapter 8 and this is also the chapter in which I answer my hypotheses. The last chapter, chapter 9 displays a conclusion of my findings as well as recommendations for the Netherlands that I have drawn from my examination.

CHAPTER 2: WHERE TO LOOK FOR LESSONS?

The European welfare state has mainly arisen after the Second World War. Directly after the Second World War many countries were still suffering from their losses and were in debt. Despite the weak economy at the time and the debts, the welfare state arose. In 1979 Jean Fourastie named the quadrupling of the French GDP between 1945 and 1975 the 'Trente Glorieuses' (Ferrera, 2008, p. 83). Due to the economic boom of the states, the citizens asked for more social security and this was also granted to them. In the 1950s, social security expenditure was still below 10 percent of GDP for most European countries, but by the 1970s many countries (as Belgium, Denmark, Germany, France, the Netherlands) had already passed the 20 percent mark and others passed the 15 percent mark (Ferrera, 2008, p. 83). The social security included protection against basic social risks of old age, disability, sickness, maternity and work injuries. Despite the standard 'packages' of social security, there were differences between the countries. Most differences came forth out of the collection of contribution and redistribution of it.

Therborn argues (1983) that to explain the welfare state one should begin by gaining notion of the exact state structure(s), because when is a state a welfare state? Three different approaches attempt to give an explanation to this question. The first approach derives from Therborn himself. He emphasized the historical transformation of state activities. The problem that arises when this approach is used is what type of activities should be taken into account? Depending on the types of activities, what nowadays is known as a welfare state should, as a result, not be labeled a welfare state anymore. This occurs when countries focus on for example defense, law and order and administration. Since these are not standard focuses for a welfare state, this often leads to insufficiencies of the approach.

The second approach states that there is a 'residual' and an 'institutional' welfare state. The residual welfare state provides assistance to the needy when all else has failed. The institutional welfare state on the other side offers a universalistic service to its entire population. This design by Titmuss (1958) aims at what a welfare state has to offer instead of solely focusing on how much it offers. Are welfare provisions aimed at certain groups of a population or are the provisions universal? To what height is the population provided with additional provisions and what is the quality of it?

The third approach is an approach that is not often used by welfare state analytics. It embraces the theoretical selection of certain criteria to determine the type of welfare state. The disadvantage of this approach is that it focuses on measurements and scoring programs. The result is that by analyzing welfare states by using this concept, one can only find out how much has been spent, but not the (historical) reasons for it (Esping-Andersen, 1990, pp. 20-21).

This research will comprise a combination of the first approach by Therborn and the second approach by Titmuss. What activities have states been undertaking through the years and to what extent do states provide their population with additional services, (social) rights and income? Several comparative social policy researches have been performed on these phenomena during the years and on the basis of these reports countries can be divided in groups with similar characteristics. In addition to the division in groups of welfare states, theories on path dependence will be scrutinized along with additional theories to create a framework that better reflects my research questions. To find an answer to my main research question a theory about lesson-drawing will be added to complete my framework.

2.1 POLICY LEGACY

Esping-Andersen, in his book 'The Three Worlds of Welfare Capitalism', suggests a classification based on the level of decommodification provided by the different welfare states. Decommodification namely is the degree to which individuals or families can uphold a socially acceptable standard of living independently of market participation. In pre-capitalist societies, employees were seen as sheer commodities, since their survival was based on selling their labor capabilities (Esping-Andersen, 1990, p. 22). Offering basic social help does not directly lead to a decommodified state. If the social provisions are only targeted at certain groups or if social rights are only offered to certain groups then one cannot speak of full decommodification. In Esping-Andersen's view, a welfare state must offer protection against the basic social risks and provide an adequate and decent standard of living, because then a state is truly decommodified (1990).

The approach focuses on the results of social programs. The first classification is named liberal or Anglo-Saxon. Anglo-Saxon countries are known to be liberal in their redistribution of welfare. The UK and Ireland provide a basic income to prevent poverty. The social programs are also aimed at the poorest citizens, since the programs cannot be seen as an alternative for individual provisions. Anglo-Saxon countries are focused on the traditional work ethic and stigmatize the people that do not work. Decommodification-effects are thus minimized in a liberal system.

Continental European countries are known to be corporatist and conservative. The term corporatism derives from its obsession with class and status which was attained by ones occupation. The Continental countries are also typified and shaped by Christianity. Men were seen as bread-winners and women had to take care of the household and the children. Therefore many rights and subsidies are aimed at this division of tasks (Esping-Andersen, 1990, p. 27). Furthermore, the social programs are intended for the working population to provide them with benefits resulting from their earnings. These benefits can be seen as a social insurance in which the income of a former employee is maintained at a certain level. Decommodification among Continental countries is due to its fixture on status and class, although combined with higher social provisions than liberal countries, somewhat decommodified.

The third classification is socialist or social democratic. Nordic countries are characterized as such, since they have tried to create an equal society for all. The Nordic countries put emphasis to upkeep and support the middle class instead of only supporting the working class with some form of dualism between state and market provisions. Pensions are meant for the entire population and do not depend on one's labor market participation as much as other countries do. Other benefits were unified for the entire population, subsequently everyone could participate. Esping-Andersen sees the Nordic countries as evidence of its theory. The countries are characterized by high social welfare and great provisions for its population.

According to Leibfried and Pierson (1992), a fourth class can be defined in Esping-Andersen's view which is Southern continental. These countries emphasize on old-age pensions and its people rely on their families as a substitute for not being able to participate on the labor market. The provided income maintenance in Southern continental countries is highly fragmented and not very decommodified, since the government only jumps in when the family fails.

Esping-Andersen's approach to classify the European welfare state thus combines two specific elements, namely the 'how much' and 'how' by a country. According to Bonoli, the disadvantage to classify welfare states partially on their social expenditure, but primarily on their level of de-commodification is that the comparison lacks the capacity to make a difference between welfare states based on different social models, e.g. social insurance versus state provision. The classification will result in that certain welfare states can be put in the same cluster according to their similarities, where the welfare states actually still have much dissimilarity (Bonoli, 1997, p. 354).

Another approach to classify welfare states is Ferrera's coverage model. Ferrera specifically looks at the type of coverage by a welfare state for its citizens. 'Coverage can be universal, when the entire population is covered by a single scheme, or occupational, when different groups in society are covered by different schemes' (Bonoli, 1997, p. 355). According to Ferrera's model there are four types of coverage, namely: pure/mixed occupational welfare states and pure/mixed universalist welfare states. The main point of critique is despite the model focuses on who receives welfare provision, it lacks to see how much is spend by the governments. This leads to states being classified in the same category on the basis of the type of welfare state, but when one focuses on the quantity of welfare provision this would not be the case.

A type of classification specifically aimed at pension arrangements is the Bismarckian/Beveridgean system. The focus is on a country's institutional design and on the evolution it has made through history. In 1881 the first social security system was created in Germany by Bismarck. The industrial sector was rising in Germany, as was its labor movement. To keep them from going on strikes and win their allegiance, the model was invented. The security system was basically a social insurance system for employees to help them maintain their income. To be considered eligible for such insurance depends on one's contribution record. Financing a Bismarckian system is done by employer/employee contributions. After a few years, other continental countries followed the German lead. In 1942, a report was published in the UK, named the Beveridge report. The main features and recommendations of this report were not aimed at an insurance system, but at a minimum system with universal flat-rate benefits for retirees. The program derived from the former Danish model which was implemented in 1891 in Denmark (Bonoli, 2000, p. 12). This system should prevent and solve extreme poverty (Iganacio Conde-Ruiz, 2003, p. 6). The system is financed through general taxation (Bonoli, 1997, p. 357).

During the years, countries sought ways to converge their system into a system that could be employed for its entire population. In general, this developed in a two-tiered pension system. The first tier provided a basic income for the entire population and the second tier makes a level of living available for retirees close to the level the retirees had when still being employed (Bonoli, 2000, p. 13). The two types of pension arrangements can be further classified. Both the Bismarckian as well as the Beveridgean class consists of two classes, being low- and high-spending. It speaks for itself that the low-spending class is portrayed by basic pension provisions and the high-spending class by more elaborate pension provisions. 'Bismarckian low-spending' corresponds to (Southern) Continental countries and 'Bismarckian high-spending' to (Northern) Continental countries. 'Beveridgean low-spending' is equivalent to the so-called liberal system, or Anglo-Saxon countries and 'Beveridgean high-spending' to the Nordic countries. The Bismarckian/Beveridgean system lacks from the same incapability's as Ferrera's coverage system. The system primarily focuses on how welfare is received and redistributed, but not on the quantity.

None of the three systems seem to be fully capable to explain how the welfare state was exactly created and how it exactly works. Esping-Andersen and Ferrera focus on the entire welfare regime, however Esping-Andersen analyzes it from a 'policy legacy' perspective. A historical analysis can also be seen in the Bismarckian/Beveridgean system, however that specifically focuses on pension arrangements. Both Esping-Andersen and the Bismarckian/Beveridgean system scrutinize how much is spend and how, therefore the classifications can be used together easily. When the view of Esping-Andersen is combined with the Bismarckian/Beveridgean system, the following can be seen:

	Bismarck	**Beveridge**
Low-Spending	(Southern) Continental countries As in Esping-Andersen	Anglo-Saxon Liberal system
High-Spending	(Northern) Continental countries Corporatist/Conservative	Nordic countries Socialist/Social Democratic

Table 2: Bismarckian/Beveridgean vs Decommodification model

When one looks at the division of the countries the most striking is that there is a geographical resemblance (Bonoli, 1997, p. 360). Neighboring countries thus have taken over each other's systems and differ more from one another when moving further away. This division provides a basic analysis of countries' welfare regimes and pension provisions. However, various authors have indicated that some of the characteristics lack a full comprehension of the welfare state (Hinrichs, 2000; Ellison, 2003). Since Ferrera focuses on 'who' receives welfare it can be used to complement the other two models.

	Occupational	Universal
Pure	Austria, France, Germany, Spain	Denmark, Norway, Sweden
Mixed	Italy, Netherlands, Ireland	UK

Table 3: Occupational/Universal, pure/mixed model by Ferrera (Bonoli, 1997)

Interesting about the model introduced by Ferrera is that it does not have the same geographical resemblance as Esping-Andersen's and the Bismarckian/Beveridgean system. Ireland, which is a liberal beveridgean country, is now grouped together with bismarkcian high and low spenders. The Southern continental countries are divided in occupational pure and mixed groups. There is thus more to analyze than sheer policy legacies and how much is spent. For my further research, I will use the three models as a lead to eventually comprise a more enhanced model of various additional welfare regime factors.

2.2 HOW TO ANALYZE AND UNDERSTAND THE REFORM PROCESS?

Classifications of welfare regimes and pension systems are quite basic and partially rely on history. To take the regimes a step further into the present situation, one has to focus on how the regimes have evolved. Has there been convergence between the systems of have the systems been stable? The pension system can also be seen as an institution. The term 'institutions' is discussed by many authors from various points-of-view. Powell and DiMaggio have put the concepts of institutions in economics side by side with the concepts of it in sociology. They see institutions as defining organizations which can be key suppliers, resource and product consumers, regulatory agencies and other organizations that produce comparable services or products (Powell & DiMaggio, 1983, p. 148). After having considered various explanations for the term, in my further research I will focus on the conceptualization made by Streeck and Thelen. Streeck and Thelen argue that institutions are the building-blocks of social order that enforce mutually related rights and obligations (2005). The conceptualization captures the type of institution I want to research, namely 'pensions'. Rights and obligations differ among countries, however to what extent? And what can a country learn from another country? Pensions and its system of rules and organizations derive either from a Bismarckian or a Beveridgean background. The German Chancellor Otto von Bismarck established a pension institution to retain the allegiance of the industrial worker. The Beveridge-report made way for a system that provided a minimum income to prevent extreme poverty among the British citizens.

The focus of my research starts from the late 1980s to 2010. In this period various countries have modified their pension programs. However, what have been the underlying reasons for the modifications? To be able to comprehend the changes critical junctures can be used, namely endogenous and exogenous factors (Natali, 2008). Bonoli and Shinkawa argue that both types of factors are the reasons for pensions to be reformed by their regimes (Bonoli & Shinkawa, 2005). Hinrichs agrees and elaborates by saying that when political actors do not see any possibilities to undo the changes and reestablish confidence, the critical juncture can lead to a paradigm shift

(Hinrichs, 2003, p. 10). Endogenous factors can be ageing, low fertility rates and early retirements causing increases in old-age dependency ratios. Exogenous factors are globalization and the influence of the EU on welfare regimes due to constant further European integration.

A different approach to understand reforms is designed by Ebbinghaus. He analyzes reforms by using two different mechanisms: institutionalization and institutional change. Self-reinforcing changing aspects are also influential on the outcome, however those aspects are combined with positive feedbacks from actors and/or organizations. Both aspects combined contribute to improved new rules and also the social acceptance, legitimacy and objectivation of those rules. The second mechanism is institutional change. Continuous changing aspects thwart the creation of new procedures or obstruct the formation of reproduction. These changes are initiated due to exogenous and/or endogenous factors, otherwise due to inconsistencies between institutions and their surroundings (Ebbinghaus, 2005). The theory of Ebbinghaus shows that the linear process of historical institutionalism has inconsistencies. By introducing more aspects to self-reinforcement, a possibility has been created to analyze how and why reforms exist. Through research of history, contradictions, exogenous and endogenous factors one is able to give an explanation of modifications made to an institution.

Next to exogenous and endogenous explanations for changing institutions, the involvement of politics is stressed by Natali (2008, p. 24). A constant political strategy of 'credit-claiming' and 'blame-avoidance' is played. Reforms are influenced by politics and politics are influenced by political strategies. Focus on a potential group for the introduction of an innovation that is disadvantageous for other groups is a way of blame-avoidance. By dividing the groups, one group will be positively influenced and the other group, in many cases smaller, will not. Another strategy is obfuscation which is to postpone the effects of a reform until after the following elections if the reform is negative for voters (Bonoli & Shinkawa, 2005, p. 10). Credit-claiming on the other hand, is the reverse strategy of blame-avoidance. The expansion of social programs, lowering taxes and full employment are examples of this political strategy to collect positive feedback from voters. Reforms often go together with retrenchments and retrenchments go as one with blame-avoidance. It involves cost-containment and according to study that has a double negative connotation to voters. Voters namely have a negative bias towards decisions that are not made in their benefit. According to Kahneman and Tversky negative feelings are stronger entwined with the behavior of voters than are positive feelings (Kahneman & Tversky, 1979). Using the right combination of blame-avoidance and credit-claiming depends on the policy legacy of each pension institution (Bonoli, 2000).

Critical juncture, credit-claiming and blame-avoidance as factors to explain the reform of the statutory retirement age alone are not sufficient. By researching critical junctures and both aspects of politics in relation to (pension)reforms, one can find out what the problems for reforms were, however one can still not understand what the nature of the reform process was (Palier, 2002). Credit-claiming and blame-avoidance as a reason for reforms often relate to retrenchments. Although many reforms go hand in hand with these retrenchments, other reforms are characterized by reorganizations of institutions. Therefore these two political strategies next to exogenous and endogenous reasons still do not offer sufficient possibilities to analyze reforms. Pierson (2002) has defined three dimensions to analyze reforms (1) recommodification, (2) cost-containment and (3) recalibration.

Recommodification is the opposite of what Esping Andersen argued in his 'decommodification' (1990). According to him, a welfare state should offer a certain life standard to its society which should be independent of participation on the labor market. Recommodification is the opposite of decommodification, since it tries to analyze the nature of reform processes. In recommodification welfare states search for new work incentives, thus making people dependent on their work and to supply in their own decent standard of living. Recommodification is not always the main reason why a state reforms. Work incentives are important, however other causes have to be taken into consideration as well. To be able to identify whether recommodification is the driver behind a reform one must research the degree of change alongside the recommodification dimension and explain the patterns. Recommodification should never be used as a single dimension to clarify a reform (Pierson, 2002, p. 378). Cost-containment is an important driver in current reforms. Due to the ending of the 'golden age' and austere times, deficit reduction is high priority. Momentarily, many countries face the negative results of PAYGO financing for pensions. In indulgent times politicians promised its citizens high pension returns, however today this becomes a problem. Therefore, in current times the choices made in the golden age are reversed so that pension plans become viable again. A problem however is that current tax payers do not want their taxes to increase, yet on the other hand they also do not want retrenchments on their pension plans. Situations where cost-containment is evident can be identified by the degree of to which cost-containment is achieved and how the patterns can be explained (Pierson, 2002, p. 381).

The third and final dimension to analyze reforms is recalibration. In recalibration a way is sought to make the welfare state more consistent with current goals and demands from society. It unfolds in two different types. The first type, rationalization, is concerned with revising programs to new ideas about how to attain entrenched objectives. Some programs either over/undershoot their objectives and therefore have to be revised. Updating is the second type of recalibration. It applies to revising programs to be more in line with current demands. Current societies face changes in demography, households, industries and so on. Therefore the programs, which in many cases date from decades ago, should be modified in such a way that they are more compatible with contemporary demands. These modifications are set high on current state agendas.

2.3 LESSON-DRAWING

A policy refers to 'a program of actions adopted by a person, group of government, or the set of principles on which they are based' (Kemp & Weehuizen, 2005, p. 3). Accordingly, policy learning is a change in thinking. This change should be structured, it should be a conscious change considering a defined policy issue. Policy learning can be a rethink however, in most cases it will concern an existing frame. Lesson-drawing is a form of policy learning. The main proponent of the theory is Richard Rose and he states that a lesson is a specific cause-and-effect description of a set of actions that governments can deem as a possible alternative. These possible alternatives, reflect knowledge and experience from abroad and includes an evaluation of what has been experienced abroad could be used domestically (Rose, 1993, p. 27).

Lesson-drawing does not offer an explanation of a certain theory or experience elsewhere, it offers a possibility how to draw lessons from experiences elsewhere. Hence, one can find out what is essential and what is non-essential to successfully implement a program. When governments need to change or alter a policy there is the tendency to look at previous lessons. Yet, there is no certainty of whether the old lessons will work again. Rose does not believe in the 'one-size-fits-all' mentality he says many economists tend to have (Rose, 2001, p. 4). He offers a tool that can be used in various ways and various contexts. A government can look at the 'best practice' abroad or it can adopt an entirely new program. The theory acknowledges the possibility that not all situations are equal and therefore, that not all best practices from elsewhere are applicable to the domestic situation. Nonetheless, when experiences and knowledge on a certain policy from abroad are used, a government has the advantage that the experiences from the policies are evidence-based, tested and someone has already paid the costs for being the first implementer. The difference however with comparative public policy is that the latter is backward-looking. It seeks to explain how other countries have implemented a certain program, where lesson-drawing indicates how that program can be implemented domestically (Rose, 2005, pp. 1-2).

