European Pension Policy Initiatives and National Reforms: Between Financial Sustainability and Adequacy

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Preface

This paper is written as a part of the research project «Policy Discourses, International Actors and National Welfare Policy. Norway in a Comparative Perspective», funded by the Norwegian Research Council. It was presented at the ESPAnet conference «Transformation of the Welfare State: Political Regulation and Social Inequality» at the University of Bremen 21–23 September 2006. The present version is slightly different from the one presented in Bremen.

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Summary

The EU Open method of Coordination (OMC) represents one strategy for pension reform that ideally combines agreement on common objectives with different institutional and national approaches as means of reaching these objectives.

This paper will focus on the OMC in pensions, seen as representing a pension policy discourse, and how it relates to national pension policy in three particular countries; two member states; Germany and the UK and one non-member country; Norway. Each of the three countries represents different welfare state and pension models, i.e. the Bismarck-, the Beveridge-, and the Nordic model respectively. Two key questions are addressed: Does the OMC process promote a particular kind of pension system model through its goal of providing adequate, sustainable and modernized pensions? How does it compare to and does it challenge existing national systems as found in the three selected cases in terms of their institutional and normative foundations? In addition the paper briefly discusses in what way the OMC in pension potentially impact national pension debates and reforms.

The empirical material applied for analysis focuses mainly on the National Strategy Reports and the Joint reports by the Commission and the Council. Theoretically an institutional perspective is followed stressing the interaction between different institutions of pension provision and the adhering discourses surrounding these institutions. Thus, institutions are seen as instruments for solving problems (for instance income security in old age) and at the same time they are expressing a normative content inherent in their specific solutions. In this way each pension pillar (seen as an institution) contains its own more or less particular discourse. This paper distinguishes between three particular discourses: Social right-, status security-, and a private pension discourse.

Analysing the OMC pension discourse as laid out in the Joint reports, the following key elements are identified: Firstly, the issue of financial sustainability takes precedence over the goal of adequacy. To obtain sustainability there is a need to raise employment rates and to stem growth in public pension expenditures. Secondly, this argumentation implies a new division of pension pillars by increasing the role of occupational and private pensions. In addition, it entails internal normative changes of pension pillars by strengthening traits known from private pension insurance. Thirdly, the goal of adequacy is shaped by the financial sustainability discourse and its focus on public pension expenditures. Fourthly, seen as a pension model the OMC on pensions promotes a hybrid model of pension provision containing elements from all three pension systems, but with the important qualification that it is really «hybridization with a bias». This means that the model represents a new pension blend that contains fewest traits from the Bismarckian model and with more prominence to elements known from multi-pillar systems as well as minimum pension guarantees as found in the new post-reform Nordic model.

From this follows that this hybrid pension model has various implications in terms of challenges to national paradigms: In the German case we find a clear move away from

public first pillar provision and increasing reliance on second and third pillar provision. In addition, focus on minimum security challenge the status security orientation of the German system. For the UK there is no confrontation in terms of financial sustainability, implying a continuance of the tradition of pension privatisation, and providing a complex system of means tested benefits to secure minimum security. For the Norwegian case the hybrid OMC paradigm represents a challenge in terms of increasing reliance on occupational pension provision in providing standard security and by containing future public pension spending.

Samandrag

EU sin opne koordineringsmetode (OMC) representerer ein strategi for pensjonsreform som ideelt kombinerer semje om felles målsetjingar med ulike institusjonelle og nasjonale tilnærmingar som middel for å nå desse måla.

Dette paperet omhandlar den opne koordineringsmetoden innafor pensjonsområdet, forstått som ein pensjonspolitisk diskurs, og korleis denne er relatert til nasjonal pensjonspolitikk i tre utvalde land; to medlemsstatar; Tyskland og Storbritannia og eit ikkje-medlemsland; Noreg. Kvart av dei tre landa representerer og ulike velferdsstats- og pensjonsmodellar, respektive Bismarck-, Beveridge-, og den Nordiske modellen. To hovudspørsmål blir stilte: Fremjar OMC prosessen ein særeigen pensjons modell gjennom måla om å sikre adekvate, berekraftige og moderniserte pensjonar? Korleis står i så fall denne modellen samanlikna med eksisterande nasjonale modellar slik vi finn dei i dei tre landa og utfordrar den desse modellane i høve til institusjonell og normativ utforming? I tillegg diskuterer paperet kort korleis OMC prosessen kan tenkast å innverke på nasjonale pensjonsdebattar og reformer.

Det empiriske materialet som utgjer grunnlaget for analysen er henta frå dei nasjonale strategi rapportane (*National Strategy Reports*) og fellesrapportane frå Kommisjonen og Rådet (*Joint Report by The Commission and the Council*). I teoretisk samanhang blir eit institusjonelt perspektiv nytta som vektlegg samhandlinga mellom ulike pensjonsinstitusjonar og deira tilhøyrande diskursar som omgjev desse institusjonane. Institusjonar blir slik sett som instrument for problemløysing (til dømes inntektssikring i alderdommen) og på same tid uttrykkjer dei eit normativt innhald som er innvove i deira spesifikke løysingar. Slik inneheld kvar pensjonspilar (forstått som ein institusjon) sin meir eller mindre særeigne diskurs. Dette paperet skil mellom tre diskursar: sosiale rettar-, statussikrings-, og ein privat pensjonsforsikringsdiskurs.