The question that remains is then 'how can lessons be drawn'? Lessons are drawn through empirical observation. A problem must be stated first and afterwards a solution can be sought. Rose has developed ten steps in learning lessons from abroad (Rose, 2001, pp. 5-18). I will briefly discuss the first nine steps, since those steps will be used in my thesis. Step ten is a marketing step for bringing the drawn-lesson out in the open. This will not be used in my thesis.

The first step is *diagnosing the problem.* This step is quite logical, since there is no use for looking for a solution if there is no clear problem. Politicians and policy makers first have to decide on what goals should be attained preparatory to examining alternatives. When that has been done, the same actors also have to agree on which country they will analyze, given that not all solutions to a problem are always as desirable as other solutions. The second step Rose has described is *deciding where to look for a lesson.* The first step already depicted that not all solutions to a problem are the same. Countries namely differ from one another. A government should consider the ideological compatibility, similarities in resources, psychological proximity, availability of evidence and interdependence of comparing countries. When these factors are not considered correctly, a government risks analyzing, and possibly implementing an alternative policy that does not offer the same solution as where it has been taken from. Step three is *investigating how a program works there*. To truly understand and find out what makes an alternative from abroad interesting, one has to go there and analyze it in its own habitat. By conducting interviews with various actors, high- and low-ranked, experts, recipients of the programs and critics, a more thorough view can be created of the alternative. What may work there, may not work in one's own country, and possible shortcomings can also be improved. This automatically leads to the fourth step of the guide *abstracting a cause-and-effect model for export.* What is essential should be taken into account and what is non-essential should be left out of the program. A government has to pay attention to specific rules and laws of a program, administrative requirements and financial arrangements. There are various ways in which lessons can be drawn. Depending on the program abroad, a government has to look at its own policy and decide whether the policy should be 'adapted to', be a 'hybrid', a 'synthesis' or an 'inspiration'. This is portrayed in the fifth step *designing a lesson.* The easiest way to draw a lesson is adaptation. In this form of lesson-drawing, both non-indigenous and native situations are comparable, yet not identical. In adaptation, the non-indigenous program has to be closely adapted to the domestic policy. When the benchmarked country has compatible elements for its policy, these elements can be used in a hybrid form of lesson-drawing. A synthesis will be used when only familiar parts of a compared program will be used. The loosest form of lesson-drawing is 'inspiration'. Slightly identifiable elements of programs can be used as an inspiration for a new domestic policy. A government must decide whether a drawn lesson is desirable and practical. These two factors are important when step six *deciding whether to import* has to be decided on. Politicians are to decide on the desirability and experts on the practicality. Political strategies as blame-avoidance and credit-claiming for that matter will be taken into consideration. For that reason, a combination has to be sought between politics and technocracy.

To find out what the *resource requirements and constraints* of step seven are, table 6 has been designed by Rose:

Practicality	Program Desirability		
		High	**Low**
	High	Doubly Attractive	Unwanted Technical Solution
	Low	Siren Call	Doubly Rejected

Table 4: the Desirability and Practicality of a Lesson (Rose, 2005, p. 15)

What should always be attained is a program that is highly desirable by politicians and is seen as highly practical by the experts. Conversely, a doubly rejected program should at all times be avoided. The *handling the problem of context* is step eight. A state should always look at a problem in its own context, in view of the fact that contexts differ between countries. Next to this, most states have developed policies over the years that are considered the status quo. A new policy will have to be implemented in the status quo or even replace it. This should only be done when there is a need for it. A complicated part about lesson-drawing is that it requires before-the-fact assessment of a program that has not yet been implemented domestically. Evidence of the outcomes of the implementation can only be gained after its implementation. Therefore, a prospective evaluation is needed to deem a program desirable, practical and feasible and this has to be sorted out in the final step *bounding speculation through prospective evaluation.*

Despite the advantages of the ten steps program designed by Rose, there are various disadvantages to it as well. James and Lodge (2003) argue that lesson-drawing does not have its own specific domain of enquiry. They say that due to the reason that lesson-drawing does not distinguish itself from other types of policy-making. Furthermore, Edward Page converses that Rose omits to give an elaboration on his theory in which he explains what exact research questions need to be asked when a government undertakes to draw lessons (2000, p. 12). Lesson-drawing is thus not an explanatory theory for policy development.

Although James and Lodge (2003) argue that lesson-drawing does not have its own specific domain of enquiry, this is not true. Evans (2006, p. 485) clearly states that lesson-drawing distinguishes itself as a theory due to its cross-national character. Rose emphasizes that personal experiences do not count as lesson-drawing, but that lesson-drawing is strictly connected to conducted research (2005, p. 22). The argument made by Page (2000) is understandable. On the one hand, a theory like that of Rose would offer more benefits to its users when it was clearer in an exact frame for research questions. The ten steps guide lacks this frame, however due to a reason. The theory is applicable to various situations and therefore a frame for questions would remain superficial and not attain the wanted effect. A frame for questions should be designed by its users, since the users are aware of the situation and can use the guide for directions.

The lesson-drawing theory is very useful for my thesis. It enables me to find an answer to my main research question. The theory also offers me a possibility to research government policies on their path dependence and potential possibilities to break from them. Rose denotes that the greater the emphasis put on historical influences for national policies, the greater the barrier will be for applying lessons from abroad (2001, p. 4).

2.4 APPLYING THE THEORY

Welfare states can be categorized by their policy legacy. Since categorization can take place on a variety of factors, I will use all three typifications to distinguish the states. On the basis of these typifications, I will eventually choose which countries will be my objects of research next to the Netherlands. Since the Netherlands is a Continental Mixed Occupational country, I will choose another comparable country. Subsequently, two other countries from a different, yet comparable group will be chosen to analyze.

My object of research will be the statutory retirement age of various countries. Pension systems can also be seen as an institution. Streeck and Thelen see institutions as the building-blocks of our society that enforce mutual rights and obligations (2005, p. 9). In what way has this institution changed during the years, what is the current situation and how can/should it develop when compared to other systems? Certain critical junctures are important when researching pensions as an institution (1) life expectancy at 65 years, (2) total fertility rate and (3) old-age dependency ratio (Natali, 2008). I will collect data for all three of these endogenous factors for all four countries that I will research. During my research, I will only focus on endogenous factors, because to be able to research exogenous factors globalization and the influence of the EU has to be researched as well. This is not my intention, because I want to keep the research at the level of the national governments and compare them horizontally and not vertically.

Only researching endogenous factors in itself has various shortcomings since it only explains why reforms have happened and not how. Pierson (2002) has suggested three dimensions to further analyze reforms (1) recommodification, (2) cost-containment and (3) recalibration. The welfare states are defined by their legacies. Due to these legacies, the welfare states can be categorized in four groups with similar characteristics. As is known from various researches, Liberal welfare states focus on recommodification due to their low-spending beveridgean nature. A combination of recalibration and cost-containment on the other hand are more prone to Continental welfare states. Some programs are not adequate to achieve current goals nor for today's demands. Costs have to be contained due to endogenous reasons, and this also accounts for Nordic countries (Pierson, 2002, p. 389). By focusing on multiple dimensions of restructuring, I will be able to attain a better comprehension of the reforms. For my research specifically, cost-containment and recalibration will be the prime focus, since in the case of pension systems, recommodification is not used very often to restructure the problems (Pierson, 2002, p. 383).

Although the three dimensions to further analyze reforms offer a better understanding of reforms, they are still quite vague. I want to further funnel these dimensions with four classifications to make my research more understandable. It is namely quite complicated to distinguish recalibration reforms from cost-containment or for that matter cost-containment from recommodification. Korpi and Palme have laid the basis for these dimensions (Korpi & Palme, 1998). Benefit structures can be flat-rate or earnings-related and the financing can be through contribution or taxes. A state can decide to switch to a different benefit structure or financing as a form of cost-containment. The management of the schemes can be either administered by the state and/or in combination with social partners, as does the decision-making. Many discussions around pensions evolve around the question whether the eligible age should be raised to retire from the labor market. When the administration, the decision-making and the eligible age are revised this is a recalibration reform.

To conclude my theory, I will use the theory of lesson-drawing designed by Rose. The theory offers a ten step guide of how to empirically draw lessons from experience from other countries. I will use this guide throughout my entire thesis. An explanation for step one *diagnosing the problem* can be found in the introduction. Step two *where to look for a lesson* will be analyzed with use of the policy legacy theories. Step three *investigating how a program works there* and step four *abstracting a cause-and-effect model for export* are researched in the case analysis. Step five through nine will be scrutinized in a chapter about lesson-drawing. In this chapter I will look for what type of lessons can be designed, and for that I will consider the cost-containment and recalibration dimensions.

2.5 CONCLUDING THE APPROACH

This thesis will contain various approaches to policy legacies. Esping-Andersen, Ferrera and the Bismarckian/Beveridgean approach all have certain characteristics that will lay the basis for my research. By using these approaches I am able to understand which countries can be clustered together, why those countries are clustered together and which countries are interesting to draw lessons from for the Netherlands. Although policy legacies give more insight in welfare states and how the states have evolved, it does not make clear why reforms happen and have happened. To research this I will first of all use the theory on critical junctures. Next to critical junctures, I will use two dimensions with five classifications to analyze reforms more thoroughly. The endogenous factors that derive from critical junctures research and the four classifications obtained from the recalibration and cost-containment dimensions will lead to one or more of the four types of lessons that can be drawn from cross-national comparisons.

To find a complete answer to my research question, I have added more theories next to critical junctures. Following this approach, I will look for various reforms and its reasons. When I can find out what the reasons for the reforms were, I might also find out what is applicable to the Dutch situation and how the Dutch can learn from other reforms. My approach can be concluded in the following hypotheses:

- H1. If demographic and economic forecasts are pessimistic this will lead to a reformed statutory retirement age.
- H2. As provisions of Defined Benefit schemes become infeasible to maintain in their current state, the schemes will reform into Notional Defined Contribution schemes.
- H3. Assuming that Béland (2001) is correct about the veto powers of social partners, their inclusion in the decision-making process will lead to incremental policy changes.

The hypotheses will help me to test whether the relationships between my theories in respect of reality are evident or not. According to me, endogenous factors and the three reforms dimensions are the most important factors to research. These factors all directly give a clear view of why reforms are needed and why reforms happen(ed).

CHAPTER 3: RESEARCH METHODS

Many theories have been written about methodologies in all its forms and types. In my thesis I will look at pension reforms in four countries and therefore I will use various theories. To build up my research I will use the basic analysis designed by George & Bennett that consists of five steps (2004, pp. 73-74):

1. Specification of problem and research objective
2. Specification of variables
3. Case selection
4. Theoretical framework
5. Identification of data requirements

I will not literally duplicate the steps designed by George & Bennett, yet my methodology is based on it. Step one through three and five will be discussed in the research methods, since step four has already been discussed in the previous chapter.

3.1 SPECIFICATION OF PROBLEM AND RESEARCH OBJECTIVE

The main research question for my thesis is *what lessons can the Netherlands draw from other welfare states concerning the reform of the statutory retirement age, when considering demographic and economic factors, monetary policies and the role of actors?* The problem at hand is that the pension system in the Netherlands needs to be restructured to meet today's demands and to be actual, fair and feasible for the future. If the system is not remodeled complications will arise in the mid to long run concerning its affordability. Various factors of the pension scheme can be reformed, yet I specifically want to know if it is necessary to reform the statutory retirement age and if it is what possibilities are implemented by other countries. The exit age is embedded in society for many years, thus changing it can lead to a heated discussion. The reform of the statutory retirement age can induce changes in the contribution and replacement rate. The word 'can' in the previous sentence should be emphasized, since it does not mean that it has to affect both. Conversely, changing the contribution rate and/or replacement rate does not mean that the statutory retirement age has to change. This is what makes it interesting to empirically research the outcomes and reasons behind it from other countries.

The objective is to draw lessons from other countries to see what variables have influenced their statutory retirement age, hence which policies the Netherlands can learn from. Is it inevitable to reform the statutory retirement age or can other reforms be used to prevent it from happening? This thesis will be structured as a cross-national comparative case study. This allows me to know more about a certain case, hence I can improve the internal validity of the report. A negative connotation to this approach is that the theoretical applicability to other cases is narrowed down.

3.2 WHERE TO LOOK FOR LESSONS?

In my report, I will compare the statutory retirement age of three other countries to the Dutch system. The main criteria are that the other welfare states have to be high-spending states as well and face similar problems as the Netherlands, being (1) a declining fertility rate, (2) an increasing life expectancy at 65 years old and (3) an increasing old age dependency ratio. During the research I want to find out differing and possibly better options to enhance and reform the current Dutch pension plans than only reforming the exit age. Considering that the Dutch pension system is a high-spending one, it is not convenient to compare it to a low-spending system, since both differ too much. As a result, I will not focus on the Liberal system of the UK and Ireland nor will I focus on the Southern Continental countries. My comparison will include two Nordic countries and one additional Continental country. The two Nordic countries I will research are Sweden and Denmark. In 1999, Sweden introduced a pension plan reform which increased incentives for later retirement (OECD, 2007, p. 24). The transformation of the Swedish pension system is seen as one of the most successful transformations in Europe. The system transferred from an income redistribution system to more of an insurance system (Kok & Hollanders, 2006, p. 12). The Danish pension model is not characterized by comprehensive reforms and is not as revolutionized as the Swedish, according to Goul Andersen (2008, p. 2). Reforms have been made to increase tax benefits and not directly to solve the ageing problem. Although the main focus was not directly on solving the ageing problems, the reforms have eventually contributed to solving such problems (Andersen, 2008, p. 2). The Continental country of research, next to the main focus the Netherlands, is Germany. Starting in 1992, Germany processed various reforms in their pension model. In a nutshell, the reform has led from a shift from defined benefits to a look-a-like defined contributions scheme (Bonin, 15 Years of Pension Reform in Germany: Old Successes and New Threats, 2009, p. 4). Since this is a comprehensive move, Germany is very interesting to research as well.

All three countries have the same ‘high-spending’ characteristic, when it comes to the structure of their pension plans, which the Netherlands have as well. However, this is only one criterion the other objects of research need to have in common. Have Sweden, Denmark and Germany put pension reforms on their agendas due to the same demographic and economic forecasts? According to data from the OECD all four countries have a declining fertility rate. Although the Netherlands show the severest fertility rate decline, the other three European countries show a similar trend, however slightly less severe.

	NL	DE	SE	DK
1970	2,57	2,03	1,92	1,99
2000	1,72	1,38	1,54	1,77

Table 5: Total fertility rate (OECD, 2009)

An increase in the life expectancy at 65 years can be seen in the Netherlands. Since the age at 65 years increases, pensions have to be paid for a longer period which asks for a greater budget. This trend cannot only be seen in the Netherlands. Table three shows that all countries have an increasing life expectancy for both men and women at age 65 between 1997 and 2008.

	NL		DE		SE		DK	
	1997	2008	1997	2008	1997	2008	1997	2008
Men	15.06	17.39	15.21	17.55	16.30	18.04	14.64	16.62
Women	19.33	20.68	19.10	20.69	20.09	20.95	18.04	19.49

Table 6: Life expectancy at 65 years (OECD, 2007)

The trend that the old-age dependency ratio increases can also be seen in the other three countries. When looking at figure 1, one can see that the increase of the old-age dependency ratio also corresponds among the European countries. For every inactive in Germany in 2000 there were 3 actives. By the year 2050 this will only be 1.3 active workers. In 2000, Germany also had the lowest fertility rate causing the strong increase of the old-age dependency ratio. For every inactive, Sweden had 3 actives in 2000, yet by 2050 this will only be 2.2. Denmark also shows an increase in the dependency ratio from 1 inactive for every 3 actives in 2000, increasing to 1 inactive for every 1.7 actives in 2050 (United Nations, 2006).

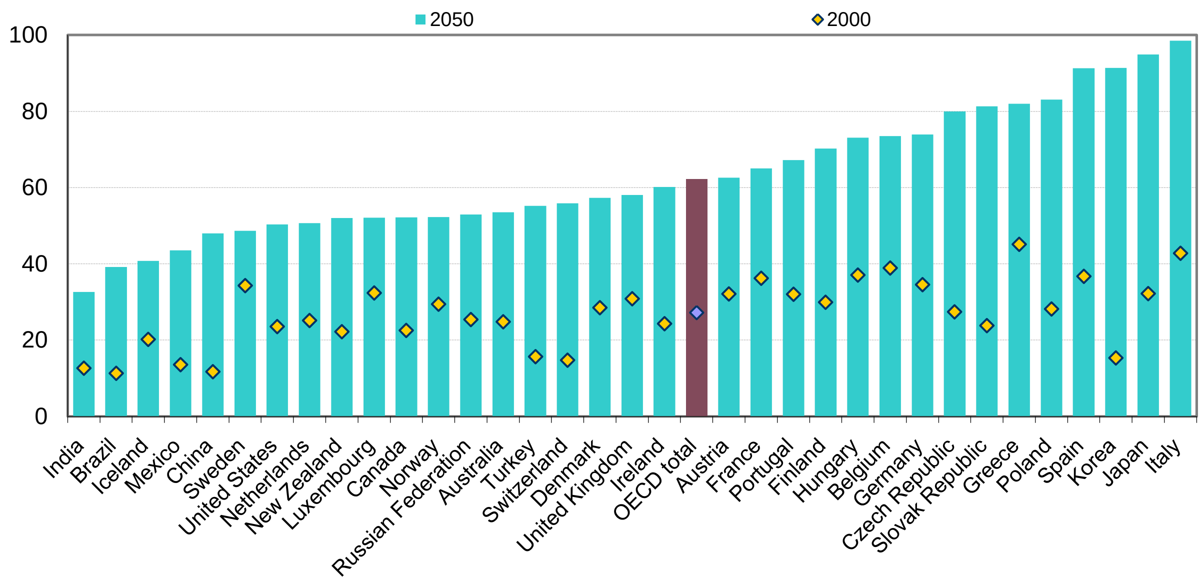

Figure 1: old-age dependency ratio (United Nations, 2006)

By analyzing all demographic and economic components, I can proceed further investigating the countries Germany, Sweden and Denmark. The countries show similar trends concerning all demographic and economic factors, being a decreasing fertility rate, increasing age expectancy at 65 years, and an old-age dependency ratio that rises. In chapters 4 – 7 I will empirically analyze whether these demographic and economic factors have indeed influenced reforms of the statutory retirement age. Other independent variables will be examined in the specific country chapters of this thesis.

3.3 INDICATION AND OPERATIONALIZATION OF VARIABLES

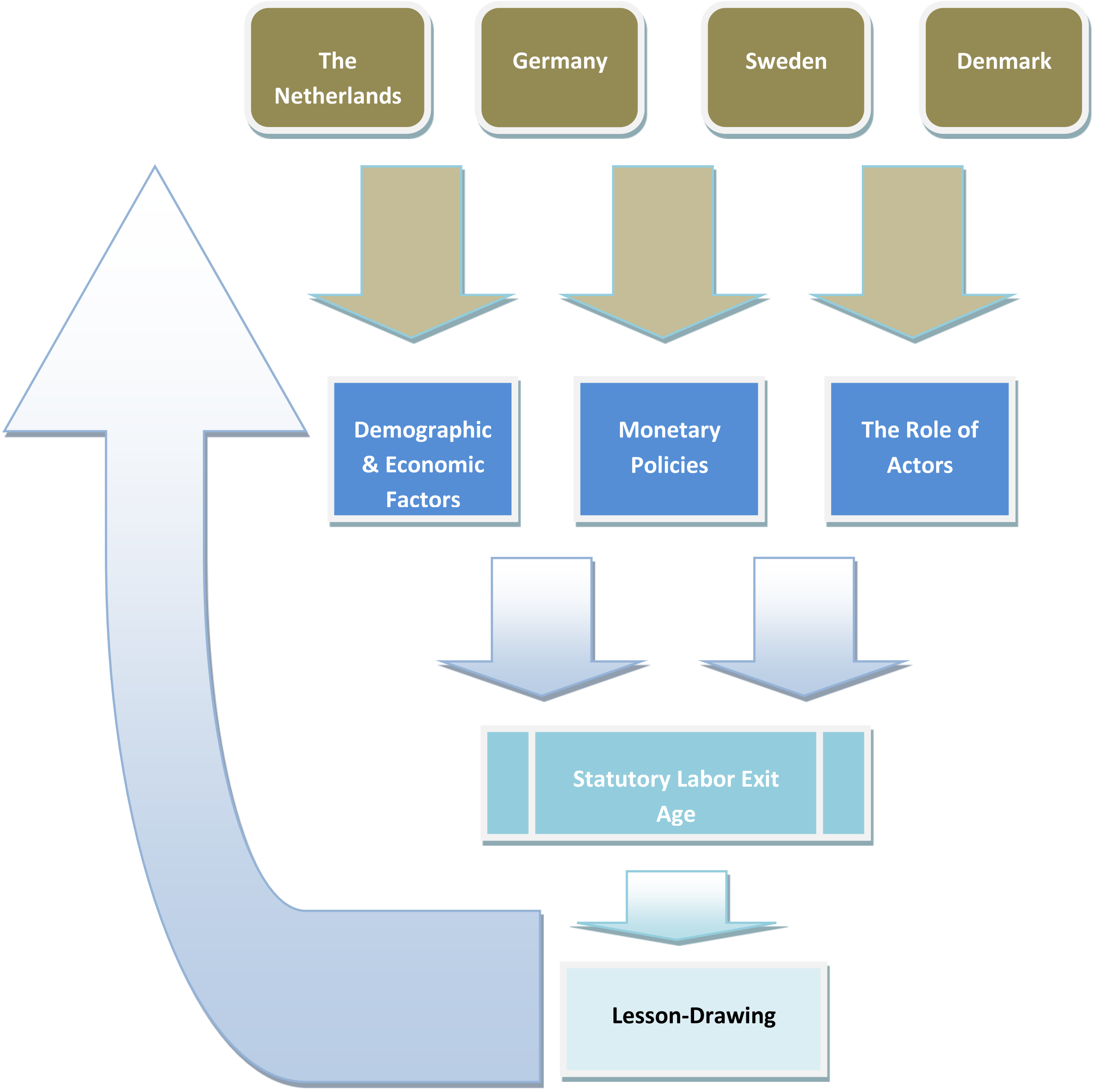

Figure 2: Operational Scheme

In this study *statutory retirement age* is the dependent variable. A *statutory retirement age* is the age that people reach which allows them to officially retire from the labor market, regardless of their activity on the labor market, without making use of any early retirement options. Reaching this age also means that people have reached the eligible age of receiving a pension. The pension can be a combination of all three pillars. This dependent variable differs somewhat amongst the countries I will research, because it is prone to reforms. It is important to understand why the *statutory retirement age* changes, since it affects various other elements of the entire pension scheme. I would like to explain plausible causal relationships between reforming the *statutory retirement age* and three independent variables I have identified. The independent variables derive from my theoretical framework, yet due to the complexity of the theoretical terms I will use derivatives that are better applicable to my case study.

The first independent variable I have extracted is *demographic and economic factors.* The variable is drawn from the theory on critical junctures. My theory has already clarified how welfare states have been established and what the reasons are for how those states are constructed today. Critical junctures are sequences that develop in a specific trajectory and eventually consolidate. Significant changes happen in those periods, hence policy legacies are created. A form of critical junctures is *demographic and economic factors.* In chapter 3.2 I have already examined the three demographic and economic factors I want to further empirically analyze in my case study, being (1) fertility rates, (2) age expectancy at 65 years and (3) old-age dependency ratio. Even though all four countries show strong resemblance considering these three factors, I cannot directly say that these factors have been of major influence on the (reform of) statutory retirement age. I want to use these factors to explain what current day reasons lead to a need to change the current *statutory retirement age*..

The theoretical definition of ‘fertility rates’ is: the number of children that would be born per woman, assuming no female mortality at child bearing ages and the age-specific fertility rates of a specified country and reference period. I will operationalize it by looking at the average number of children born per woman. Analyzing the ‘age expectancy at 65 years’ gives me an average number of years that a person at that age can be expected to live, assuming that age-specific mortality levels remain constant. This average will be used to declare how many average years a retiree will make use of its pension. A third and final factor is the ‘old-age dependency ratio’, or to be precise, a measure of how effectively a pension system provides income during retirement to replace earnings. The more non-actives depend on actives, the less effective the system is. All *demographic and economic factors* are researched with use of country specific statistical bureaus or European statistical bureaus as Eurostat and OECD statistics. The data will be complemented with secondary data research of reports which have also conducted research on the same variables. All data will be as up-to-date as possible, because my research question requires me to give an answer on a current problem.

Demographic and economic factors is not the only independent variable I will discuss. Two other variables are also of the utmost importance. The first variable is *monetary policies* which is a derivative of cost-containment. Many reforms involve retrenchments and in many cases reforms of the *statutory retirement age* are influenced by retrenchments as well. Since the term *monetary policies* is still quite theoretical, I will operationalize it in two more specific groups 'benefit structure' and 'financing'. There are several ways to construct the benefit structures, for example universal/flat-rate in which every person receives a standard lump sum amount. This can be complemented in the first or second pillar with Defined Benefit (DB) and/or Defined Contribution (DC) and/or Notional Defined Contributions (NDC). In DB the insurer sets the pension benefit at a certain amount or level. DC is the opposite, since it depends on ones contributions what the return on investment will be at the moment of retirement. A NDC system treats a PAYGO system as a DC system. Benefits are paid out of current contributions however the benefits are individualized by the life expectancy of a certain cohort and defined by the NDC accounting mechanism. In the thesis, I will research the options the countries have chosen for and have currently implemented. Additionally, I will analyze the 'pension replacement rate'. It is the ratio of an individual's pension in a given time period and the (average) income in a given time period. To be exact, how much of an income of a retiree does a pension program replace? The type of financing is another component of *monetary policies*. There are various options; financing can be through a PAYGO system. It is a system in which pension liabilities are not endorsed by funded assets. Current pensions are paid for by current contribution revenues. These contributions can be raised by taxes or can be earnings-related. The financing component of *monetary policies* overlapses the benefit structure component, for the reasons that DB and DC also play a role. By looking at DB/DC, one can also analyze the financing methods of a pension program. Researching *monetary policies* will be done through researching reports that have scrutinized similar data. Based on secondary data, I will examine the 'pension replacement rate' and display a prognosis for the future based on country policies.

The other independent variable is based on recalibration and is the *role of actors.* The *role of actors* is subdivided in two components: 'administration' and 'arena for decision-making'. The first component 'administration', concerns the management of the pension schemes. In the Netherlands, the AOW is administered by the state, however the second tier, which is an occupational tier, is administered by the social partners. Those social partners arrange the pensions for all employees in the Netherlands and are independent of the state. Despite their independence, they are taken responsible for their actions by the state. Since the influence of the social partners on the pension system is substantial, a reform is hard to pull off. According to Béland, they can act as 'ideological veto players' (2007). The administration component can form a solution to the problem, if recalibration methods can be established, however it can also form an enormous constraint, since the social partners can play their veto card if they do not agree. I will analyze what part of the pension program is administered by whom and to whom they have to account for. The last component 'arena for decision-making' is closely related to the second component. During the decision-making phase, few actors have to decide on a relatively small number of policy options. The actors can use their formal/informal role in this decision-making arena to lobby, persuade, encourage and even coerce authoritative force to the decision-makers (Woll, 2007). In the Netherlands, the administration is partially administered by the social partners, therefore those partners have a substantial influence in reforms. Due to that reason, the social partners are also formally involved in the decision-making arena, at least when it concerns the second pillar. Other actors are informally involved in the arena such as employer and employee organizations. These organizations and the social partners are also informally involved in the decision-making arena for the AOW tier. I want to research this part of the thesis by looking at what actors are involved compared to what actors are supposed to be involved. For this I will use the policy cycle hourglass method from Howlett (Howlett, Ramesh, & Perl, 2009, p. 13). He says that policies are made in a cycle and that every cycle contains a group of actors. The first stage in the cycle is agenda-setting, in which a very broad radius of actors is involved named the policy universe. The second cycle, policy formulation, involves a smaller group of actors named the policy subsystem. This subsystem is composed of the actors that have specific knowledge of the problem area or have a resource at stake. Decision-making is the next stage. In this stage, only authoritative decision-makers are engaged in the process. In the following two stages, implementation and evaluation, the hourglass expands again and more actors can get involved. I will give an explanation of the exact roles of the most prominent actors in the decision-making arena, being formal and informal. The 'administration' and 'decision-making-arena' component of recalibration will both be researched by scrutinizing secondary data.

When I have analyzed the three independent variables, I will be able to cross-nationally compare the four countries and draw lessons for the Netherlands. It will be conducted along the lines of step 5 through 9 of the 10 steps of lesson-drawing by Richard Rose (Rose, 2001, pp. 5-18). Lesson-drawing is not an explanatory theory for policy development, however I can explain what potential reforms are politically feasible. To design a lesson, I need to know what is technically practical as well, and therefore I will base my analysis on outcomes of other reports. A combination of political desirability and technical practicality is a measure for potential success. When all situations have been clearly examined, it is possible to see what other cross-national solutions are applicable to the Netherlands in a practical and a desirable way. Based on that, I will give recommendations.

CHAPTER 4: THE NETHERLANDS

The Netherlands have always had quite a robust pension scheme. Based on Bismarckian principles, the scheme covered many and was generous as well. However, are the Dutch able to maintain the benefits of their pension scheme through times of austerity? This chapter contains information about the development of the pension program in the Netherlands. I will start at describing when and how the pension program was introduced and how the program was built up. This description will be followed by the latest reforms and this will be analyzed by looking at the components of cost-containment and recalibration. In the conclusion, I will write my findings of the reforms and the current pension program considering my independent variables.

4.1 HOW DOES THE PROGRAM WORK?

A form of Dutch pension arrangements started in the mid-19th century. The private sector had taken its own measures to take care for its older employees. The insurances did not offer much protection and this remained the same until the time between the two World Wars. Many companies introduced pension schemes and they were more elaborate than before. In 1919 the Law on Disability and Old Age was implemented. It established a mandatory public pension for employees and their survivors. The retirement age was set at 65 and the amount was fixed, however not indexed. Despite the insurance, the amount of it would not help a person out of poverty. In 1957, the Old Age Emergency Act was replaced by the Old Age Act (AOW) (Blomsma & Jansweijer, 1997, pp. 222-223). The AOW is a flat rate PAYGO pension that is fully funded by the government with taxes and social security related contributions. The AOW is on a DB basis and is meant for all inhabitants, regardless of the source or size of their income. In 2006, former minister of Social Affairs Ad Melkert decided on a maximum monthly premium of 18.25 percent of one's salary and the remainder will be funded by the government which momentarily is approximately 20 percent. The benefit amount would not depend on the amount of contributions, but on the period of insurance. If a person has lived in the Netherlands from its 15-65 year it would receive the full AOW. For every year a person has lived in a foreign country 2 percent is deducted from the full AOW. The amount also depends on ones marital status. There is a difference when a person is single, a single parent or married, however there is no further distinction between married couples, a registered couple or unmarried people that have a common household. Since the Netherlands have quite a Bismarckian pension system, it was important that older workers would remain their purchasing power.

There were several ways out of the working population, namely the disability pathway and the unemployment pathway. From the 1970s and onwards many employees misused the system for an early retirement. The entrance barriers to both the disability and unemployment pathway were quite low. Disability benefits for example were granted for an indefinite period. At first, a person was even already seen as disabled if he could not continue his job due to the non-availability of it. When a person was disabled, he would receive 80 percent of its last earned wages. This amount was adjusted to 70 percent of last earned wages by the end of the 1980s. A person was also not considered as disabled when he could not continue his own job anymore. In the beginning of the 1990s, the government changed its policies. Disabled persons had to be reviewed and checked whether they were still unable to work. To have less people make use of the disability measures, the government had employers pay for the first six weeks of the disabled employee. This gave employers the incentive to not easily put employees up as disabled.

The unemployment pathway showed similar phenomena. The entrance barriers to become unemployed were low too. At first, employees were reviewed and were not obliged to apply for jobs. The unemployed would receive 80 percent (later on 70 percent) of their last earned wages. Many old employees grabbed this opportunity as a means for an early retirement. They would then be able to enjoy a part of their earnings and from age 65 receive their AOW. Next to both pathways, there is also the early retirement act (VUT; Vervroegde Uittreding) in the Netherlands.

The Dutch pension system also has a second pillar which is a private-work related pension. The pensions are DB, funded and mandatory (that is, the employer is obliged to offer them). The secondary pensions are supplementary to the AOW, are distributed by private organizations and together with AOW have a replacement rate of approximately 70 percent of last earnings. For example, the ABP is the pension distributer for all civil servants in the Netherlands. At first, the ABP fell under the rule of the government and thus was a public organization. From the mid-1980s there has been a trend in Dutch politics to slim down the size of the government. In accordance with this trend, the ABP has been privatized too and falls under the supervision of the Dutch Bank (DNB) and the Authority Financial Markets (AFM). In this way, the ABP is able to participate in pension arrangements between employer (state) and employees. There is also a third voluntary pillar in the Netherlands. People have an option to insure themselves of an additional pension by investing in certain (investment) plans.

4.2 REFORMS IN THE NETHERLANDS

Judging from the demographic and economic factors in chapter 3, the Netherlands had less incentives to reform the labor exit age than for example Sweden. Kok and Hollanders confirm this by stating that the Dutch pension system seemed very robust and sustainable enough to withhold any economic dangers and the demographic circumstances were more favorable than in other European countries as well in the 1990s (2006). According to various reports of the main Dutch statistics bureaus, a problem for the Dutch was the low participation on the labor market and high unemployment and disability insurance costs.

As a response on the forecasts the Dutch Christian Democratic Party (CDA) put the ageing population on the formal agenda together with various old-age retrenchment proposals in 1994. According to the CDA, benefit cuts were unavoidable due to long-term risks the public finances were about to face. Although the risk was unavoidable on the long-term, the proposed retrenchments caused a negative response by the general public, labor forces and private pension companies who were against the retrenchments. This resulted in a major cut in votes for the CDA in the 1994 elections as well as for the Social Democrats (SP), since they broke an electoral promise made in 1989. As a consequence, the Labor Party (PvdA) and two liberal parties entered the coalition after the elections instead of the CDA (Riel, Hemerijck, & Visser, 2002, p. 17).

The proposed retrenchments were put on hold due to the predicament in 1994 and the loss of votes for the CDA. For pension discussions a working group has been set-up called 'Coordinating Consultations on Occupational Pensions' (CO) in which representatives of the most prominent employers and employees organizations, advisors from pension funds and the elderly organization the CSO are vested. The working group investigates pensions and thereabouts and prepares the advice for the Social Economic Council (SER). The SER on its turn presents the advice to the relevant minister(s). The minister(s) have to come to an agreement with the social partners and then submit it to parliament.

In 1997, the SER published the *Werken aan Zekerheid* report that led to an agreement in the same year (SER, 1997). In the agreement, qualitative and quantitative measures are taken that are aimed at modernizing pension schemes, making the regulations more transparent and realizing lower costs for pensions. These measures have been devised by the SER (SER, 2001, p. 3). The agreement was to be evaluated within three years after the launch on March 1, 1998 by the Committee Meetwijzer which consists of collaboration between the Foundation of Labor, the Pension Insurance Chamber (PVK) and the Ministry of Social Affairs (SER, 2001, p. 3). The advice from the SER and the Foundation of Labor comprised modernizing pension regulations, making pension schemes accessible for more people and realizing lower costs in pension schemes.

During the three years after the launch of the new agreement, the new regulations were calculated on their efficiency and efficacy. The calculation was performed by the technical subgroup PVK. In this empirical analysis I will not discuss the entire agreement, yet I will discuss the most important modernized regulations and the realization of lower costs in pension schemes. There are several ways to stipulate the exact amount of the supplementary pension of which I will not go further into their exact divisions: pure/moderated final salary, indexed/non-indexed salary. The supplementary pensions are held by the pension funds. These funds are not part of the government, however are held accountable by the government. The boards of the funds contain representatives of employers and employees that do not work on behalf of their own organizations. The difference between final salary and average salary pensions is that in a final salary pension a person receives a pension based on its final salary. Together with the AOW this will currently account for 70.7 percent (ISG, 2006; ISG, 2009) of last earnings. The average salary pension is based on a person's average salary between 15-65 years. In general this is lower than a final salary pension, especially for people that started their careers in a later stage of their life or if they started as generalists and worked themselves up to be specialists with higher pay.