På grunnlag av ei analyse av OMC pensjonsdiskursen slik den er lagt fram i fellesrapportane, finn vi desse hovudelementa: For det første står målet om finansiell bereevne over målet om adekvate pensjonar. For å oppnå berekraft er det behov for å auke yrkesdeltakinga og å demme opp for veksten i offentlege utgifter. For det andre medfører denne argumentasjonen ei ny arbeidsdeling mellom dei ulike pensjonspilarane, gjennom ei aukande rolle til arbeidsmarknads- og private pensjonar. I tillegg kjem interne normative endringar av pensjonspilarane, der trekk kjend frå privat pensjonsforsikring blir styrka. For det tredje, er målsettinga om adekvate pensjonar strukturert av den finansielle bereevnediskursen som særskild rettar merksemda mot offentlege pensjonsutgifter. For det fjerde, forstått som ein pensjonsmodell så fremjar OMC prosessen ein hybrid pensjonsmodell som inneheld element frå alle dei tre (idealtypiske) systema, men det må presiserast at den i røynda er ein hybrid med slagside. Dette betyr at modellen inneheld færrast trekk frå Bismarckmodellen og med meir vektlegging av element kjend frå liberale, fleirpilar system så vel som minimumspensjonsgarantiar slik vi finn dei innafor den nye postreformerte Nordiske modellen.

Ut frå dette så vil den hybride pensjonsmodellen ha ulike implikasjonar i form av utfordringar til nasjonale paradigme: For Tyskland finn vi ei klar rørsle bort frå offentleg lovregulert forsyning til større vekt på individuelle private pensjonar. I tillegg kjem at fokus på minimumssikring utfordrar statussikringsorienteringa i det tyske systemet. For Storbritannia er det inga utfordring med omsyn til finansiell bereevne, noko som medfører eit framhald med privatiseringstradisjonen og bruken av eit komplekst system av inntektsprøvde ytingar for sikring av pensjonar på minimumsnivå. For Noreg representerer det hybride OMC paradigmet ei utfordring gjennom aukande vektlegging på arbeidsmarknadsbaserte pensjonar for å oppnå standardsikring og for å dempe framtidige offentlege pensjonsutgifter.

Introduction

Pension reforms all over the world take place within an international context of multiple pension reform ideas that are diffused globally by international organisations and different epistemic communities. In a European context, the EU Open method of Coordination (OMC) represents one strategy for pension reform that ideally combines agreement on common objectives with different institutional and national approaches as means of reaching these objectives. Open co-ordination is described as: «a mutual feedback process of planning, examination, comparison, and adjustment of the social policies of Member States, all of this on the basis of common objectives» (Vandenbroucke 2002: viii). The OMC was established based on mutual agreement by the Member States on policy objectives. It contains common guidelines, indicators and targets, as well as performance benchmarking and «good practices» exchange. Further, it encompasses the formulation of national action plans, peer reviews and joint monitoring of implementation. All this is done in an iterative, multi-year cycle process (Zeitlin 2003: 5). Within this framework, social inclusion and pensions were chosen as two areas of priority wherein the open method of co-ordination was made operational. Employment had already been launched as a priority by the Luxembourg process in 1997. This was done under the Swedish Presidency of the Commission (Hemerijck 2002). The EU established 11 principles for pension reforms, within three overall headings: Adequacy, financial sustainability and modernisation.

This paper will focus on the OMC in pensions, seen as representing a pension policy discourse, and how it relates to national pension policy in three particular countries; two member states; Germany and the UK and one non-member country; Norway. These three countries are chosen as representatives of quite distinct pension regimes resulting from a long history of institutional development. Two key questions are addressed: Does the OMC process promote a particular kind of pension system model through its goal of providing adequate, sustainable and modernized pensions? How does it compare to and does it challenge existing national systems as found in the three selected cases in terms of their institutional and normative foundations? In addition the paper briefly discusses in what way the OMC in pension potentially impact national pension debates and reforms.

Theoretically the development of pension systems could be understood within an institutional perspective stressing the interaction between different institutions of pension provision, the adhering discourses surrounding these institutions as well as the actors performing the discursive acts.

There is a growing literature on the OMC covering different aspects of it. The first section very briefly presents some of these approaches, and in addition outlines the discursive framework to be applied in the subsequent analysis of OMC in pensions.

Section three contains a succinct account of the three pension systems seen as paradigmatic cases of three different pension models: Beveridge, Bismarckian and the Nordic model.

Next, the paper turn to the OMC process itself, providing the historical background and describing the OMC for pension and how it works. To analyse the possible discursive impact of the open method the National Strategy Reports published in 2002 and 2005 are scrutinised. One question to be addressed in this section is to what extent these Strategy reports reflect previous institutional pathways and welfare models and to what degree can we see modifications or what Zeitlin (2003) denotes as hybridization of welfare models present in their strategies for reform? As for Norway the recent pension reform proposal is applied to see if we can find parallel or deviating developments in this case as compared to the UK and Germany. The paper does not intend to cover all aspects of pension systems but will concentrate on two of the three key goals as stated by the European Council decision at the Laeken meeting in 2001, namely adequacy and sustainability. Finally the last section will provide a comparative discussion and some preliminary conclusions.