In the agreement it has been decided that the social partners have to ensure financial burdens that are coincided with demographic and economic developments have to be supported by changes in pension regulations, with the intention that pension burdens will remain equal. Due to this decision social partners are advised to gradually transform their schemes from final salary schemes into middle salary schemes with, if needed, transitional measures (SER, 2001, p. 48). This modification is very rigid even though there are transitional measures. In the end, it is believed, it will ensure equal/lower pension burdens despite negative demographical developments. The evaluation of all measures in 2001 already stated a decrease in total costs of 0.24 percent on all salaries (SER, 2001, p. 48). In the 2009 review of the agreement the transition of the pension schemes to an (indexed) average salary is seen as a success. In 2001 nearly 60 percent of all employees had a pension scheme based on the final salary, and one-third had an (indexed) average salary. In 2008, the 60 percent that had a pension scheme based on their final salary decreased to 1 percent and 87 percent had an (indexed) average salary scheme (SER, 2009).

Despite the transition of the occupational pension to DB final salary schemes, the Dutch occupational pension is still center to a vivid debate. The funds aim at coverage of 130 percent, yet due to the economic downturn various funds saw their coverage drop to a mere 90 percent. This means that not all liabilities are covered. For now this is not a severe problem, however on the long-term when more people retire this will become a substantial problem. It is estimated that in 2020, more pension benefits will be paid than is contributed to the system. Even though the assets of the funds will at least have reached € 1000 billion in value, every year it will have to share out at least € 100 billion to its beneficiaries. The amount of € 100 billion is fivefold the amount pension funds have paid their beneficiaries in 2009 (Gommer, 2009). In a 2010 report, the OECD state that Dutch pension funds have been successful in high asset accumulation, yet are vulnerable to economic downturns. The assets grand the pension funds high returns on investments, however high returns bring high risks. The OECD recommends parametric changes and especially investing in different type of assets, for example long term bonds (OECD, 2010, p. 45).

In 1999 the SER advised to increase labor participation after the age of 55 and thereby create a greater support for the social system. The reasons for the low labor participation in that age group were the VUT and the Law for Disability (WAO) which had a generous admission and benefit policy. The Law for Unemployment (WW) also caused low participation among the elderly due to its favorable application to fire older employees first (SER, 1999, pp. 7-8). Since this report is on pensions, I will only go more in depth on the VUT scheme and not the WAO nor the WW. The SER advised to reform the VUT into pre-pensions. With the exception of the employees that can apply for the transitional measures, this accounts for all employees starting from January 1, 2006. Employees in the Netherlands can build up funds through a saving scheme (levensloopregeling). Per year the employees can save as much as 12 percent of their before taxes income with a maximum of 210 percent, as long as the employer provides the possibility for such a scheme. The funds can be used for a sabbatical or a pre-pension (SER, 2006). When the saving scheme has not been used before the eligible retirement age, the funds will be paid at once one day in advance of retirement unless the employee has a pension deficit.

Another reform has been introduced on January 1, 2009 and that is the ‘work on bonus’ (doorwerkbonus). All employees aged 61 and older can get a fiscal bonus if they remain active in the labor force. When an employee is aged 61 it can get a fiscal bonus of 1 percent on a minimum before tax income of €8,860 and maximum €54,776. The bonus increases to 10 percent when the employee is still active on its 64th year, however decreases giving a bonus of 2 percent for 65 year olds, to 1 percent when the employee is aged 67 and/or older. Staying active on the labor market is also stimulated, since employees do not have to pay any AOW premiums when they are 65, hence those employees are cheaper to hire for an employer. If the pension fund allows it, the relevant employees can also put their pension benefits on hold then and save even more. Due to these and other measures, the average labor exit age was 60.9 measured in 2001, yet in 2007 this already increased to 63.9 where the statutory exit age is 65 (SER, 2006; SER, 2009).

On October 16, 2009 the cabinet raised the age to be eligible to an AOW to 67 instead of 65. There have been a few struggles prior to this modification. The Dutch government has not been able to come to a conclusion on this measure with all parties in parliament. This is due to the involvement of the social partners in pension schemes. A strange note to this is that the Dutch AOW is distributed by the Sociale Verzekerings Bank (SVB) which is an Independent Governing Body (ZBO), which however still falls under the supervision of the government. The social partners are thus not involved in the first pillar scheme as in the way they are in the second pillar scheme. The first pillar is a universal flat-rate provision by the state; in consequence every person receives the exact same amount. In the second pillar there are many differences to discuss and that is normally where the social partners come in. Again, path dependence has led the social partners to be involved in similar discussions, despite non-involvement in real decision-making in the area.

Although the Dutch government eventually decided to involve the social partners and the SER in the discussion and gave them an opportunity to come up with an alternative plan which equals the savings of their own plan of EUR 4 billion per year. Several proposals were made and questions were asked, as (1) Design a flexible AOW where people can still start their pension at 65, however with reduced benefits, (2) should the supplementary pension move along with the AOW? The employers would like to see this happen and so did the then current minister of Social Affairs Piet Hein Donner. Since the initial discussion was to find an alternative for the AOW modification, this question was not further discussed in the SER and (3) when will the new AOW-regulation be introduced? The association of employers (VNO-NCW) did not agree on a slow increase of the AOW-age starting from 2011. The association thought 2011 was too early and wanted to increase the eligible age with bigger steps and not just a month per year (Trouw, 2009).

The social partners had until September 30, 2009 to agree on the alternative plan. In the end, the partners were unable to reach an agreement. On October 16, 2009 the cabinet officially introduced their plan to increase the eligible age to 67 in two steps: in 2020 to 66 years and in 2025 to 67 years, regardless of not reaching a consensus with the partners. A measure for heavy professions will also be introduced, since this was one of the obstacles in the plan. Employers of employees with heavy professions will be stimulated financially to have those employees perform less heavy work. In this way, these employees can also work until they are 67.

Despite the efforts of the cabinet and the social partners, the cabinet fell on February 20, 2010. Various decisions that were made were identified as controversial, as was the decision to increase the eligible retirement age. A new cabinet was installed in the fall of 2010. The new cabinet is a coalition of the liberal VVD, center party CDA with support of the right-conservative PVV. In the new coalition agreement various measures concerning pensions have been included. A 'vitality measure' should replace the current saving schemes that allow employees to make use of an early retirement or to save some of their gross incomes with a tax exemption. The vitality measure should enable employees to work part-time and enjoy a part of their pension as well. Next to this, the coalition agreement states that the statutory retirement age will be increased to 66 and that this age will be reviewed on its adequacy on a later time. Although these new measures are included in the coalition agreement, it does not mean that the measures will be implemented.

4.3 CONCLUSION

The Netherlands still use a PAYGO system for the first pillar pension and a DB construction for its second pillar pension. Although the first pillar remains largely untouched by any reforms, the second pillar has been altered. The benefits are still DB, however most pensions are calculated on the (indexed) average salary one has earned in its lifetime instead of one's final salary. The measure is a fine example of cost-containment, since paid benefits decrease.

Two further cost-containing measures were aimed at increasing the average labor exit age. The first measure was to stop VUT possibilities and transform the VUT-scheme into pre-pensions. The fiscal benefits of the VUT were too advantageous and were too expensive. The reform started at January 1, 2006 and gave employees the possibility of a beneficial saving scheme that enabled employees to save for a sabbatical or an early retirement, however provided for at their own expenses. The second measure involved a fiscal bonus for employees that remained in the work force after 61 years and onwards. Both measures, among others that are not specifically aimed at pensions, have resulted in an increased average labor exit age from 60.9 measured in 2001 compared to 63.9 measured in 2007 (SER, 2006) (SER, 2009).

Recalibration reforms have also been introduced, although not always successful. The administration of the Dutch pension funds maintains its status quo. The decision-making arena however, shows signs of change. In 1994, the CDA encountered a political backlash due to not following the standard rules of engagement, when proposing benefit cuts. The CDA lost many of its votes in the following election and its position in the coalition. The general public gained power due to this situation, as did the labor forces, which are grouped together in the Foundation of Labor (Stichting van de Arbeid). The 1994 predicament led to even more continuous involvement of the social partners in discussions on the social-economic area prior to decisions being made. By gaining consensus in the discussions, a greater support for a plan could be created, causing less negative feedback. Béland declares the Dutch situation as 'sticky' from a political point-of-view, since also the social partners can act as 'ideological veto players'. Van Riel, Hemerijk and Visser even say that not involving the social partners can be seen as an act of political suicide (2002).

In 2009, the discussion to increase the eligible retirement age flared up again, also attributable to the financial crisis that affected the Netherlands as well, creating a window of opportunity to reform. The formulation phase concerning this reform involved the workgroup CO that gave technically practical and politically desirable advice to the SER. The SER published a report and handed it to the minister of Social Affairs, who in turn tried to come to an agreement with the social partners. A different point-of-view of what was technically practical and politically desirable could be identified between the coalition and social partners. The coalition gave the partners the opportunity, however could not come to an agreement. Since the social partners could not agree on the kind of retrenchments and the sincerity and need of the retrenchments due to the financial crisis, this enabled the coalition to make the decision without facing a severe backlash of neither the social partners' veto powers nor committing political suicide (Béland, 2007; Riel, Hemerijck, & Visser, 2002). This plan would probably have worked out if it not were not that the cabinet fell on February 20, 2010. The new cabinet has made an agreement in which a new vitality measure and an increase of the eligible retirement age are included. Although these are cost-containing and recalibrating measures, it is still not sure whether the measures will be implemented.

CHAPTER 5: GERMANY

Otto von Bismarck was the founder of the social insurance for employees, which has been adopted by other countries and elaborated to the current pension schemes as we know it today. Nonetheless, Germany suffered from various endogenous factors, resulting in an unviable pension scheme on the long term. Chapter six will display the pension system up to 1980 and from thereon I will give an empirical analysis of the reforms of the German pension system with an emphasis on the important Riester Reform. In the end, I will conclude my findings.

5.1 HOW DOES THE PROGRAM WORK?

Otto von Bismarck was the German Chancellor that established the first statutory pension insurance on January 1, 1891. Before this insurance there were only private initiatives that provided a form of social security for the elderly. Soon after legislation was implemented occupational pensions were added as supplementary benefits. The supplementary benefits emanated due to the low benefits one was to receive from the statutory pension. These benefits namely only provided a cost-of-living allowance. Moreover, Von Bismarck introduced the statutory pension insurance to retain the allegiance of the industrial worker and prevent strikes. Therefore, the statutory pension only covered blue-collar employees and not white-collar employees. Despite the introduction of a branch in statutory pensions especially for white-collar employees in 1911, more white-collar employees are covered by an occupational pension than blue-collar employees (Schmähl, The Public-Private Mix in Pension Provision in Germany, 1997, pp. 109-111).

The German Bismarckian system relates to the Dutch Bismarckian system in so far both systems are organized according to three pillars. The basic pension is the statutory pension, the occupational supplementary pension forms the second pillar and the third pillar comprises all forms of private savings and houses. In 1957 the goal of the statutory pension (Gesetzliche Renteversicherung; GRV) was altered from providing in a cost-of-living to a decent form of living by introducing an earnings-related dynamic and this caused a shift towards financing the system on a PAYGO basis. The largest part of the expenditure for pension plans however is paid for by the employer. Maintaining the income level at the old age is what the three pillar system is aimed at. An appropriate level of provision is achieved after an employment phase of 40 to 45 years of insurance and years of service. The net income should be maintained at 70 to 90 percent of one's income compared to one's previous earnings (Schmähl, 1997, p. 106). To be precise, the GRV is based on one's relative earnings in the entire time one has been covered by statutory pension insurance. Not all earnings are considered, since there is a contribution ceiling of 180 percent of average gross earnings which is linked to earnings development. By average gross earnings is meant the individual gross earnings compared to average gross earnings of all employees. For those earnings that exceed the ceiling, no contributions have to be paid, however no pension claims can be made either (Schmähl, 1997, pp. 106-107).

The occupational pensions have existed since the 1920s in Germany. The provision of these pensions expanded during the interwar years. The Deutsche Arbeitsfront (DAF) was the trade union during the Nazi regime. This trade union together with various Nazi labor policies, structured rewards around work performance and tied the worker's present and future income to a firm. Interesting to see is that not all employees in a company are beneficiaries of the pension scheme, if one is provided. An employee should namely continuously be employed at the firm for a minimum length before it can make a claim on the scheme, although this is not always the case. Four types of occupational pension schemes are provided. 'Direct commitments' is the first type (Direktzusagen) and characterizes itself by its direct provision of pensions by the employer using book reserves and is popular among large enterprises. An employee can also join a 'pension fund' (Pensionskassen) which is financed by employee contributions and popular among small companies. A 'support fund' (Unterstützungskassen) is an independent institution that is financed by employer payments and capital yields. The last type is called 'direct insurance' (Direktversicherung) and is primarily popular with small enterprises as the pension fund. The employer is the policy holder and the employee finances its pension insurance by lump sum payments or regular contributions. Civil servants do not participate in any of these funds, since they are provided for by the pension agency of the Federal Government and the Länder (VBL). Civil servants do not have an occupational pension, but benefit from a combination of a statutory pension and an occupational pension (Schmähl, 1997; Whiteside, 2006, p. 46). During the Second World War, the statutory pension funds were used to finance rearmament, however company pensions were not used and therefore retained their importance as a social insurance for the elderly. Monetary reforms were implemented in the aftermath of the war in 1948 and German pension funds lost value since the funds were converted from Reichsmark into Deutsche Mark on a ratio of 10:1 (Whiteside, 2006, p. 46).

When considering the benefits of the plan, there is no strict rule for pension plans being DB or DC. Related to which type of occupational pension is chosen in a company within a specific branch, the best type of benefit is chosen. Although companies can choose whether they provide DB or DC plans, DB plans form the majority. According to Schmähl, smaller companies prefer flat-rate benefit schemes, medium-sized and large companies prefer primarily earnings-related final-pay schemes and to a lesser extent earnings-related fixed amount schemes (1997, pp. 117-120). Since the system uses a pension ceiling for the GRV, it is common that a company provides various types of pensions to its employees. An employee that does not earn a high wage can then for example participate in a flat-rate scheme, however the higher managers of a company can participate in an earnings related final-scheme, to compensate for that part of their earnings on which no claim can be made due to the pension ceiling.

The Occupational Old Age Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung, BetrAVG) was introduced in 1974. It ensured its users of minimum conditions concerning claims when an employee was to make use of an early retirement which was introduced in 1972. Men could retire at the age of 63 instead of the statutory pension age of 65 without an actuarial deduction from their pension. Women were given the possibility to retire at 60 under specific conditions (Schmähl, 1999, pp. 6-7). The BetrAVG furthermore provided protection for claims when the employer is insolvable and an inflation protection for the pension benefits. Although several acts have been introduced by the German government, occupational pensions are still voluntary and a company can choose whether to offer such a benefit or not. When a company has committed itself to offering the benefit, it cannot rewind the decision.

5.2 REFORMS IN GERMANY

Pensions were adjusted to average gross earnings. This mechanism had to change, had to become self-regulating to stabilize financing development on the long-term and it had to decrease the burden of paying (high) contributions for the working population. Nonetheless, a certain replacement rate had to be maintained, to upkeep earnings after retirement. To accomplish this, in 1989 a consensus was reached between the coalition parties the Christian Democrats (CDU) and the Christian Social Union (CSU), the largest opposition party in the German parliament the Social Democrats (SPD) and the major employers' and employees' organizations, also known as the social partners (Schmähl, 1999, p. 8). Reaching a consensus was in line with the experience from former major reforms in pension policy in Germany. As a consequence of the consensus, in 1992 various measures were implemented to attain the set goals. It was decided that the adjustment mechanism had to be reformed into being linked to the average net earnings instead of average gross earnings (Schmähl, 1999, p. 7; Börsch-Supan A. , A Model under Siege: a Case Study of the German Retirement Insurance System, 2000, p. 33).

Another decision made in 1989 and implemented in 1992, was to adjust the formula for calculating the transfer from the general public budget to social insurance. Since contributions to the statutory pension scheme were insufficient to provide a full pension, this had to be complemented with extra funds from the public budget. Discussions concerning the tax-financed transfers had existed for many years, and the reform resulted in aiming at a constant ratio of public transfers to pension expenditure of about 20 percent (Schmähl, 1997, pp. 7-8).

Early retirement was introduced in 1972, resulting in men being able to retire at age 63 when they had worked for 35 years and women could retire at 60 under specific conditions. The early retirement options were popular, since the option could be used without suffering benefit adjustments. At the time that both parts of Germany were unified again, the early retirement option became an important measure to deal with the economic crisis in former East Germany. Given that employment was low, many East Germans retired early making use of pre-pensions and therefore the the average retirement age dropped 36 months within a few years (Trampusch, 2005, p. 211; Börsch-Supan A. , 2005, p. 25). As in the Netherlands, early labor exit options resulted in problems for the feasibility of the social security system due to high costs. Since less people participated on the labor market contribution rates had to increase for people that still were participating. Moreover, due to pessimistic demographic forecasts it was already clear that the pension system would be encumbered with higher costs on the long-term (Börsch-Supan & Wilke, 2006, p. 583). Due to these reasons, the 1992 reform act aimed at postponing retirement. Starting in 2001, deductions from the pension were introduced if one was to retire before age 65. The exit age for men and women was set equal and a minimum age was set at 62 (OECD, 2005, p. 92). For every year one retired earlier 3.6 percent was reduced from the statutory pension.

A partial-pension was also made available in Germany in 1992 for employees older than 55 who were insured against unemployment for at least three years during the last five. The working time must be reduced by exactly 50 percent, however the distribution of work is very flexible. An employee could choose for working the first half of the agreement and stop the other half or reduce its workload during the entire agreement so that it comes down to a reduction of 50 percent. This possibility was made available due to insufficient parttime vacancies for older employees (OECD, 2005, pp. 92-93). According to Alber, the 1992 reform act reduced the standard pension by 22 percent, compared to the pre-1977 legislation (Alber, 1998, p. 24).

Despite the outcome of the measures resulted in a by 22 percent reduced standard pension, this was still not enough. Not too long after the pension reform was adopted by the German parliament, East Germany opened its borders. East Germany was evidently not as rich as West Germany and as a consequence the pension reforms were not sufficient (Haverland, 2001, p. 318). In 1996, the federal government had an expert commission, chaired by the minister of labor, propose alternative measures for a possible new pension reform that had to be realized at the end of 1997 at the latest. The parties established their own expert commissions and those commissions discussed the proposed alternatives from the federal expert commission in a parallel way. The commissions aimed at finding further reductions of the pension expenditure and a fair distribution of the burden in financing the current pension expenditure.