An institutional and discursive perspective on OMC and pension reforms

According to Laffan and Shaw (2005) two broad perspectives on OMC can be identified. The first one is concerned with the OMC as a new mode of governance, whereas the second which is of strongest relevance for the present study, focuses on the outcomes of the process in terms of policy output. A central inquiry within this strand of research is whether the method is seen primarily as a means of fostering competitiveness or improving social welfare. Some authors argue that the OMC is an ideational mechanism delivering neo-liberal reforms of social policies at reduced costs and they see the OMC as a discursive regulatory mechanism that redefines social policy in the light of economic performance (Jacobsson and Vifell 2003, Chalmers and Lodge 2003). Other students argue that the OMC allows social goals to gain political influence within the EU and that it helps to promote welfare polices and not only market making policies (Trubek and Mosher 2003, Schmidt 2002).

Most of the research on OMC in terms of social policy output focuses on the EES. One relevant perspective for the issue of pensions is the one laid out by Zeitlin (2003). His core argument is that empirical reality as concerns the work and welfare nexus does not support the basic view of the variety of capitalism (Hall and Soskice 2001), welfare regime (Esping-Andersen 1990), and production regime theories stating that because of institutional diversity cross-national learning and policy transfer across regime types are hindered. In his view empirical reality reveal the development of «hybrid policy mixes», wherein countries starting from one original regime cluster starts to incorporate new elements borrowed from foreign models (Zeitlin 2003: 12). Examples of this are found in Denmark, Ireland, Netherlands and Portugal, i.e. representatives from different welfare and work regime clusters. Thus, Denmark has been stepping up individualized labour market activation program and training for unemployed and others. In addition they have increased funding and strengthened the earnings related aspect of the pension system. Ireland has established new social partnership, increased social spending, promoted wage moderation and have obtained reduced poverty levels. Netherlands has restricted disability pensions, has implemented a line of long term consensual wage moderation, and has been able to increase employment rates. Portugal has seen reform of unemployment systems and expansion of active labour market policy. These examples accordingly point to ways of meeting the service economy trilemma trough «hybridity».[1] And according to Zeitlin:

> The OMC is specifically designed to assist member states in learning from another how to reconcile full employment, social cohesion and budgetary stability through a continuous cycle of contextualised benchmarking (op.cit: 16).

Thus, contrary to the variety of institutions arguments, Zeitlin argues that in stead of impairing OMC, institutional variation may improve learning. The implications of the above discussion for the present paper is therefore to identify examples of hybridity within national pension reforms as well to clarify to what extent the goals of the OMC on pensions fits within the hybridisation perspective. An example of hybridisation within pensions would be when for instance Germany, a paradigmatic case of the continental social insurance model, starts to introduce elements from the multi-pillar model as is done in the form of Riester pension. In order to understand this institutional change we also have to scrutinize the discourses that support, resist and complement these institutional transformations.

As concerns the discursive perspective attention will be given to those that focus on policy relevant discourses and on how discourses interacts with institutional structures (Bönker 2005, Taylor-Gooby 2005, Schmidt 2001, Radaelli og Schmidt 2004, Pochet 2003). Schmidt (2001) defines discourses broadly as: «whatever policy actors say to one another and to the public more generally in their efforts to construct and legitimate their policy programs» (Schmidt 2001: 248).[2] In this way discourse is understood as constituting both a set of policy ideas and values and an interactive process of policy construction and communication. These two dimensions, the ideational and the interactive further contain two essential activities each. Within the ideational dimension, which is the focus of this paper, there is a cognitive activity enabling actors to make sense of reality, involving knowledge, policy analysis, and information about problems, actors and resources. The normative activity on the other hand consists of assessing and judging reality and thus belongs to the framework of norms and values (Radaelli and Schmidt 2004: 364).[3] The interactive dimension consists of the coordinative activity taking place when policy actors try to construct an agreed upon policy as well as a communicative activity wherein policy actors presents the policy for public deliberation and legitimisation (op.cit: 365).

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[1] The service economy trilemma point to the difficulty for national governments of simultaneously attaining *budgetary restraint, earnings equality, and employment growth* in an open economy, where international competition and technological innovation restrict job creation in the exposed (mainly manufacturing) sector, capital mobility inhibits fiscal expansion, and relative productivity remains low in the labour-intensive sheltered service sector.

[2] Although the definition is broad the focus on policy programs maybe to narrow in order to capture different levels of discourses and their interaction, including institutions and more general level system structures. Thus, for instance globalisation could be viewed both as an objective process but also as a distinct discourse in its own right with implications for national policy.

[3] This approach has much in common with studies of the ideas used in policy change, policy narratives, frames of reference, discourses, national identities, values, norms, collective memories (Rothstein 2000), policy stories (Ney 2003).

In the present paper discourse is understood as part of an institutional perspective. And as a way of clarifying the relationship between discourses and institutions the metaphor of different pillars mentioned above is instructive. Thus each of the three main pension pillars; the public social, the occupational and the individual private one, to different degrees is sustained by a combination of three particular discourses which legitimises its practice.

This discourse contains both a cognitive and normative dimension which is linked together into more or less coherent narratives or policy stories. Very briefly described the core of the private pension insurance discourse is the private and voluntary entered insurance contract based on actuarially fair premiums. Within the status security discourse group insurance, compulsiveness and securing income according to income and status are key concerns. The social rights discourse centres on the equal rights of all pensioners as citizens and minimum security to avoid poverty and large inequities in old age. Looking at each of the three pillars, the individual private pension pillar is dominated by the market conforming pension discourse, and with little influence from the other two discourses. The occupational pillar contains elements from all the three discourses, but with the status security as the major constituent. The (public) social pillar pension discourse focuses on universal social rights and the key issue of securing an adequate minimum for every old person independent of previous labour market participation.

A focus on ideas and discourse does not imply that other factors are ruled out in explaining pension system development and reform. The literature on welfare state and pension system change points to several factors accounting for change such as socio economic forces, political forces and party competition, political institutions and policy legacies, national political economies, transformative or preserving policy discourses, external shocks and crises, globalization and supra national political development through European integration and the role of international organisations (confer Clasen 2005). The list of broad factors could be extended and within each factor a more detailed specification of independent variables could be outlined. Another distinction is between those who emphasise external forces such as globalisation as decisive for change, whereas others put most weight on internal factors for change, such as restructuring of the labour market from industrial to service production, population ageing and the costs of institutional promises of the welfare state, wherein the present and future costs of public pension systems looms large. According to Pierson (1998) these internal factors represent «irresistible forces» which both increase demands on and squeeze resources for the funding of traditional social policy programmes (Clasen 2005: 11).

In order to pinpoint to what extent there is hybridization going on within the pensions system of the three countries we need to lay out briefly the main elements of the three pension models wherein each of the three countries serves as paradigmatic cases.

Three models of pension provision: Germany, Norway and the UK as paradigmatic cases.

A central distinction in the pension system/reform literature is the one between the Bismarckian and the Beveridgean model of pension provision (Bonoli 2000: 9–13). The Beveridge model is associated with flat rate payments and general revenue financing aimed at securing a minimum pension in order to alleviate poverty. Within this system standard security, understood as the provision of pension benefits reflecting previous standard of living during working life is considered to be outside the responsibility of the welfare state and ought to be solved through the private market of pension provision and/or occupational provision. The Bismarckian model on the other hand focuses on standard security rather than poverty alleviation. Initially this model was applied to industrial workers, and subsequently over a considerable span of time other groups were included. An important feature of this system was the emphasis on contribution based financing of the pension. This also meant that those unable to contribute had to rely on poverty relief. The Beveridgean system on the other hand as it in fact developed was based on tax financing, rather than contributions as was Beveridge's own preference (Bonoli 2000: 11). The Nordic countries initially based their system on poverty alleviation through means tested systems, but during the 1950s and 1960s an earnings-related scheme was added within the public scheme. Thus both the standard security and minimum security element was combined within a single public system. Here Sweden and Norway are the most proximate cases to this ideal type.

As a major constituent of the whole welfare state edifice, the classification of pension regimes is highly congruent with the overall classification of welfare states into the familiar three types of welfare regimes: The social democratic regime where welfare arrangements cover the whole population and includes a fair amount of income redistribution and where consequentially access to welfare benefits is more decommodified than in other countries, i.e. being less dependent on market participation. The Continental or conservative model (Esping Andersen 1990) is characterised by social programs covering the working population only and providing earning-related benefits to this broad category. The liberal regime is distinctive in terms of its preference for social programmes targeted on the poorest groups of the populations, and in addition benefits are modest or low and therefore increasing the risk of jeopardizing the goal of adequacy for these marginal groups.

The table below sums up some of the differences between the three models of pension provision along some key dimensions:

Table 1. Three models of pension provision

Model:	Social Insurance (Bismarck)	Poverty Prevention (Beveridge)	Combining Social insurance and poverty prevention (Nordic)
Dimensions (of public provision):			
Target groups	Economically active	The poor	Residents
Key goal of provision	Standard security to uphold previous living standards	Minimum security to prevent poverty in old age	Uphold adequate minimum security and provide a reasonable level of standard security
Redistribution	Moderate	Limited	Substantial
Financing	Contributions and taxes, PAYG	General taxation, PAYG	General taxation and contributions, PAYG
Replacement level of public pensions	70.3% (Level of standard pension)	20% (Replacement rate of basic pension, 2003)	c.50% (National Insurance pension, for a average earner)
Relative importance of pillars in terms of income composition	Public pillar dominant	Public pensions less important, occupational pensions and individual private increasingly important	Public pillar dominant, but occupational and private pensions more developed than in Germany
Cases	Germany	The UK	Norway

With this as a background we now move to the European level in pensions.

The OMC on pensions and other European pension initiatives

The OMC on pensions can be traced back to the European Council of Stockholm in 2001 when it was decided to apply the OMC to pensions (European Council 2001a). However it was back in 1999 with the issuing of the Commission communication on «A concerted strategy for modernising social protection» that pensions was mentioned as one of four objectives within a European agenda of social policy (European Commission 1999). The Lisbon summit in March 2000 provided the formal adoption of what was baptised the open method of coordination within European social policy (European Council 2000).[4] As mentioned in the introduction the OMC contains common guidelines, indicators and targets, as well as performance benchmarking and «good practices» exchange. Further, it encompasses the formulation of national action plans, peer reviews and joint monitoring of implementation. All this is done in an iterative, multi-year cycle process (Zeitlin 2003: 5). A further key ingredient of the

[4] The two central paragraphs of the presidency conclusion describing the method is quoted in Annex 1 of this paper .

method is the use of a decentralised method of coordination in which various actors such as the Commission, Member States, local and regional collectives, social partners, civil society all are supposed to play an active role in respect of the principle of subsidiarity (De la Porte and Pochet 2002: 28, Kohl and Wahlpal 2004). In sum then the OMC process could be described as an iterative four stage process encompassing the following steps (Eckardt 2005: 252):

Firstly, Guidelines, objectives and indicators are drafted by the Commission. The quantitative and qualitative indicators are drafted by the Commission with the competent committees for instance the Economic Policy Committee and the Social Policy Committee. These are approved by the EU Council and the European Parliament has been consulted.