The federal government, which was still a coalition of CDU and CSU, decided not to have a tax-financed flat-rate pension. This decision was also supported by a majority of the other political parties. A further decision to elaborate the 1992 reform to stop the number of retirees claiming a pension before the age of 65 was made as well. The 1992 pension act stated that the deductions of 3.6 percent for every year earlier than 65 an employee would stop working would be implemented starting from 1997 instead of 2001. There was also a possibility to retire after a time of unemployment, from age 60, without losing benefits. The employees that would still make use of that transitional measure saw their pension benefits dissolve with five times 3.6 percent.

Furthermore, two possibilities were proposed by the expert commission. The first possibility was eventually rejected due to its political infeasibility. The alternative proposed an introduction of a dynamic retirement age that developed according to the increasing life expectancy. The other possibility was a quite controversial reform, however did get a ‘go’. In 1997 a demographic factor was introduced. Since the life expectancy at 65 was increasing, the expert commission proposed that pensions should not only be adjusted by the average net earnings, but that that should only be 50 percent of the adjustment formula. The other 50 percent of the formula should be linked to the life expectancy at 65. The parameters of this reform were chosen in such a way, that the average replacement rate was reduced from 70 percent to 64 percent. Depending on how fast the life expectancy would rise, the quicker the 64 percent mark would be attained. As a compensation for the reduced replacement rate, the government increased its expenditure from the federal budget to the pension scheme. It increased the value added taxes and the revenue of one percentage point of value added tax is spent on the pension scheme. Another resource to pay for the pension expenditure is the 'Ökosteuer' and that is an energy tax on gasoline and electricity. This measure was valued as desirable by the social partners, however it needed the agreement of the second chamber, the Bundesrat, in which the SPD formed the majority. When the discussion about the measure could not reach an agreement the contribution rate would have had to increase due to an unfavorable labor market condition, and therefore the Bundesrat eventually gave a 'go' for this measure (Schmähl, 1999, p. 12).

The faster implementation of the ban on early pensions and the implementation of the demographic factor were decided by the federal government without reaching a consensus with either the major opposition party or the social partners. This break of reaching a consensus is seen as the first major break in the pension policy discussion, causing other breaks to follow (Börsch-Supan A. , A Model under Siege: a Case Study of the German Retirement Insurance System, 2000; Schmähl, 1999; Aust, Bönker, & Wollman, 2002). Elections were held in 1998 and the SPD made a promise that when it would win the elections it would rescind the demographic factor reform made in 1997. It won the elections, kept its promise, however realized that to keep the pension scheme actual and feasible it had to reform even more rigorously than the former government (Schmähl, 1999, p. 9; Haverland, 2001, p. 319).

In Germany, to calculate what the development of contributions will be on the long-term is often done by looking at the old-age dependency ratio. In the late 1980s this ratio was expected to double until the year 2030, therefore the contribution rates had to double as well. Forecasted in 1989, a doubling of the contribution rates by 2030 would result in a contribution rate of 36 percent for the statutory pension. Calculating contribution developments by using the old-age dependency ratio can be misleading though. Schmähl stresses that the pensioner ratio should be taken into consideration as well. The pensioner ratio is the number of pensioners compared to the contributors. This ratio may develop differently because an increase in labor force participation will lead to more contributors. Effects of political decisions can also affect revenues and expenditures of the pension scheme. The projection that has been used for the 2001 pension reform, in which more factors were consulted than merely the old-age dependency ratio, clarified that the contribution rate would 'only' increase to 23.6 percent in 2030 (2003, p. 6).

Due to the negative economic forecasts and endogenous factors, the public debate cried for a reform prior to the 2001 pension reform. Due to the public debate, the public was already prepared for a major paradigm shift based on an informal coalition. Possibilities were cutback in PAYGO financing, making way for an increase in capital funding. At the time, 80 percent of the entire pillar system was financed through the PAYGO mechanism and only 20 percent through capital funding. A change in this division would be necessary to reduce the level of public pension expenditure. The actors in the informal coalition all had different motives for changing the status quo. The minister of labor and social affairs at the time, Walter Riester, wanted to reduce the burden for public budgets and public debt in line with the Maastricht convergence criteria. A lower contribution rate also means lower federal grants to subsidize the pension gap, because the development of the contribution rate of the pension program is linked to part of the grant. Since contributions to the PAYGO scheme are divided between the employees and employers, employers' organizations were in favor of a reduction of the PAYGO scheme, since it would decrease contribution rates. Corporate actors as banks, pension funds and insurance companies were also fond of lower contributions, since it would necessitate more investments in capital funds which they could profit off (Schmähl, 2003, pp. 7-8).

In 2001 the cry for a reform was realized by the coalition of the SPD and the Green Party. As a first measure the government modified the pension formula in such a way that it would reduce the replacement rate of 70 percent for a full 45 years contributions record to 64 percent in 2030 (Bonoli & Palier, 2006, p. 11; Haverland, 2001, p. 319). A strange note to this is that it affects everyone, thus the ones that will claim benefits in the future and the ones that have already claimed a benefit. The new formula is based on the sum of earnings points (with a maximum of 45 years of contribution) one has gathered throughout its employed life and the actual pension value. The growth rate of the actual pension value is used to rate how pensions were calculated in previous years. Due to this measure, all retirees with the same sum of earning points have an identical pension benefit (Schmähl, 2003, pp. 11-12). This measure came combined with a status quo shift. The expenditure policy was changed, so that the contribution rate (joint employer and employee) should not come higher than 20 percent of gross wages in 2020 and higher than 22 percent in 2030. Therefore the contribution rate was made the dominating objective and not a certain pension level (Schmähl, 2003, p. 11; Hinrichs, 2005).

Since this was quite a rigid retrenchment this measure should be seen as the 'stick' and therefore there was also a 'carrot' (Schmähl, 2003, p. 8). The Riester Rente introduced a fully funded private pension to alleviate the burden of the decreased statutory pension benefit. Private sector employees could convert a part of their income, starting at 0.5 percent and gradually increasing to 4 percent in 2008, into a private fund and those contributions were also tax free (Bonoli & Palier, 2006, p. 11). On the one hand this measure slimmed down the burden for the federal government which had to fill in the pension gap with funds from the federal budget. On the other hand, it ensured the insured that their benefit level would not have to be reduced any further due to its economic infeasibility on the long term. The Riester Rente was at first meant to be a mandatory system, however this was politically infeasible. The SPD could not come to a consensus with the major opposition party the CDU and the employees' organizations revolted to the measure as well. That was the reason why the Riester Rente had to be made popular by increasing tax incentives (Rub & Lamping, 2010).

A very decisive step to maintain the feasibility of the statutory pension scheme was the implementation of the sustainability factor in 2004. As mentioned by Schmähl, the German government examines the pension development by looking at the old-age dependency ratio. He stressed that this could give an incorrect view of the pension development due to other factors influencing the development as well (2003, p. 6). The implementation of the sustainability factor took this into account and made the current value of pensions a function of the ratio of pensioners to contributors in the system. If the pensioner ratio were to increase by x percent it will decrease the pension level by 1/x percent (Bonin, 2009, p. 12). If the pensioner ratio deteriorates this does not directly mean that the replacement rate will deteriorate accordingly due to the weighting factor. This is also the reason why this system is not a true DC system, since DC systems do deteriorate as a consequence of the pensioner ratio. By setting this weighting factor, a moderate increase of the contribution rate in 2030 to 22 percent can be realized.

The latest reform was agreed on in late 2005 and implemented in 2007. Pension reforms were discussed in politics again due to worsening conditions for the contribution rate on the long-term. Therefore the government decided to increase the statutory retirement age from 65 to 67 for everyone born after 1947. The reform will be implemented gradually between 2012 and 2029, causing a contribution increase of 5 percent and a 13 percent cut in the benefits (Bonoli & Palier, 2006, p. 11). If someone remains on the labor market after turning 67 that person earns a 6 percent increment for each year of additional work (OECD, 2009).

5.3 CONCLUSION

As the Netherlands, Germany uses the Bismarckian model, hence provides its people with a social insurance to maintain their level of income. The statutory pension, the GRV, is accompanied by the traditional 2nd and 3rd pillars in a Bismarckian system. Through the years all three pillars have at least somewhat been transformed to be more adequate for today's demands.

The most important pillar is the first pillar, since it contributes 80 percent of the total pension. It is an earnings-related pillar and one can make full use of the benefits if one has been in the work force for 45 years, resulting in 45 earnings points. Due to pessimistic forecasts about endogenous factors, there has been much debate over the rising contribution rate. To solve this problem various attempts to implement a suitable adjustment formula have been introduced. The current adjustment formula, the sustainability formula, also has adjusted the benefit scheme from a DB scheme into a 'look-a-like' DC scheme. The formula links an increase in the pensioner ratio to a weighted decrease of the pension level. Consequently, if employment rates would improve, there would be more contributors to the system, thus the benefit level would increase and if it were the other way around the benefit level would decrease. This sustainability factor applies to everyone, whether an employee still has to make its first pension benefit claim or whether it already makes use of the benefits. The formula makes the system viable and fair, since it applies to everyone and it makes sure that everyone can benefit from the same level according to the sum of earnings points. The government also contributes its share to the pension scheme by contributing one percentage point of VAT and a certain amount of the so-called 'Ökosteuer' into the pension scheme. This is done to fill up the pension gap and not have contributions increase more with the effect that the real income will decrease.

Early pensions were introduced in 1972, however it offered such a popular leeway for the older employees to exit the labor market that the average exit age dropped by 36 months to 62. Therefore the 1992 reform demarcated new boundaries for the early pension option. For every month an employee would retire early, considering the statutory exit age of 65, 0.3 percent would be deducted from employee's benefits. This measure was to be implemented in 2001, but since too many employees made use of the option, it was implemented in 1997 already. To prevent older employees from directly exiting the labor market, part-time pensions were introduced during the 1992 reform as well. An employee could reduce its workload by 50 percent, however this was no success, for the reason that there were not many possibilities available for older employees to work part-time in their current or new function. Therefore a different option was that the employee could work fulltime the first years and afterwards make use of an early retirement. As a last measure to keep the contributions low and have employees stay in the work force longer, in 2007 it was decided that the statutory exit age should be gradually raised to 67 between 2012 and 2029, including a bonus for remaining in the work force after turning 67 of 6 percent for each additional year of work (OECD, 2009).

The second pillar is the occupational pillar of which Germany offers four possibilities of funded plans. A company can choose whether it provides its employees with a plan and if so, which plan. In general every type of company, considering its size, service and/or product prefers a certain type of occupational pension, however there is not rule to support this. The collected occupational contributions can be transferred into the company, and in the aftermath of the war, this opportunity was used by large firms to grow. Despite the advantages for firms, to provide their employees with an old-age income and profit of the contributions, the ratio of employees that is a beneficiary of an occupational pension in Germany is not as high as in the Netherlands.

For the reason that the participation in the occupational pension scheme was not very high and the government wanted to stimulate more capital funding, the Riester Rente was brought to life in 2001. The Riester Rente changed the status quo, because it decreased the replacement rate of the first pillar to 64 percent in 2030. It was a fundamental change, since maintaining living standards was the main aim of the pension scheme, yet this can only be possible in the future through contributing to additional schemes (Aust, Bönker, & Wollman, 2002). Furthermore, it changed its fixation from the benefit level to the contribution rate which was not to exceed a rate of 22 percent in 2030 (Hinrichs, 2005). It managed to alter the status by stimulating participation in third pillar plans, which up to that moment only comprised of value on homes and other assets. The idea was that more capital funding could decrease the funding of the pension gap by the government, companies could also profit, because more funding would result in more investments and employees also profited since the replacement rate would be a guaranteed 64 percent due to its more economic feasible character on the long-term. As a result of fierce counterarguments of the social partners and the major opposition party the CDU, the SPD moved away from its first decision to make to third pillar compulsory. It thus became voluntary, yet with gradually increasing tax-financed incentives to stimulate its use. The voluntary character of the Riester Rente is its strength as well as its weakness. On the one hand it offers people the possibility to invest in their own retirement plan, tax-free, to relief themselves of the burden of decreasing GRV benefits. On the other hand, although there is an incentive to the Riester Rente certain groups will not be capable, are not willing or do not know about the possibility to invest in the plan (Rub & Lamping, 2010). The division of 80 percent PAYGO provision compared to 20 percent occupational pension and private pension has changed somewhat measured in 2006 the division is 75 percent PAYGO and 25 percent occupational and private pension (ISG, 2009, p. 20).

Decision-making proceeds according to Bismarckian standards. The federal government discusses its proposals with its policy subsystem, being the opposition and social partners and together they try to reach a consensus. This procedure was evident in the 1992 reform. The government aimed for a broad parliamentary consensus, because the 1992 reform was quite radical. Pension benefits had to be cut and the governing parties did not want to be blamed for all of it, so they cooperated with the SPD opposition in the formulation phase. The SPD agreed to participate in the reforms, because it shared the same vision as the governing parties and realized that cuts had to be made to maintain the system's financial viability (Nullmeier & Rüb, 1993). In 1996, the governing parties broke with the consensual trend and introduced the controversial demographic factor. The CDU and CSU had an expert commission come up with alternatives and the commission proposed that the development of the benefit level should be determined by a combination of average net earnings and increasing life expectancy. This would decrease the benefit level enormously and therefore the proposal suffered from a severe public backlash. In 1998, elections were held and the previous major opposition party, the SPD, included the withdrawal of the measure when it would gain the majority in votes. The introduction of such a controversial proposal without reaching a consensus with the major opposition party or the social partners right before the elections might have cost the reigning coalition parties their place in government. This was a reason for the SPD to attain a consensus prior to its 2001 reform, but it failed to persuade the CDU to vote for the reform for a long time. The CDU however was unable to form a blockade to stop the reforms in 2001 from happening.

CHAPTER 6: SWEDEN

Sweden is renowned for its paradigm shift pension reform in the 1990s (Anderson & Immergut, 2007; Kangas, Lundberg, & Ploug, 2010; Wadensjö, 1997; Weaver, 2003). Although there was an extensive reform in 1998, it was preceded by various incremental reforms. In chapter 6 I display the pension system up to 1980 and from thereon I will give an empirical analysis of the reforms of the Swedish pension system. In the end, I will conclude my findings.

6.1 HOW DOES THE PROGRAM WORK?

Sweden was the first country to introduce a universal public pension. The Second Chamber blocked efforts to introduce a pension scheme along Bismarckian lines. The introduction of a universal old-age and invalidity pension scheme in 1913 was a compromise made by the liberal government of Karl Staaff (Anderson & Immergut, 2007, p. 359). It was called the premium reserve system and benefits were quite low, the retirement age was 67 and the pension consisted of two parts: one part was funded and a supplementary part was not. The first part was financed by earnings-related fees paid by the individuals. The pension was 30 per cent of the total fees paid for men and 24 per cent for women. The supplementary part was financed by ¾ from the state budget, 1/8 from the counties and 1/8 from the municipalities (Wadensjö, 1997, p. 269). Since benefits were not high the scheme was adjusted to the basic pension in 1935 which consisted of flat-rate benefits. The way the supplementary pension was financed changed to 7/8 financed by the state and 1/8 by the counties. After the Second World War many programs were reformed and first steps to the welfare state in Sweden were made. As part of these steps, benefits of the basic pension were increased again and by the early 1950s the replacement rate equaled about 30 percent of an average industrial wage.

As was the case in the Netherlands and in Germany, public employees and white-collar workers received an additional occupational pension next to the basic pension. Blue-collar workers could not benefit of the additional pensions and that incited the Metal Workers' Union to make a claim on equal pension rights for blue- and white-collar workers. The effort of the Metal Workers' Union did not directly lead to a reform, but support from other unions as the Landsorganisationen I Sverige (LO) persuaded the Sveriges Socialdemokratiska Arbetareparti (SSA) to do their own investigations concerning an additional plan. Since the SSA was the party that dominated the first chamber between 1932 through 1976, the unions left the decision-making procedure over to them. As a consequence of their majority, most parties wanted to collaborate with the SSA and when the SSA decided on a new policy it could easily get it implemented due to its size (Anderson & Immergut, 2007, p. 357). Due to the efforts of the SSA, the government introduced an earnings-related pension scheme in 1959 called the Allmänna tillägspensionssytem (ATP) which was implemented in 1963. The basic pension was a flat-rate PAYGO pension wherein benefits of the retired population are financed by contributions of the current population. The replacement rate was 65 percent of earnings (Kok & Hollanders, 2006, p. 9). In case of married couples, the sum of their pension combined was less than twice the pension of a single person, since they live together. To attain a full pension in Sweden, one would have to have lived at least 40 years in Sweden between the ages of 16 and 64. The supplementary ATP-pension was mandatory as well. It was a PAYGO scheme which was fully fledged. To be able to receive a full ATP-pension a person was required to have fulfilled 30 years of work. It was a DB pension based on the 15 years with highest income (out of the last 30). If these requirements were not met, the pension would be reduced proportionately (Wadensjö, 1997, pp. 292-293).

An employee can only pay pension contributions up to a certain ceiling, which is about 1.5 times the average gross wage. For the reason that many employees earn more than the ceiling an extra second pillar, occupational pension was made available for those employees that would like to make use of it. The coverage rate is about 90 percent of all employees and there are four types of plans, one for white-collar workers (ITP), one for blue-collar workers (STP; does not cover above the contribution ceiling), a plan for the central government (SP), and the last plan is for people employed by local government institutions (KTP). The plans are based on defined benefits and have an average replacement rate of 10 percent and contributions are between 2 and 5 percent of wages (Anderson & Immergut, 2007, p. 364; Sunden, 2006, p. 135; Guardiancich, 2010, p. 3).

From 1976 and onwards Sweden offered the possibility for an early or late retirement. Along with making this option possible it decreased the statutory retirement age from 67 to 65, because an early retirement would otherwise be too expensive. If a person would retire before reaching the age of 65, the pension would be reduced by 0.5 percent per month up to a maximum of 30 percent. If a person delays its retirement, he was compensated by an increase of 0.6 percent a month, up to a maximum of 36 percent (Wadensjö, 1997, p. 271). What is remarkable for the Swedish system is that part-time work and part-time pension can be combined. A partial pension (delpension) was available for employees aged 60-64. As a consequence withdrawal from the labor force is prevented (Palme & Svensson, 1997, p. 12; Wadensjö, 1997, p. 272).

6.2 REFORMS IN SWEDEN

European countries were in a recession due to the oil crises and so was Sweden in the 1970s. Crises in general mean retrenchments and that was what the center government wanted to achieve. Costs of pension benefits had to be curtailed and therefore the government adjusted the index to calculate pensions in 1981 and it also reduced the replacement rate for partial pensions from 65 to 50 percent. Normally pensions were adjusted to the price index every three month, but the reform induced an indexation that would only occur once a year if prices increased more than 3 percent compared to the previous adjustment (Anderson & Immergut, 2007, p. 377). The reform became a campaign issue for the SSA and during the campaign the social democrats promised to rescind the 1981 decision when they would gain power in parliament. This happened in 1983 and benefits were readjusted to the previous, however considering a devaluation in 1982 (Weaver & Pierson, 1993, p. 137).

The economic situation improved, yet the Bildt government, which was a minority government consisting of four parties with support of the New Democracy Party (NDP), proposed new pension cuts. The government aimed for a reduction of the partial-pension which was considered an expensive plan. The attempts to cut the partial-pension benefits failed due to a lack of support of the NDP. The minority government indicated that the partial-pension was an expensive option, however the NDP disagreed and stressed that abolishing the partial-pension would induce more employees to file for unemployment or disability insurances. In 1994 the minority government was able to reach an agreement, although not with its supposedly supporting ally, but with the SSA. It agreed that an employee would be eligible for a partial-pension starting from 61 instead of 60 and benefits would be reduced from 65 percent to 55 percent. The employees' organizations opposed these cuts, however they were not able to form an actual blockade.

The Riksförsäkringsverket (RFV) is the government agency on social security and has had an important role in setting the agenda for pension reforms. The RFV warned the government that the ATP-pension had to be reformed due to the ageing society and therefore they published the 'pensionsberedningens betänkande', a report with relating forecasts (SOU, 1990, p. 76). The paradigm shift Sweden is renowned for was already initiated in 1984 when a commission was instructed to research possibilities to make the pension scheme more actual and viable again. The pension commission was given a free-hand in finding a solution to the problem, although the commission had to keep in mind that the principles of the basic security, earnings-replacement and PAYGO-financing had to be retained (Anderson & Immergut, 2007, p. 372). Following the report the RFV published, the pension commission on its turn published an additional report 'ATP och dess finansiering I det medel-och langsiktiga perspektivet' at the end of 1987. The pension commission issued its findings and although the report did offer specific proposals it did question certain schemes. Its main critique was on the viability of the ATP in its then current form. The expenditures from the ATP-pension could not be covered by the contributions and therefore a gap arose. This gap was paid for out of the buffer fund which was created as a consequence of the surplus in the basic pension's PAYGO-system between the contributions and expenditures. The buffer fund however was not designed to fill in this gap, given that it originated as a threshold for economic and demographic negative influences in the basic pension and not the occupational pension. The ATP was a PAYGO system and therefore vulnerable to demographic and productivity changes. As a result of the 15/30 rule lower productivity or reduced work-time would not directly lead to fewer benefits, however it would lead to less contributions. Next to this problem, the ATP-pension was indexed to prices and therefore increased every year, where contributions would not increase that much. The last point of critique stressed by the pension commission was that the redistributional factor was inadequate due to the 15/30 rule. Employees with a low income often started to work early on in life and did not profit of a steep income increase. Employees with a high income more often enjoyed a higher education, started off in the labor force on a later age and did profit of steep income increases. Therefore, for the latter group, the 15/30 rule is much more profitable however as a consequence, redistribution is lacking.

In 1990 a parliamentary committee presented its final report on pensions in Sweden. Sweden was facing the same demographic and economic forecasts as other European countries. Therefore, a fundamental change had to be established in the national pension system (Settergren O. , 2001, p. 2).

The government proposed not to come with a new plan itself, but to have a general committee, existing from all political parties that were represented in parliament and not only the coalition, come up with the plan. Each representative was given a free-hand in the negotiations in the committee and promised not to change the content after the negotiations for political gain. Other stakeholders and the media were kept outside of the discussions and were only invited for progress meetings (Wadensjö, 1997, p. 272). Stakeholders opposed the decision to keep them out of the discussion, but the committee defended itself by saying that their work was a continuation of the former pension commission and that the interests of stakeholders were already discussed back then.

This formula would later on seem to be a success. In 1994, the committee presented its report stating rigid reforms. The pension system had to become more actual, fair and feasible (Kok & Hollanders, 2006, p. 12). The first change in the system is that pensions will be based on earnings for every year beginning at age 16 and including earnings after age 65. The second tier, supplementary pension in the first pillar used to be based according to the 15/30 rule; working for 30 years and pension being based on the best 15 years. Since the second tier of the first pillar was transformed in a DC-scheme, the second pillar occupational pensions modified their schemes somewhat accordingly. The STP changed into a full DC-scheme, the SP and KTP into DB/DC combination schemes and the ITP remained unchanged (Anderson & Immergut, 2007, p. 363).

The first tier of the first pillar, the ‘inkomstpension’, is still a PAYGO system with contributions of 16 percent of gross income, however now with NDC instead of DB. In a DB system the main political risk for Sweden was that it could only adjust pensions for economic and demographic risks by asking higher contributions from the working population. In the new system a disadvantage for the young generation is that they have to work longer than 30 years to receive a full pension and due to a higher life expectancy. On the other hand, their contributions will be lower since they will not have to pay a full pension for someone who has paid fewer contributions to the system. The benefits namely always match the contributions (Wadensjö, 1997, p. 274). Whereas employers previously paid the retirement contribution, the payment of the contribution would now be shared 50:50 between the employer and the employee. A greater awareness among employees concerning the costs of their pension had also to be created. As a consequence taxes would be visualized on employees’ payrolls. The indexation formula was to be reformed as well, pensions were indexed according to the inflation and this would be according to the rate of real economic growth. In times of economic growth/recessions the pensions will then grow/decrease. Prices have the tendency to increase more than the economy, so this is another measure to make the pensions more feasible.

Partial-pensions were not available anymore, yet flexible pensions were introduced from age 60. The second tier of the first pillar will change as well. The second tier, otherwise known as the ATP, has been debated frequently during the years. It was an expensive part of the entire pension scheme and due to reforms, its replacement rate of the total pension increased as well. Therefore the Swedish have chosen to keep its earnings-related character. Instead of DB the scheme it transformed into an individual funded DC account with a contribution rate of 2.5 percent, so that the total contribution rate for the first pillar would come down to 18.5 percent. The idea is that the employee becomes aware of what its pension costs and that it is necessary to have a job. Moreover, to benefit from the full pension reserve one has to contribute longer than in the ATP-scheme.

The parties wanted to finalize these recommendations before the 1994 elections. However, several employees' organizations opposed the plans. In spite of their opposition they were not able to pose a threat to the endorsement and therefore in 1994 the plans were approved by parliament. After the election the SSA gained power again and formed a minority government that stalled the implementation of the recommendations. They did that to buy time and review the desirability and practicality of the recommendations. Especially the premium reserve caused problems: how should the administration be arranged, how should the contributions be made available for the new mandatory plan? The contributions to this plan were 9.25 percent of qualifying wages, yet employees were not supposed to hand in a part of their real income. Therefore, right before the election in 1998 it was decided that the basic tax deduction had to compensate employees for the higher contributions. To compensate for this tax-loss, a greater part of the buffer fund (258 billion SEK of a total of 715 billion SEK) would be transferred to the government (Wadensjö, 1997, pp. 381-383).

6.3 CONCLUSION

Sweden has managed to take pension reforms one step further, from taking incremental steps to taking a more comprehensive step that enabled them to make the pension scheme viable for the future by reforming only once. The 1998 reform was preceded by various incremental steps, however these steps did not have a substantial contribution to the final scheme. Sweden was able to take the comprehensive decision by forming a commission existing out of all political parties. The representatives of the parties had to consider the principles of the pension and try to maintain them. The contents of the negotiations were not supposed to be used during election campaigns, with the intention that all parties would carry the same political blame and could not suffer any political backlash in votes. Other stakeholders and the media were not allowed to join the negotiations, but were updated occasionally. This enabled the Swedish to develop a paradigm shifting new policy in a short amount of time.

The first pillar, consisting of the basic pension and its supplement the ATP, were both reformed into the 'inkomstpension' and the 'premiereservsystem'. The basic pension transformed into an earnings-related, NDC, PAYGO-scheme with a contribution rate of 16 percent. Most interesting is that this NDC system uses the average life expectancy at 65 to calculate what the benefits for a beneficiary will be. The indexation is completed with a calculation of the expected real growth rate of the economy (this rate is a standard 1.6 percent) (Sunden, 2006). After abolishing partial-pensions, the retirement age was made flexible. A flexible retirement age was needed to implement the NDC-system successfully. Exiting the labor market would decrease one's benefits substantially, therefore remaining on the labor market until reaching the statutory retirement age is stimulated. The statutory retirement age is flexible, since it considers the life expectancy of cohorts. Since the life expectancy is expected to increase, people have to postpone exiting the work force to diminish the effects of the increasing life expectancy and receive the same replacement rate. To create more awareness among employees about the costs of retirement, the premium pension has replaced the ATP. A transformation has been realized from an earnings-related, PAYGO-scheme which provided defined benefits based on the 15/30 rule, into an individual funded account based on life earnings defined contributions with a contribution rate of 2.5 percent. This first pillar occupational plan gave notice to the second pillar occupational funds, which are privately administered, as well. Benefits of the funds used to be based on DB, however the funds are modified to provide benefits on DC or on a combination of DB/DC.

Most important decisions in Sweden are made by the coalition government. It depends whether this coalition is a minority government of not, otherwise it has to look for a strategic partner(s) to support its plans. This practice is not unusual in European governments however the involvement of the social partners is. The employees' and employers' organizations were not able to put their mark on the 1994/1998 negotiations and were only invited to discuss the progression of the negotiations occasionally. The negotiators reasoned that the organizations had already been involved in the pre-discussions and therefore they would not be involved to the same degree again.

CHAPTER 7: DENMARK

Denmark has not introduced many pension reforms. Their schemes are primarily DC and this might be the reason why the Danish have not placed the pension schemes as high on the formal agenda as other European countries have. The following chapter contains information about the establishment of the Danish pension system. Furthermore, I will examine the most important cost-containing and recalibrating reforms the Danish have made during the years and finally I will conclude my findings.

7.1 HOW DOES THE PROGRAM WORK?

Denmark introduced its first pension schemes in 1891 by introducing old age assistance with means-test benefits (Overbye, 1997). The step towards a Beveridgean scheme was made in 1956, when the system was expanded with the introduction of the national, tax-financed, PAYGO pension. The statutory retirement age at the time was 67 and retirees were eligible to benefits after reaching that age. In 1964 parliament approved a generous, flat-rate universal pension scheme which was put in place in 1970. Since it was a generous system it was not a pure Beveridgean scheme, which in general provides an income against poverty, however it combined Beveridge with a high-spending character as Esping-Andersen has explained (Esping-Andersen, 1990).

In the 1960s, occupational pensions were provided as well and as in the Netherlands and Germany these pensions covered more white-collar workers than blue-collar workers in the beginning (Green-Pedersen, Denmark: A World-Bank Pension System, 2007, p. 465). Before the generosity of the statutory pension was improved, politicians made a compromise to introduce tax incentives for private and occupational pensions. Occupational pensions developed further due to pressure from the Landsorganisationen i Danmark (Danish Confederation of Trade Unions; LO) to improve the scheme for blue-collar workers. Therefore, in 1964, the Danish implemented a supplementary scheme (ATP). Provisions of the ATP scheme were flate-rate, based on the amount of hours worked, and equal to 1.5 percent of the average wage, thus although it was a political compromise the benefits of the scheme were inadequate.

During the years attempts were made to enhance the benefit level of the occupational pensions by the LO and also the Social Democratic party. The latter emphasized that economic democracy was at stake, and to improve this funds had to be created consisting of savings from all wage earners that were controlled by the employees' organizations. Economic democracy was not politically desirable by all parties in parliament and as a result the Social Democrats had no support from others and therefore could not breach the status quo (Green-Pedersen & Kersbergen, 2002). Where the Social Democrats would have expected support, namely the employees' organizations, also did not offer help. The organizations thought that increasing the benefits of the ATP would lead to lower wages due to higher contributions (Green-Pedersen, 2007, p. 465).

The occupational pensions developed, however incrementally. The plan was mostly provided to civil servants, yet public employees who were not given the civil servant status, acquired occupational pensions during the 1960s and 1970s as well (Green-Pedersen, 2007, p. 466). These pensions were PAYGO, DB schemes. The ratio of employees making use of private pensions increased as well, however not substantially. Most employees still only made use of the statutory pension combined with the ATP, and occupational pensions were mainly only available to white-collar workers. During the 1980s more and more employees acquired the possibility to make use of occupational pensions and from that moment on funded, DC-schemes dominated.

Employees were also granted the possibility to exit the labor market at an earlier age than 67. The voluntary early retirement program (VERP) was introduced in 1979 offered employees the possibility to exit the labor market from age 60 without having to fulfill any additional criteria. The only criterion needed was that the (former) employee had to be in an unemployment insurance fund for the last 25 out of 30 years (Larsen & Pedersen, 2008, p. 6).

7.2 REFORMS IN DENMARK

As in other European countries the 1980s were austere times. The economic forecast was not positive and therefore retrenchments were suggested. Since the 1960s the Danish stimulated second and third pillar pensions with tax incentives. As a result of the economic situation interest rates were very high, and even though contributions to various supplementary schemes were tax deductible, the interest on savings were not taxed. A result of not taxing the interest of pension savings would be that the replacement rate would sometimes exceed 100 percent (Ploug, 2001). As the years progressed, especially left-wing parties argued that due to the tax incentives the pension scheme developed in the direction of a dual system. Especially blue-collar workers only made use of the national pension and the ATP, whereas others also used the occupational and private plans and as a result received higher benefits. Despite attempts of the left-wing parties to reduce the benefits of the tax incentives the attempts failed due to strong opposition of the right-wing parties who were proponents of such incentives. In 1981 a coalition of center-right parties gained power and formed the coalition. This coalition faced a worsening economic situation and had to funnel through retrenching measures. There were two options to achieve this of which the first was to increase taxes and the second was to cut public expenditure. Since the Danish were in an economic crisis, the coalition could emphasize the necessity for retrenchments and not face any political backlash from the opposition that would have criticized the coalition for reducing the benefits of the welfare state (Green-Pedersen, 2002, pp. 113-116). The decision was made and starting from 1983 occupational and private interest from pension savings made after that year were taxed with 3.5 percent. Since this was a benefit cut for the more fortunate employees, the left-wing opposition did not oppose the reform and therefore it succeeded (Green-Pedersen, 2007, pp. 474-475). Although it did not seem like a substantial cut it actually was, because the revenues from the tax were estimated at DKR 5 billion in 1983 and as a consequence, on the long-term occupational and private pensions would be about 20 percent lower.

Regardless of the reform, there were still many employees that were only beneficiaries of the national pension and were in need of a supplementary ATP-pension, however were not granted any benefits. The debate concerning this issue started again in 1984 and as a result the ‘elderly report’ was presented by a tripartite commission stating various proposals to change the then current situation. The proposals in the elderly report did not directly lead to reforms, since not all stakeholders agreed on the proposals (Albrekt Larsen & Goul Andersen, 2004, p. 79). The proposal that was agreed on in 1986 comprised a lower standard for income testing and was implemented starting in 1991. Benefits from the ATP were earnings-related and means-tested and therefore people with a small benefit from an additional pension did not receive the supplementary pension. Due to the 1986 reform more people were entitled to the full supplementary pension and others received a greater share of the maximum amount. In addition to the lower standard for income testing, the ATP was increased in 1987. National pensions were indexed to prices not to wages, yet the wages increased more after the 1987 collective agreements. To compensate the pensioners that already profited of the full ATP, the ATP was indexed to wages, resulting in higher benefits for recipients of the supplementary pension.

The benefits did not stop after the alterations made to the system of 1986 and 1987, regardless of another economic recession in 1988 (Nannestad & Green-Pedersen, 2008). The national basic pension was boosted again due to the introduction of a new way to index pensions. Instead of linking benefits to price developments, all benefits were from that moment on indexed by the development of real wages. When the indexation exceeded 2 percentage points it would be reduced by 0.3 percent and the revenue of the reduction would be used to improve other benefits.

Beneficiaries of funded occupational pensions were mainly civil servants and certain white-collar workers. The coverage of these types of pensions were about 20 percent of the labor force, hence improvements could be made to increase the coverage (Green-Pedersen, 2007, p. 479). Debates concerning what type of system should cover the employees were held. A suggestion to introduce a PAYGO system was quickly rejected. Current contributors to the funded occupational pension would never agree with a PAYGO system. Instead of paying contributions to the funded plans, they would have to pay taxes for a PAYGO solution. To make that option possible those contributors had to be reimbursed of all their contributions, since a new system was to be implemented. Although funded occupational schemes only covered 20 percent of the labor force, paying back all contributions would overheat the economy, due to the enormous amount of saved capital in those funds (Green-Pedersen & Lindbom, 2006). For this reason the decision was made to elaborate the coverage of occupational plans. Introducing this plan also offered an advantage for the government, since the economic democracy which was popular among the Social Democrats could finally develop as the Social Democrats would like. In order for the economic democracy to develop the administration of the pensions should be introduced in a decentralized way. Social partners would then administer the pension funds and have a full mandate for making decisions about the fund.

Tripartite negotiations were held between the employees’ and employers’ organizations and the government and finally came to a consensus in 1988. The employees’ and employers’ organizations had agreed to moderate wages and in return the organizations were allowed to start a commission to examine possibilities for a further introduction of occupational pensions. The commission strictly discussed matters on a technical level and right before 1989 started it presented the outcomes of the research. The proposal to provide more employees with funded, occupational, DC pensions was introduced in 1991.

An addition to the VERP was introduced in 1992, namely the transitional benefits program (TBP). Former employees that had unemployment insurance were aged 55 to 59 years old and who had been unemployed for at least 12 out of the most recent 15 months could make use of this program and exit the labor market. The age range of the program was extended starting from 50 – 54 years old. When they turned 60 they could switch over from the TBP to the VERP. Benefits for the group of unemployed were quite generously set at 82 percent of maximum unemployment insurance. Since the result of the TBP was that many unemployed exited the work force permanently after they turned 50, the program was already abolished in 1996 (Larsen & Pedersen, 2008, p. 6).

To stimulate the economy several tax reforms were introduced in 1993 by a majority cabinet without the consensus of the opposition. One of those reforms was the conversion from various supplementary pension net benefits into higher, taxable gross benefits (Green-Pedersen, 2007, p. 487). The supplementary pension net benefits would not decrease however, in-line with other benefits, the benefits would be taxable. The statutory pension decreased slightly, yet the ATP increased. Due to the other tax reforms, net incomes would not decrease even when one was not a beneficiary of the ATP. Both 1991 and 1993 reforms ensured fewer expenses for the government. The coverage of occupational pensions increased, resulting in a higher replacement rate and less use of the ATP.