In the next step National Action Reports or National Strategy Reports are provided by the member states which reflect how individual countries compare to the overall guidelines, objectives and indicators. The Reports explains how far the respective country has attained the goals, what policies have been implemented to reach the goal and what future policies are planned in the field.

Thirdly, on the basis of the national reports Joint Reports are produced which includes examples of best or good practices. Here the Commission collects and compares the National Reports, and identifies best or good practices and provide an assessment of the efforts taken. The Commission should then ideally formulate recommendations about further actions to the individual member state. Having been drafted by the Commission the Joint Reports are discussed with the member states and again approved by the EU Council. Also at this stage the European Parliament has been consulted.

Fourthly, a follow-up stage follows, wherein National reforms are decided and implemented by the member states. These decisions and implementations serve as input to updated National strategy reports which enables an evaluation of the progress made since the foregoing report.

Because of this «..iterative process of periodic monitoring and peer review, mutual learning should take place, thus helping to identify superior policy solutions and to speed up policy transfers» (Eckardt 2005: 252).

The OMC is applied differently from one field to another. In a classification based on the use of different Lisbon instruments Laffan and Shaw (2005: 16, table 3.2) finds that the relative institutionalisation of coordination processes was very strong for Macro-Economic Policy, Employment and Fiscal Surveillance, whereas institutionalisation within pensions was classified as being nascent (or emerging).[5] In explaining the relative strength of institutionalisation across areas the authors point out three important factors: Timing; OMC become more embedded over time, Treaty basis; OMC's require a treaty basis in order to develop fully (Employment has such a treaty basis), and concurrent extra-community coordination; OMC's benefiting from a parallel

[5] The indicators used were: Treaty basis, Announcement date of the process (timing), Community budgetary leverage, ECJ involvement, DG, Council formation, Established Common objectives, Indicators, EU targets, Member State targets, Benchmarking, Best practice, Guidelines, Community Action Programs, National Action Plans, National Strategies, Peer review process, Scoreboards, Council recommendation, Commission recommendations (Laffan and Shaw 2005: 12–13, table 3.1). The analysis covers 16 different areas where the OMC is applied.

coordination process are strengthened by it. For employment there is a parallel process through the OECD Jobs Strategy instituted in 1994). Although not exactly a parallel process the diffusion of the so-called multi-pillar model by the World Bank (1994, 2005) could also be seen as a factor strengthening the OMC in pensions. Within Europe, the influence of this model has been strongest in the former East European countries (Orenstein 2005). As several of these countries have become members of the EU, the influence of the multi-pillar paradigm may grow in the future (confer Sommer 2003). This is also recently emphasised in the Annex to the Synthesis Report on adequate and sustainable pensions where the increasing importance of private pension provision and a funded tier is related to the enlargement process and the entrance of countries such as Poland, Hungary, Estonia, Lithuania, Latvia and Slovenia (European Commission 2006a: 13).

However, Laffan and Shaws classification does not take into account the possible interactional or indirect effect of intra-community parallel coordination. This is a particularly important point in the area of pensions where the overall objectives and the specific goals are strongly imbued by the parallel processes of the employment strategy, macro-economic policy and fiscal surveillance (SGP). Taking these other processes into account it could be argued that the institutionalisation within the pension area is indirectly quite strong. Recent reforms of the OMC process under the heading of «streamlining» add to this point. A need has been identified to provide a new framework for the open coordination of social protection and inclusion policies wherein an integrated structure is emphasised and a closer link to the Lisbon Strategy for Growth and Jobs is argued for. A major problem which legitimated this streamlining was an overloaded policy agenda, failing coordination and sometimes conflicting priorities. Streamlining implies to clarify:

> who does what, simplify reporting and backing up delivery through Union and National Lisbon Action Programmes. There should be an integrated set of Lisbon «guidelines» to frame Member State action Programmes, backed up by only one report at EU level and only one report at nation level presenting the progress made (European Commission 2005a: 5).

In this way the national reporting burden is expected to be significantly reduced and different individual processes of coordination are brought together under common objectives. Thus as from 2006 the OMC for social protection and social inclusion now include poverty and social exclusion, pensions, healthcare and long-term care.

In addition The High level group led by Wim Kok concluded on a focus on renewed growth, making growth and jobs the immediate targets. This also has consequences for the OMC in the future:

> The new approach clears away the jungle of existing reporting obligations. Essentially, it shifts the focus from co-ordination through multi-lateral discussions between 25 Member States and the Commission, on individual policy themes (the Open Method of Coordination), with a bilateral in depth dialogue between the Commission and Member States on a commitment based national action programme (European Commission 2005a: 33).

The OMC is only one process among others which impacts national policy formation. The first concerns the creation of the internal market and two aspects of this:

promotion of labour mobility and the creation of an integrated financial market. In this context pension arrangement may limit the freedom of movement and secondly it concerns questions of drawing the boundary of public and private. With the adoption of the monetary Union the 3 per cent limit on public deficits and the objectives of the SGP, pressures on pensions as the costliest of social spending in terms of stabilizing or reduction of public pension spending were intensified. Demographic changes increasingly felt towards the mid-century aided the focus on questions of financial sustainability. In this context the Green paper on Supplementary pension (European Commission 1997) is important according to Pochet (2003) in encouraging diversification, i.e. increasing the role of private provision and creating a single integrated financial market. A central argument in the Green paper is that wage overheads would be less onerous if the rate of return on financial markets was higher. Further on market integration is expected to increase returns and so:

> ..behind this argument lies another argument, that is not explicit but nevertheless evident: as the rate of return from a PAYG system is fairly weak, a partial switch to a private system would be as beneficial for employers as it would be for workers (Pochet 2003: 10).

The Commission followed up on this by providing a Financial Services Action Plan. On of its aim was to establish a single financial market. Within the Lisbon Strategy this is seen as a key factor in boosting competitiveness of the European economy. As concerns the issue of mobility the argument is that existing pension arrangement is functioning as a hindrance and an important cause for the still weak inter-state mobility.[6]

In regard of the public private divide the European Court of Justice (ECJ) plays an important role as guardian of competition law, as it posits the competence to define what is the responsibility of national collective provision and what is a market function (Pochet 2003: 6). Whereas third pillar pensions are bound by competition rules, the second pillar is a more mixed case.[7] This is because both «economic» and «solidaristic» action (Leibfried 2005: 265) is involved in providing occupational pensions and also earnings related parts of the first pillar system. Thus:

> Wherever the welfare state is involved in «economic activity» both normative domains become relevant at the same time. European integration does acknowledge no-economic true, i.e. redistributive activity – but when in doubt «economic» and not «welfare state» activity is presumed (Leibfried 2005: 265).

[6] The Commission has issued A Communication on «New European Labour Market, Open to all, with Access for all» (European Commission 2001). A plan of action to promote mobility follows this. Based on the recommendations of the Veil report on freedom of movement (confer Pochet 2003), the Commission set up a Pension Forum and had its first meeting in 2000. It was formally established in 2001 (Official Journal of the European Communities L196/26, 20.7.2001) and is set up to help the Commission to resolve issues connected to cross border movement. Norway is member of the forum since these issues concerns the EEA. EFTA has four seats in the forum which comprise 45 members consisting of Member states, social partners, pension funds. The Forum discusses matters where the Commission has requested an opinion, but no voting is taken within the Forum (OJEC 2001 L196/27).

[7] The EU also directly impact European pension policy through its policy of equality of men and women. Here ECJ decisions have ruled it illegal to subject men and women in private (individual and occupational) schemes to different contributions or premiums.

It is important to place the OMC in pensions within this broader context of market integration and a European competition regime and to focus on the interaction between these processes. This will be addresses in the final section of this paper.

The aforementioned communication on «A Concerted Strategy for Social Protection» that initiated the OMC in pensions held that pension system should guarantee a decent replacement income and promote active ageing. At the Laeken meeting (14th and 15th December 2001) the Stockholm decision was finalised and eleven common goals for pensions was defined (European Council 2001b). The eleven goals were divided between three overall objectives of adequacy, sustainability and modernisation.[8] Table 2 below sums up the key words and terms found in the 11 goals set out in the Joint report:

Table 2. OMC in Pensions: Keywords and terms

Adequacy	Financial Sustainability	Modernization
1. Preventing social exclusion (avoid poverty and enjoy a decent standard of living)	4. Raising employment levels (High level of employment, provided by EES and consistent with BEPG)	9. Adapt to more flexible employment and career patterns
2. Enabling people to maintain living standards (Access to appropriate pension arrangement, maintain, to a reasonable degree, living standard after retirement)	5. Extending working lives (pension system to offer effective incentives for the participation of older workers)	10. Meeting the aspirations for greater equality between men and women
3. Promoting Solidarity (within and between generations)	6. Making pension systems sustainable in a context of sound public finances (may include reduction of debt and setting up of dedicated pension reserve fund)	11. Demonstrating the ability of pension system to meet the challenges
	7. Adjusting benefits and contributions in a balanced way (not overburdening the active generations)	
	8. Ensuring that private pension provision is adequate and financially sound	

Source: Composition based on SPC and EPC (2001).

Given existing European pension systems of different institutional kinds, is it possible to discern whether the goals set up above lean more towards one of them than towards others? Or more strongly formulated: Do the goals specify a particular pension design? The goals set out are mostly of a general nature and include concepts and formulations that are both contested and allow for different interpretations in terms of meaning and implications. It is not possible to discern one specific normative model such as the one

[8] The broad social and economic goals are listed in Annex 2 of this paper as they were stated in the Joint Report from the Social Protection Committee and the Economic Policy Committee.

found within the famous World Bank Report (1994) and its three pillar model. This is hardly surprising since the OMC in pensions is about having some common general goals, and allowing member states to pursue their own means in terms of institutional set up to reach the goals. Still, it is possible to read out some clearer traces from the guidelines and from the reading of the first Joint report of the Commission and the Council on adequate and sustainable pensions (2003). Firstly, it should be stressed that financial sustainability takes precedence over the other two general goals:

> The financial sustainability of pension system is a necessary precondition for adequate provision of pensions in the future and for this reason alone should be high on the priority list of all Member States'. Failure to ensure the financial sustainability of pensions in the long term will seriously jeopardise Member States' efforts to maintain or even raise the adequacy of their public pension systems and would have other adverse economic consequences as well (European Commission 2003: 7).

The priority of sustainability is also visible in that five of the eleven guidelines focus on sustainability whereas three is devoted to each of the two other ones on adequacy and modernisation. In addition, the sustainability pillar is also the one most strongly «fed» by input from three other coordination processes, i.e. employment strategy, macro economic policy and SGP, which all are strongly institutionalised coordination processes.