A further cost-containing measure concerned the early retirement plan. Many people did still make use of the VERP and retired early. To save on pension expenditure the Danish government therefore decided in 1998 to lower the statutory retirement age from 67 to 65 starting from 2004. As an incentive to remain on the labor market, employees were granted a generous onetime cash payment (Goul Andersen, 2008). Due to the increasing life expectancy and the growing pension expenditure, the Danish decided to set the official retirement age back at 67 between 2024 and 2027. Moreover, starting from 2025, the statutory pension age will be indexed to the mean life expectancy of 60 year olds. Together with the eligible retirement age, the early retirement is also delayed from 60 to 62in 2019-2022. The idea behind this is that a person can make use of a combination of an early retirement and its public pension for an average of 19.5 years (The Danish Government, 2006, p. 5).

7.3 CONCLUSION

The Social Democrats were the first party to propose an initiative for earnings-related supplementary schemes in the 1960s. They advocated the importance of economic democracy, and wanted to accomplish this by introducing an occupational fund that would be administered by the social partners. In 1964 the ATP was introduced as a result of the Social Democratic efforts however, due to resistance of opposition parties and lack of support from the social partners, the ATP was only a flat-rate scheme and benefits were related to years in the work force. Other Nordic countries did not endure the same resistance from opposing partners and therefore their ATP scheme contributed more to pension benefits (Ploug, 2001; Albrekt Larsen & Goul Andersen, 2004, pp. 65-70). Given that the ATP had a small contribution to the total replacement rate, the basic pension gradually increased its generosity. Most blue-collar workers only benefited from these two schemes, however white-collar employees also benefited from occupational schemes. This was a reason for the government to decide to elaborate the coverage of the occupational plans in 1991.

Early retirement schemes are also an option in Denmark and the most important scheme is the VERP. It allows people, employed and unemployed, to exit the labor market from age 60. In 1992 this scheme was supplemented by the TBP which allowed people to exit the labor market from age 55 and later on even starting from 50. Since this caused a vast reduction of the labor participation, the TBP was already rescinded in 1996.

Interesting is that Denmark, contrary to other European countries, has introduced many benefits instead of retrenchments. One of the reasons for this is that the basic pension in Denmark is a flat-rate tax financed pension that does not constitute a substantial part of pension benefits. The second reason is that the basic pension is supplemented by primarily funded, occupational, DC plans. As a final reason, those occupational plans are administered by the social partners who, during wage negotiations, make collective agreements concerning pension benefits (Green-Pedersen, 2007, p. 484). Therefore the pressure from the ageing society is not felt as hard in Denmark as it does in the rest of Europe and that is also the reason why the Danish government did not have to decide to introduce many reforms.

Despite the ‘lack of pressure’, the Danish government has decided to increase the retirement age back to 67 starting in 2024 after it decreased the exit age in 1998. The reason to lower the exit age was that people made frequent use of early retirement schemes, and by lowering the statutory exit age pension expenditure would drop. Nonetheless, the Danish decided that this measure would not be adequate for the rising life expectancy and therefore increase the labor exit age as well as the early retirement age. In this way, pension expenditure would not be boosted again due to the early retirements. A further measure to better equip the pension plan for future developments was to make the exit age dynamic, considering the life expectancy for 60 year olds and linking that to the exit age.

8. ABSTRACTING A CAUSE-AND-EFFECT MODEL FOR EXPORT

Pension schemes originated in the late 19th and early 20th century, although they were not very generous at the beginning and/or only covered a certain part of the population. Some countries chose to have a Bismarckian foundation for their schemes, as the Netherlands and Germany, or a Beveridgean foundation as in Sweden and Denmark. When reviewing the establishment of the pension schemes in the Netherlands, Germany, Sweden and Denmark it is odd to see that many decisions have been made due to similar circumstances. The foundations can still be seen in today's provision of pension benefits, however it cannot be said that all Bismarckian or for that matter all Beveridgean schemes are alike. As a result of various factors the schemes have developed in their own way. Where a country's government deemed it necessary to reform a pension scheme, this would fail and a compromise would have to be made, in contrast to another country where the same decision was made and got approved without any compromises.

The Netherlands had its first try at creating a pension scheme in the mid-19th century, followed by the Germans and the Danish in the late 19th century. Sweden had its first go in creating a pension scheme in 1913. At first, these schemes provided blue-collar workers with benefits and later on also white-collar workers. All countries suffered from the two World Wars and were not able to increase benefits during that time. After the wars, starting from the 1950s, benefits were increased. The Danish kicked-off by introducing a national PAYGO system in 1956 which would cover the entire population. The Netherlands followed in 1957 and implemented the AOW, which was a statutory pension covering all as well. Germany also decided to increase its generosity in 1957 and as a result it increased its pension benefits by moving away from the principle that pensions should provide a cost-of-living to the new principle which is that pensions should provide a decent living. Only two years later Sweden came to an agreement and introduced the ATP.

As the years passed by, people were provided with more benefits, as a result of positive economic forecasts and a lack of foreseeability of the population growing old. This ended by the end of the 1970s due to the oil crises and caused the economic situation of many countries to take a dive. As a result of sudden changing economic forecasts monetary measures were introduced which were influenced by the role of various actors and eventually were implemented. Governments looked at what were politically desirable and technically practical ways to reform the pension schemes. The desirability and practicality differs somewhat between the four countries, since the schemes are not identical and decision-making is not either. Different decisions were made and at the beginning of the 1980s, the Netherlands lowered its replacement rate from 80 to 70 percent. Germany and Sweden adjusted their indexation formulas and Denmark levied taxes on second and third pillar benefits. These reforms were only the beginning of many reforms to follow, however Denmark has shown to be the generous stranger amidst the cost-containing and recalibrating others. Where the Netherlands, Germany and Sweden introduced various retrenching reforms, Denmark introduced increasing benefits. In 1986, Denmark realized that the ATP was only used by certain employees and others did not and could not benefit. For that reason the Danish increased the coverage of the ATP-scheme. Given that the replacement rate of the ATP was not very substantial, it was increased as well in 1987 in addition to a new indexation for the basic pension that increased benefits. As a last increase Denmark reformed taxes that resulted in higher occupational pensions, but lower ATP-pensions. Although it introduced the tax reform to cut pension expenditure, it did result in a higher net replacement rate. The first retrenchments in Denmark were made in 1998 when the statutory retirement age was lowered to 65, however not many other retrenching reforms have been introduced so far.

Nonetheless, compared to the initial pension schemes, all schemes have been reformed to a certain extent. The outcome of the reforms is schematized below

Bismarckian			Beveridgean		
		Conservative-Corporatist		Social Democratic	
		Germany	The Netherlands	Sweden	Denmark
1st pillar	State/flat-rate universal		Universal flat-rate PAYGO (AOW)**		Universal flat-rate PAYGO (Folkepension)
Full Pension			50 years of residence		40 years of residence
Contribution Rate			7.1%		0.9%***
	State/earnings-related	Earnings-related, PAYGO (GRV)		Earnings-related PAYGO (Inkomstpension)/ Individual funded occupational pension (Premiumreserve)	Earnings-related, funded (ATP)
Full Pension		45 Earning Points (years of service)		Depends on life earnings	Based on Working Hours
Contribution Rate		19.9%		16%/2.5%	10.8%****
Type of Benefits		DB*	DB	NDC/DC	DB

Bismarckian			Beveridgean		
		Conservative-Corporatist		Social Democratic	
		Germany	The Netherlands	Sweden	Denmark
2nd pillar	Mandatory or Quasi-mandatory occupational pensions	Quasi-mandatory funded occupational pension	Quasi-mandatory funded occupational pension	Quasi-mandatory funded occupational pension	Quasi-mandatory funded
Contribution Rates		N/A	11.5-12.5%	2-5%	****
Type of Benefits		DC	DB/average salary	DB or DB/DC or DC	DC
3rd pillar	Individual Pensions	Voluntary , funded (Riester Pension)	Voluntary	Voluntary, funded Pensions. Payments are tax deductible	Voluntary pension with tax exemptions
Contribution Rates		4%	N/A	N/A	N/A

Table 7: Pension Scheme Overview (ISG, 2009; Rhodes & Natali, 2003; Immergut, Anderson, & Schulze, 2007)

* Scheme is a look-a-like DC-scheme. When pensioner ratio increases, there is a weighted decrease of the pension benefits due to the sustainability factor.
** Although provision is universal, contributions are levied on payrolls.
*** Contributions are levied through taxes and not payroll contributions. Therefore low contribution rate.
**** Only one rate is available for occupational pensions. No distinction is made between 1st pillar, second tier and 2nd pillar pensions

8.1 DESIGNING LESSONS

Multiple lessons can be drawn from a cross-national analysis depending on the independent factors that have been chosen. My independent factors and their subsequent indicators are:

- Demographic and economic factors: fertility rate, age expectancy at 65 and old-age dependency ratio
- Monetary policies: benefit structure and financing
- Role of actors and the indicators: administration and decision-making arena

Based on the empirical analyses in chapters 4 – 7, I will give a further specific analysis for all independent factors.

Demographic and economic factors

In chapter 3 I was already able to clarify the resemblances between the four countries based on the three demographic and economic factors. All countries showed a declining fertility rate, a higher life expectancy at 65 and a deteriorating old-age dependency ratio. Although the Netherlands show the severest decreasing fertility rate and Germany has the highest prospected old-age dependency ratio in 2050, the countries suffer from the same problems. By empirically analyzing the four countries, I wanted to find out whether the resemblances of the demographic and economic factors also reflect the practice of the four countries. Have reforms been introduced based on the necessity forthcoming from demographic and economic forecasts? It is obvious that the 1980s were an austere decade for my countries of research due to the oil crisis of the late 1970s. In addition, especially the Netherlands and Germany suffered from generous labor exit policies as early pension and unemployment and disability plans. These economic dangers initiated various pension reforms in all countries in the late 1980s and even more in the 1990s. Although most reforms were initiated due to economic dangers, it can be clearly seen that demographic factors influenced reforms as well. The baby boom generation approaches the statutory retirement age in just a few years and therefore policies have to be adjusted. If there are more beneficiaries of pensions and less contributors to the pension plan this ultimately is devastating for the pension scheme. All countries have made an effort to prohibit the effect of this trend to further influence the pension schemes by reforming where possible and came up with diverse solutions.

Since I have analyzed my first independent variable, I am also able to give an answer to my first hypothesis:

H1. If demographic and economic forecasts are pessimistic this will lead to a reformed statutory retirement age.

It is clear that pessimistic demographic and economic forecasts influence the pension schemes. Governments try to keep the system as sustainable as possible on the long-run and therefore reform where necessary. The 1980s made clear that economic factors influence the composition of pension schemes and that economic dangers can be enhanced by demographic dangers as could be seen in the provision of generous labor exit options of the Netherlands and Germany. Nonetheless, I have specifically used three indicators to check whether my assumptions were correct and it is to say that those indicators were correct, however it are not the only indicators that induce reform. A multiplicity of demographic and economic factors can spark off reforms, yet I do think that my indicators are among the most important indicators.

As for the influence of demographic and economic factors on the statutory retirement age; ultimately this is true. Like I said before, diverse demographic and economic factors form a major reason for reform, consequently also for reforms of the statutory retirement age.

Monetary Policies

Not all countries apply the same replacement rate, Germany, Sweden and Denmark focus on their net replacement in to contrast to the Netherlands that focus on the gross replacement rate. The difference might not seem significant, nonetheless the opposite is true. According to Palmer (2000, pp. 7-8), individual earnings are often taxed at a higher rate than a pension income. It is easier to compare pre-tax replacement rates, for the reason that tax systems are too complicated to compare one-on-one. An overview of the gross and net replacement rates is as follows:

	2006				2046			
	Statutory Pension	Occupational Pension and Private Pension	Total Gross	Total Net	Statutory Pension	Occupational Pension and Private Pension	Total Gross	Total Net
NL	29.6	41.2	70.7	91.8	31.2	50.9	82.1	97.9
DE	43.0	0.0*	43.0	63.0	34.0	11.4	45.4	64.0
SE	50.0	14.5	64.5	67.3	39.5	12.1	51.6	54.7
DK	45.1	3.6	48.7	71.3	34.7	33.5	68.3	71.4

Table 8: Replacement rate of pension schemes based on 2006 data (ISG, 2009)

* No specific data could be gathered considering the replacement rate of German occupational and private pensions

When specifically looking at the focus of the four countries on either gross or net replacement, then the rates are quite similar. The Netherlands however, do provide a staggering 91.8 percent net replacement to its retirees. A further difference can be seen in the division of the first, second and third pillar and their contribution to the entire scheme. Germany, Sweden and Denmark have a focus on the first pillar scheme although the schemes do not relate. The contribution of the Dutch statutory pension on the total gross replacement is only 42 percent. In Germany, a rate for either occupational nor the private pension is given, but Swedish and Danish contributions of the statutory pension amount to respectively 74 and 63 percent of the total net replacement. As a result, reforms considering the statutory pensions are more obvious in Germany, Sweden and Denmark than in the Netherlands.

Despite the different contributions to the total replacement rate of the various pillars, similarities can still be seen between the systems for potential lesson-drawing. The Dutch AOW relates to the Danish Folkepension, since both provide universal flat-rate benefits. Where the Dutch pay contributions through earnings, the Danish levy general taxes. A difference is that the Danish also have a second occupational tier contained in the first pillar, however this is not interesting for the Netherlands, since they already have a significant occupational scheme in the second pillar. The Germans also have a DB-scheme as the Dutch do, yet this DB-scheme shows characteristics of a DC-scheme as well. Instead of focusing on the replacement rate, the Germans have chosen to focus on the level of contribution. By focusing on this it will keep the system viable, despite longevity and other influences. Germany reformed its statutory pension for the reason that pure DB PAYGO-schemes are vulnerable for economic contingencies, resulting in fewer revenues, and social critical junctures that lead to fewer contributors, hence fewer revenues again. The only possibility to overcome negative economic and social situations is to increase contribution rates or decrease replacement rates (Rub & Lamping, 2010). Introducing the sustainability factor was an efficient idea to keep the level of contributions stable and not have the replacement rate deteriorate. The pre-reform situation of the German first pillar resembled the first pillar in the Netherlands. In Germany an employee has to gather 45 Earning Points to be eligible for the full pension and in the Netherlands one has to reside in the country for at least 50 years. By drawing a hybrid lesson from the German situation, the system will lose its mixed occupational + universal character and it would have to switch to a pure occupational scheme. Instead of residing in the country for at least 50 years, this could be slimmed down to earning 45 points with a social safety net for those who are able to attain the full amount of Earning Points. Introducing the sustainability factor would end the discussion for rising contribution rates, however the Netherlands would probably have to let go of the high replacement rate on the long-term, but this seems inevitable.

Sweden is the only country that has been able to introduce a paradigm shifting reform in a short amount of time. What lessons can be drawn from this reform? The pre-reform scheme resembled the Danish scheme, it had a universal basic pension paid for by general taxes and was complemented with a supplement called the ATP which was an occupational pension. The reform changed both tiers of the first pillar. The basic pension was transformed into a universal NDC-scheme on PAYGO basis. In this scheme benefits are paid through current contributions, as in a conventional PAYGO system, yet contributions are on an individual basis and calculated by the NDC accounting mechanism (Börsch-Supan A. , 2000, p. 459). NDC-schemes provide a rate of return from a PAYGO system, combined with the expected length of retirement. Since it considers two major variables, the system is dynamic and therefore more sustainable than a conventional DB or DC-scheme (Börsch-Supan A. , 2000, p. 460). A longer life expectancy at 65 years will result in a lower replacement rate, thus if an employee wants to attain the same replacement rate, it will have to work longer. This is not mandatory though, since the retirement age is made flexible in Sweden. The Swedish first pillar also contains a supplementary DC part with a 2.5 percent contribution rate. Adjusting to this scheme would require a synthesis approach. There is no need for the supplementary part, given that the Netherlands already have a well-developed occupational pension system. Contributions in the Netherlands are already made by the employer and the employee thus that does not require any modifications. Decisions considering the calculation of the notional interest rate, life expectancy at 65 are of the utmost importance to protect the benefits of retirees.

For so far the first pillar pension. Given that the first pillar only contributes 42 percent of the total replacement rate, the second pillar is more important in the Netherlands. Although the other three countries utilize quasi-mandatory occupational pensions as well and the coverage rate in Denmark and Sweden is significant, the replacement rate cannot be compared to that of the Netherlands. The Netherlands have a stronger developed second pillar than for example Germany, because the basic pension did not provide sufficient income replacement. Especially higher income groups demanded an additional plan (Haverland, 2001, p. 318). In addition, the second pillar was reinforced by creating a link between the minimum wage and the contractual wage progression in the private sector. The defined benefits of the pension were kept at 70 percent and as a result the basic pension slimmed down whereas the occupational pension grew (Delsen, 1996, p. 119).

The current debate on the coverage rate of the Dutch pension funds cannot be found in any of the other countries. The part of the total gross replacement rate of the Dutch second pillar is 58 percent and the funds administer nearly €1.000 billion worth of assets. For this reason it is important to find a suitable and feasible plan to reform this scheme. After the report *werken aan zekerheid* was presented, the pension funds were urged to transform their provisions from final salary schemes to average salary schemes. Although the reform remained quite unnoticed, it is a heavy measure to contain costs. Reported in 2001, a decrease in total costs of 0.24 percent on all salaries was already attained (SER, 2001, p. 48). Furthermore, in 2001 nearly 60 percent of all employees had a pension scheme based on the final salary, and one-third had an (indexed) average salary. In 2008, the 60 percent that had a pension scheme based on their final salary decreased to 1 percent and 87 percent had an (indexed) average salary scheme (SER, 2009). One can conclude that this reform was successful. If the reform might still not be sufficient, I suggest examining technical and political possibilities to transform the DB average salary scheme into a DC scheme. In that case lessons can be drawn from all three countries, since they have all processed that reform already.

The third pillar pension is also well developed in the Netherlands (Rhodes & Natali, 2003, p. 3). Nonetheless, it remains a pillar for the people with higher incomes. Denmark, Sweden and Germany subsidize and have tax exemptions on contributions to the third pillar. The most interesting scheme can be found in Germany since they administered a reform concerning this specific pillar in 2001. The Riester pension, as it is called, was meant to be mandatory, but due to resistance of opposition parties, the coalition introduced it as a voluntary scheme. In 2008, 4 percent of contributions are subsidized by the state in order to create an incentive for the plan. As in the Netherlands, despite the tax incentive the third pillar remains a pillar for people with high incomes. As a result, subsidies now go to people that would have participated in the plans anyways. Instead of stimulating a better redistribution of after retirement income, the Riester pension induces more income for the 'have's' instead of for the 'have not's' (Rub & Lamping, 2010). Hence, I do not see how the Netherlands could draw lessons from this reform. On the long-term the Germans might have set a first step on an incremental path to reform the Riester pension into a mandatory scheme. Only then would it prove to be of use.