As described previously the renewed Lisboa Strategy of growth and jobs accentuates this point even more strongly as the other coordination processes such as pensions and social inclusion, are given status and importance to the extent they are instrumental in delivering on the overarching goals of the Lisboa Strategy and consistent with the new integrated guidelines. This division of coordination processes is clearly stated by the Commission:

> ...the Commission will review the Open method of Coordination processes related to the Lisbon strategy with a view to establish their value added in the context of this new delivery and reporting structure. This implies that satellite OMC – and other sectoral processes can feed into the national Lisbon programmes to the extent that they directly relate to growth and jobs. Those processes that would no longer feed into the renewed Lisbon structure could be maintained for other policy purposes outside the Lisbon strategy (European Commission 2005b: 5).

Thus the new streamlining leads to a clear division between OMC areas that is central to the growth and jobs strategy, for instance pensions, and those that are peripheral and secondary. On the other hand it should also be anticipated that these central OMC areas will internally be shaped towards the goals of the Lisbon strategy; focusing on goals that are considered instrumental for growth and jobs, whereas other goals within a specific OMC process with their own intrinsic legitimacy, but not considered to be instrumental may be silenced or downplayed.

Two key elements are central in the sustainability discourse as found in the Joint Report, these are the need to raise employment rates and to stem growth in public pension expenditures. The first element structures the pension discourse by emphasising the need of pension systems to be employment friendly. This essentially means that participation in the labour market and the contribution this represent should be rewarded by the pension system. Early withdrawal from the labour market should lead to lower pensions, whereas extended working life should be paid a bonus. The second element structures the pension discourse by linking public pension expenditures, the total tax burden, and employment in a specific way:

> To prevent adverse effects on employment, care should be taken to avoid increasing the total tax burden, in particular on labour, and to achieve a sustainable balance between taxes on labour, on the one hand, and other forms of taxation, including on capital on the other (European Commission 2003: 8).

This chain of arguments points to tax increases as being an unsustainable way of addressing the increasing costs of the demographic change. It directly undermines the creation of jobs and employment and so will contribute in moving away from sustainability. From this follows also that public sector employment via tax financing is viewed as problematic to the extent it is seen as increasing the total tax level. Although not explicitly stated there is also a link to the understanding of globalisation here as global competition is expected to lead to a downward pressure on capital taxation, and so the «sustainable balance» above implies a reduction of taxes on labour and so again closes opportunities for public job creation via taxation. From this follows that the road toward sustainability leads to the increasing role of other pension pillars, i.e. occupational pensions and private individual pension schemes. In addition, public schemes are also to be reformed by increasingly incorporating institutional traits known from the second and third pillar and their adhering discourses such as increasing reliance on funding and defined contribution elements (for instance as found in the Swedish and Polish system of Notional Defined Contribution accounts). Accompanying this is a move towards increasing the individual responsibility for attaining adequacy in old age through extending working life through active ageing policies and by applying actuarial criteria of fairness stressing the symmetry of contributions and benefits.

These overarching measures for achieving sustainability also structure the adequacy element of the pension discourse. The main message here is that in order to obtain future adequacy of pension, the individual will have to work longer and/or save more. Public earnings-related schemes will promise less income replacement in the future and so this must be compensated by an extended working life (to compensate for demographic adjustments) and savings through the occupational and the individual pension pillar. However, this does not mean that the individual is left alone in making these decisions. Direct subsidies to people who saves as in the German Riester pension reform is one form of help. More common are substantial incentives through the tax system in order to help people making the right choices. By using tax expenditures to partially finance increased savings through occupational and private pensions, overall tax levels can still be kept within limits, whereas the «hidden welfare state» is growing.

The public cost containment and tax competitiveness view also frames how the minimum security element of adequacy is addressed. Whereas the problem of preventing social exclusion can be met by providing a universal non-means tested minimum pension or through a means tested guarantee pension, the joint report focus on minimum pension guarantees. This is in line with how this element of the pension system is understood as a subsidiary element:

> Pension systems are generally designed to prevent poverty in old age, rather than alleviating it, by ensuring that everybody builds up sufficient elements in public and/or private schemes to remain financially independent of their relatives or public social assistance. The minimum guarantee schemes generally act as an ultimate social safety net for those with incomplete earnings (European Commission 2003: 23–24).

An alternative understanding would be to se a minimum pension as a primary element alongside the build up of entitlements, to secure a universal social right to a minimum income in old age independent of previous labour market participation. Choosing the first understanding is more compatible with a focus on cost containment since a means-tested minimum income guarantee is considered to be less costly than a universal minimum pension for instance based on residence.

In sum then the OMC pension edifice foresee a future pension system where the public pension pillar has a still major but relatively less important role in providing income in old age as compared to the present system. A stronger focus on poverty prevention within the first pillar is envisaged, whereas standard security is increasingly to be provided through second pillar occupational and third pillar private pensions. This basic outlook is restated in the 2006 Synthesis Report (European Commission 2006a).

National Strategy Reports in Germany and the UK and Norwegian reform plans

So far a first round of National Strategy Reports were issued in 2002, the first joint report was published in March 2003. A second round of National Strategy reports came out mid-summer 2005 and a second Synthesis report on adequate and sustainable pensions was issued in February 2006 (European Commission 2006a) as part of the overall Joint Report on Social Protection and Social Inclusion (European Commission 2006b). In the following the main strategies as concerns obtaining adequacy and sustainability will be presented in order to describe some components of the national pension discourses in the three countries. It is not intended do give a full picture of all elements of the national strategies but to focus on those parts of it that throw light on questions of overall change of pension systems, i.e. in terms of balance of pillars and normative changes within these pension institutions as related to the two key issues of financial sustainability and adequacy.