Due to the analysis of the monetary policies I can now answer my second hypothesis as well:

H2. As provisions of Defined Benefit schemes become infeasible to maintain in their current state, the schemes will reform into Notional Defined Contribution schemes.

All countries have adjusted elements of their pension schemes following economic and demographic forecasts. Although some authors state that the last reforms are fashioned by NDC-schemes (Börsch-Supan A. , 2005, p. 458; Palmer, 2000), the only true NDC-scheme in the four researched countries is that of Sweden. The Netherlands have altered their DB-scheme from paying benefits based on a final-salary to paying benefits based on an average salary. The decision was made due to the infeasibility of the scheme on the long-term, yet it has not been reformed into a NDC-scheme. The same goes for the Danish pension system. Their first pillar has remained DB and the second pillar DC. Germany also maintained its DB-scheme however after the 2004 reform it transformed into a look-a-like DC-scheme due to the weighted decrease of the pension benefits caused by the sustainability factor. NDC-schemes are characterized by an accounting mechanism for all earnings, a balancing mechanism and an actuarial rule to convert the last balance into an annuity. The German scheme, after the reform, also has an accounting mechanism in the form of the 'earning points' one has to gather throughout its life. The balancing mechanism is incorporated in the German scheme as well, since the sustainability factor induces a weighted decrease of pension benefits. Judging from these observations one could say that the German scheme is not a look-a-like DC-scheme, but a look-a-like NDC-scheme (Börsch-Supan A. , 2005, pp. 461-462). This would to some extent justify what I have stated in my hypothesis. Sweden has already transformed its scheme into a NDC-scheme and Germany has transformed it into a look-a-like scheme. Nonetheless, fact remains that both the Netherlands and Denmark have not made any attempts to reform their schemes into NDC-schemes, hence the hypothesis cannot be fully proven.

The Role of Actors

During the research, I have not been able to stumble upon a lesson that can be drawn considering the administration indicator. First pillar plans are state administered in the Netherlands, but also in Sweden and in Denmark municipalities administer the first pillar plans. Germany has a full occupational administration for both its first and second pillar schemes. The Dutch, Swedish and Danish only have social partner administration for their occupational schemes. Although there is a slight difference between the countries, I do not believe that reforming the administration in any way will offer a solution for pension problems.

The arena for making decisions looks similar at a first glance for all countries, yet looks deceive. The Dutch tend to try to reach a consensus with the most important stakeholders to create a significant support for their plans. The benefits of this 'consensus-seeking' is that political backlashes are avoided and strikes do not occur often, however the procedure is very time-consuming, since every stakeholder has to agree. The Swedish used to have a similar system and called it the 'politics of compromise' or 'administered politics'. This type of negotiations is not employed anymore, since the SSA lost its majority in the government and as a result they were not able to set the agenda anymore. All stakeholders conciliated with the SSA, because there was no other possibility to introduce reforms if the SSA did not agree (Anderson & Immergut, 2007, p. 350). Although the Dutch system never fully relied on one party as in Sweden, stakeholders can act as veto-players when their decisions are not (re)considered (Beland, 2001).

At a certain time the SSA lost its majority in the Swedish government and the need for support of other parties in government increased. The need for social partners however did not increase, hence it also did not resemble the Dutch situation. Social partners created another path for themselves in the 1950s when they forced responsibility about deciding whether or not to implement supplementary pension schemes to the government. Marier stresses that this induced a situation where social partners were not involved in the final decision-making and only played a minor role in the formulation phase as part of the policy subsystem (Marier, 2002, pp. 29-30). Therefore during the 1994/1998 reforms the social partners could not pressure the government for more representation in the negotiating committees. The government told the social partners off, by saying that they were already involved in a committee for pre-negotiations together with experts to propose alternatives and that their voices were already heard (Wadensjö, 1997, p. 272). This was the reason why the Swedish government could establish a committee comprising all political parties and discuss matters without involvement of either the social partners or the media. Furthermore, the Swedish political parties performed a good job at keeping the negotiations depoliticized. Although the representatives derived from a certain party, they did not let their party's ideology prevail in the discussions. Nor did the representatives use the negotiations or their point-of-view as an issue or way to gain votes during elections (Kok & Hollanders, 2006, pp. IV-V). As a result, standard political blame-avoiding and credit-claiming strategies were neglected and all parties carried the blame for benefit cuts.

The Dutch decision-making procedure differs compared to that of Sweden. During the 1980s the Dutch created the 'Polder Model'. It is a form of tri-partite negotiations between employers', employees' organizations and the government. The Polder Model is used in all directly related discussions concerning social and economic issues (Kranenburg, 1999). Therefore the social partners attained decision-making power and moved a step upwards, from only being included in the policy formulation phase as part of the policy subsystem, to also being involved in the decision-making phase due to their veto-powers as semi decision-makers (Riel, Hemerijck, & Visser, 2002). This division of power became apparent in 1994 when the CDA tried to cut benefits rigorously. Although the risk was unavoidable on the long-term, the CDA was not supposed to make such an important decision on its own. As a result, in the 1994 elections the CDA suffered a major cut in votes. Although I would like to advise to follow a similar path for pension reforms as in Sweden, I do not think this is likely due to the construction of the Polder Model. Political parties are too frightened to suffer major vote losses and will therefore always include social partners in important discussions. The Swedish state of affairs can opt as an inspiration however. An example of this could be seen during the 2009/2010 pension discussions. The government wanted to increase the statutory pension age to 67 to cut pension expenditures. The social partners did not agree, consequently they were given time to come up with an idea that would save as much expenses as the retirement age increase would. As the deadline approached the social partners were not able to form one voice and come up with one solution that would satisfy them all. Therefore the government decided to stick to their own plans. This decision was only possible as a result of the lack of solidarity among the social partners and the credit crises. The crises asked for quick decisions to cut expenditure and the public was aware of this. If it were not for these two reasons, the social partners probably would have revolted the decision as well as the voters would have.

Another interesting lesson is obfuscation. In Denmark a majority of political parties is needed to introduce a change. Although this procedure was always followed, it was altered in 1993 when a coalition reformed taxes with consensus of the opposition. Supplementary pension net benefits would be converted into taxable gross benefits. Ultimately this meant more taxes for the government however, the reform was very complex. Pierson stresses that strategies of obfuscation make it hard for voters to judge whether the reform turns out to be good or bad for them and as a result causes less negative effects (Pierson, 1994). Again, the Dutch can use this lesson as an inspiration for future reforms, although social partners and the media will probably try to simplify reforms to create a public debate when needed. This would diminish the effect of obfuscation.

Having analyzed my final independent variable, I can now answer my final hypothesis as well:

H3. Assuming that Béland (2001) ***is correct about the veto powers of social partners, their inclusion in the decision-making process will lead to incremental policy changes.***

The Dutch Polder Model is an incremental decision-making vehicle. Tripartite decision-making is the status quo and deviating from that path leads to political backlashes as in 1994. The CDA tried to retrench certain pension benefits, however was not able to introduce the measures. In the following elections, the CDA suffered a great loss of votes and were not the biggest party in parliament anymore. Although other factors also played a role in the vote loss of the CDA, it can have formed an important factor. When I look at the political actor hourglass it is interesting to see that instead of only involving government decision-makers during the decision-making stage, the social partners are also seen as semi decision-makers in the Netherlands. The extent to which they have been involved in making decisions in the past remains for making current decisions and therefore they have acquired a form of veto power. This is in contrast to for example Sweden where influence of social partners is less than in the Netherlands and the partners are seen as part of the policy subsystem. Actors in the policy subsystem only participate in the policy formulation and not in the decision-making process, making the decision-makers less to prone to potential veto powers of the social partners. This enabled the Swedish to enact a reform that would not proceed incrementally, but due to the paradigm shift would cover all decisions at once making the scheme sustainable for future influences. Since the Dutch aim at reaching a consensus for on the one hand fear of facing political backlash and on the other hand creating more support for their plans, social partners are involved in the decision-making process and have veto powers. Reaching a consensus is dependent of the needs and opinions of all actors, thus including social partners in the decision-making process will lead to incremental policy changes is a correct hypothesis.

9. CONCLUSION

To be able to answer my main research question '*what lessons can the Netherlands draw from other welfare states concerning the reform of the statutory retirement age, when considering demographic and economic factors, monetary policies and the role of actors?'* I have to answer my sub questions.

To answer my first question I first need to explain that the foundation for pension programs as a whole is either Bismarckian or Beveridgean and is complemented with other elements. Bismarckian pensions provided a social insurance on occupational basis and Beveridgean pensions a universal prevention for poverty. It would seem that benefits from a Bismarckian pension would ultimately be higher than that of a Beveridgean pension, since it offers a social insurance, thus aiming at one's prior earnings. In general this is true, however the schemes have been adjusted through the years and benefits have increased. For my research I have also chosen to compare high-spending countries and judging from table 8 replacement rate are nearly similar. To come back on the sub question, a pensioner is entitled to a statutory pension if any is available and if the pensioner has fulfilled the criteria. A potential beneficiary can also be entitled to a secondary pension plan when reaching the statutory retirement age. This again dependents on whether or not the potential beneficiary has met certain criteria or not. Furthermore, reaching the statutory retirement age also means that a retiree does not have to participate on the labor market anymore.

In chapter three I tried to quantitatively display the demographic and economic situation all four countries are in. Although there are more reasons why the statutory retirement age has been reformed in all four countries, demographic and economic forecasts are the most prominent reason. The population is ageing and on the long run this causes severe problems for the current pension scheme. I have focused on fertility rates and life expectancy at 65 as demographic factors. Economic factors influence reforms as well and to research that I have used the old-age dependency ratio. Moreover, these factors clearly influence the retirement age, yet my empirical analysis also showed that the current crisis and the oil crisis of the late 1970s have induced many reforms as well. All four countries seem to have initiated reforms, however reforming the statutory exit age has been the last reform the countries have introduced. This gives an answer to my second sub question.

From the 1950s up to the 1980s, the Netherlands have increased pension benefits as a result of positive economic forecasts. From the 1980s and onwards incremental expenditure and benefit cuts were initiated due to the oil crisis and momentarily the credit crisis and the ageing society. The most significant monetary measure was the transformation of the occupational pension funds. Benefits from these funds used to be based on an employee's final salary, however the report *werken aan zekerheid* urged the social partners to cut expenditures due to longevity. Measured in 2007, already 87 percent of all benefits were not based on an employee's final salary but on its average salary. Expenditure was also cut due to the abolishment of the VUT and introduction of pre-pensions. When an employee would make use of the VUT it would not suffer from any benefit cuts and could already enjoy its full pension. Pre-pensions have induced a system wherein employees can save for their own early retirement through the 'levensloopsregeling'. According to the 2010 coalition agreement, this option will be transformed into the 'vitality measure'. That will enable employees to remain in the work force longer, yet on part-time basis and enjoy a part of their pension savings already. These reforms have to enable a monetary measure that has also been included in the 2010 coalition agreement. The statutory retirement age will increase to 66, and to save expenditures this will have to be accompanied with a late average labor exit age. Otherwise, employees will make use of disability and unemployment pathways too much and then the problem is still not solved. This gives an answer to my third sub question.

During the decision-making procedures the role of actors can clearly be seen. Choices made in the past have led to present structures. In the 1950s Swedish social partners forced the government would make a decision concerning supplementary pensions. As a result of their lack of responsibility the social partners were not invited in the negotiations for the 1994/1998 reform. The Netherlands have introduced tri-partite negotiations in the 1980s and therefore gave the social partners a significant influence during decision-making. Dutch social partners also act as intermediaries when 'social contracts' have to be discussed. They make sit at the discussion tables and try to what is best for 'clients'. This has led to a strange 'actor hourglass'. Social partners in Sweden only have a minor role in the policy subsystem (policy formulation phase), yet in the Netherlands the social partners have shifted one step up to nearly becoming semi decision-makers.

The Netherlands can draw various lessons from the empirical analysis of Germany, Sweden and Denmark. A 'hybrid' lesson can be drawn from the reform that has been introduced in Germany. Instead of focusing on replacement rates, Germany decided to focus on contribution rates. To make this possible, the Germans introduced a sustainability factor in their first pension benefit calculation. The factor links an increase in the pensioner ratio to a weighted decrease of the pension level. Consequently, fewer contributors and more pensioners will lead to fewer benefits, higher benefits can be induced by working longer. Why I suggest a hybrid lesson is because the Dutch and German system are not entirely similar and because this reform might induce deteriorating benefits, although projections of the ISG (2009) show that this is not the case.

What I find a less likely lesson is the Swedish pension reform. I would like to draw a 'synthesis' lesson, nonetheless due to the political structure in the Netherlands I do not think that attaining a paradigm shift of that category is possible. The Swedish reform contains costs, yet is still actual, fair and feasible for all its (future) beneficiaries. Sweden has transformed its universal, flat-rate, PAYGO, DB-scheme with an occupational supplement into a universal, PAYGO, NDC-scheme with an individual occupational pension supplement which has DC. Retirement ages are flexible, so one can choose when to retire, however benefits will decrease when this is done before 67.

'Inspiration' can be gained from the German Riester pension on how not to do it. The third pillar pension was meant to alleviate the state's pension expenditure by introducing a mandatory private pension. Since the proposal could not find enough support, the private pension was made voluntary to create more support and is stimulated with tax incentives. This clearly does not alleviate expenditures for the state, nor does it redistribute income for the entire society. The third pillar pension is primarily used by people that can afford and not by people that cannot.

A final suggestion for the Dutch government is to gain 'inspiration' from the Swedish decision-making procedure. Decision-making has been structured throughout the years. However, when the urge for a political decision is high, like during crises and the public is aware of that, this creates more leeway for politics to make their own decisions. If the government would want to introduce a status quo changing reform, I would hardly recommend to de-politicize the procedure, so that all political parties will carry the blame. Only then can blame-avoidance and credit-claiming strategies be neglected.

What lessons can the Netherlands draw from other welfare states concerning the reform of the statutory retirement age, when considering demographic and economic factors, monetary policies and the role of actors?

To answer the central question, demographic and economic factors are to be adapted to complementing policies. The way the factors are interpreted and the way policies are adjusted to the situation is something the Dutch can learn from other countries. I have not found a way to prevent the retirement age from changing, yet possibilities to alter it in a sustainable way I have found. The Dutch coalition agreement of 2010 already states that the retirement age will increase to 66, yet this has not been implemented yet. For monetary policy measures I suggest the German first pillar reform and to a lesser extent the Swedish reform due to political and technical constraints. It is complicated to change the role of actors, since they have had that role for many years. To make larger steps in changing policies I do advise the Netherlands to look at the Swedish policy making process. The Swedish have successfully de-politicized the pension discussion and established a paradigm shift. Since the role of the actors in the Netherlands is different, I advise the Netherlands to be 'inspired' by the Swedish and not mimic the progress, since that might backfire.

9.1 RECOMMENDATIONS

The Dutch coalition agreement already states a retirement age increase to 66 and judging from the empirical analysis from the other countries it nearly seems inevitable to introduce other measures without eventually changing the retirement age. Nonetheless, the exit age can be changed in various ways, of which one is more sustainable for the future than the other.

Denmark has introduced a simple age increase as the Netherlands are planning to do as well. Sweden has introduced flexible retirement ages, which are made possible due to their NDC-scheme. Even though I think this is the most sustainable reform, I do not think that it is possible to attain for the Netherlands. First of all it is a paradigm shifting reforms, commanding a long and foremost de-politicized decision-making trajectory. Since the role of the social partners differs significantly in the Netherlands to that of Sweden, I do not think that it can be achieved. The social partners have to be involved in pension discussions, whether the discussions involve the first or the second pillar. Since the social partners represent certain unions, they strive to gain maximum results from every discussion and this can deviate from the path the political actors want to take. To speak in terms of Rose's four lessons, I think that the Dutch can best learn from the German first pillar by getting 'inspired' by it. The Germans have transformed their first pillar from a DB-scheme to a look-a-like DC-scheme. Other theorists, as Börsch-Supan (2005), even suggest that the new German scheme resembles a NDC-scheme. They have introduced a sustainability factor which induces that when fewer actives pay contributions the replacement rate will decrease, hence employees will have to remain in the work force longer to attain the same replacement rate. Another benefit of the scheme is that the contribution rate is maintained at its current level and only incorporates a small deviation on the long-term. Why do I suggest to get 'inspired' by this scheme and not fully 'adapt' to it, is because the Dutch and German situation is not identical when it concerns the first pillar. The Dutch have a mixed occupational plan, whereas the Germans have a pure occupational plan. Converting the plan seems a technical possibility since contributions are already earnings-related. However, introducing a sustainability factor is also quite a rigorous reform, hence complicated to achieve.

A disadvantage from my research is that I have not been able to find any interesting reform possibilities for the Dutch occupational pension. The Dutch occupational pension constitutes 58 percent of the total gross replacement rate and momentarily is center to a hot debate. It covers nearly all employees in the Netherlands and due to its high percentage of the replacement rate it might even be more important than the AOW. Nonetheless, none of the researched countries show an elaborate second pillar scheme as the Dutch do and as a result I cannot draw any interesting lessons.

Considering the statutory retirement age itself, I have no further recommendations, because there are various possibilities to reform it, however many are complicated to implemented. The Dutch have already stated an age increase in their 2010 coalition agreement and I think the Dutch have to wait for a window of opportunity to make the retirement age even more sustainable. The Dutch decision-making procedure prohibits a paradigm shifting reform in which all problems are solved at once. Only incremental steps are taken, thus a Swedish reform is not possible. I do recommend the Dutch to draw some 'inspiration' from Swedish decision-making, because de-politicizing decision-making simplifies making significant reforms. Yet again, achieving this is hard to accomplish in the Dutch circumstances. A window of opportunity can be that the necessity to reform is high and this awareness is also publicly known. Furthermore, the social partners will always have a strong discussion power, so overruling them only seems possible when they are first given the opportunity to come up with a plan, yet due to indifferences among the partners they are not able to form a block against the political actors. Due to the necessity of the reform, the political actors can then make the discussion, since the public will not revolt the discussion nor will the social partners, since they have already been given an opportunity.

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