Germany: Financial Sustainability through paradigm shift

The National Strategy Report initially states that the recent pension reform is a reform within the system and not of the system. A broad based concept of sustainability is also highlighted:

> In principle, financial sustainability is achievable at various levels of provision. But that does not ensure the social sustainability of the system. For the Federal Government, the aim of a high level of old-age provision was, and is, non-negotiable. In the context of the European discussion, let it be said that it is questionable whether a pension system is socially and politically «sustainable» at a

> low level of benefit which is socially and socio-politically unacceptable (Federal Republic of Germany (FRG) 2002: 8).

The 2002 NSR is built around the 2001 pension reform. This reform points back to a long period of debate that started at the end of the 1970s about the consequences of demographic transformations and its consequences for the pension system and which have gained momentum and has led to several pension reforms. In this context especially the 1992 reform was important by introducing pension adjustments in accordance with net wage trends (previously gross wage adjustment), incremental increase of age limits from 2001 onwards and introduction of actuarial reductions. The 1999 Pension reform act introduced a demographic factor that was added to the pension adjustment formula.

The 2001 reform contains three core elements: the aim to limit statutory pension contribution to 20% until 2020 and to 22% until 2030, to reduce pension levels, but not below 67 % and thirdly supplementing reduced public ambitions with supplementary and voluntary old age provision (however strongly sponsored by the public purse) assuring an compensation level to be at 70% in 2030. By applying a strategy of what is called targeted innovation the government aims at achieving a strengthening of individual responsibility and better cohesion of the three pillars of old age provision (FRG 2002: 2). Thus, financial sustainability is the focal point of the 2001 reform.

The Report stresses the centrality of the labour market in achieving the aims of old age pension policy and financial sustainability. A high level of employment is adhered to in accordance with the European employment strategy.[9] Increasing employment of older people and women, life-long learning and an employment friendly retirement system are important areas within this perspective. Thus active ageing policies are strongly integrated into the framework of solutions provided. Within the pension system a bonus-malus system was introduced in 2001, where early pensioning, i.e. before 65 years gives a 3.6% reduction of total pension per year of premature retirement, whereas continued employment after 65 is rewarded by a 6% bonus for each year the retirement is delayed. In addition previous special early retirement pathways are closed for new entrants, i.e. those born after 1951.

A major point in the National strategy is to maintain the sustainability of public finances by introducing greater diversification of risk, through a system of supplementary capital covered old age provision in line with the principle of personal responsibility. The 2001 reform introduced the pension investment fund in addition to other forms of pensions saving. The new instrument gives more freedom of investment

[9] The Job-AQTIV act, Act against unemployment of Disabled People, Immediate Programme for Reducing Unemployment among Young People, the Part-time and fixed-term employment act, the all-Germany «Mainz model» to promote the uptake of lower-paid jobs, and the Women and Work Programme are some of the means to increase employment levels. In addition, stronger priority of active aid over passive benefits in the Federal Social Security Act is promoted in order to integrate claimants into the labour market.

The «Alliance for Work, Education and Competitiveness» is a program intended to change the paradigm of labour market by making it more employment friendly for older persons. Measures include for instance to cover the costs for further training of older persons. This measure is also part of the Job-AQTIV legislation. In addition, several initiatives to change the way of thinking about older employees is launched, for instance «The 50-plus can do it».

opportunities on a global scale and is intended to strengthen the German capital market and increase growth and employment.

Schmäl (2003) argues that the 2001 reform represents a clear paradigm shift in pension policy, that parallels the mainstream international debate, which advocate a new mix of public and private pension provision and a new mix of financing methods (Schmäl 2003: 118). In explaining this shift discursive changes is emphasised. There has been a shift in the view of the state, which reflects the demise of Keynesian macro-economic thinking and the rise of neo-classic supply oriented micro-economy, and results in a negative view of public expenditures and its market disturbing effects. The Maastricht criteria also reflect this in demands for reducing public expenditure and public debt. In addition:

> The public debate was framed by the argument that demographic changes will bring about a «pension crisis»: the burden of public pension insurance will become unbearable – especially for the younger generation. «Generational equity», thus, became an important and powerful catchword in public debate. The conclusion that public pensions cannot remain at the present level was widely believed: Pensions have to be reduced and they will no longer be sufficient to maintain «standard of living» in old age in the future. Only a shift from public to private pensions could relieve the burden on younger generations. These opinions prepared the 2001 reform (Schmäl 2003: 118).

A central component of the pension formula is the Earnings Point. If the individual's earnings in a year are average, they get one Earnings Points. In 1992 the average was changed from gross to net earnings. The pension level for the standard pensioner (with 45 Earnings Points) will as a result of the 2001 reform be reduced from 70 to 64 % in 2030. The bonus-malus system for early retirement will imply that retirement at 62 with 35 Earnings Points will have a replacement level at 44% of average net earnings which is close to the social assistance level at 40%. There are strong divisions between men and women in terms of pension level as very few women get the standard pension and a high percentage of them today have a pension lower than the standard pension. The intended reduction of the pension level will increase this percentage according to Schmäl (2003: 129).

The National Strategy report understates the possible effects in terms of a lower replacement level for many future pensioners. Calculations in the NSR assume that people in fact will save the requested amount in order to keep up previous replacement levels. Thus what is reported is a best case scenario of development which gives the impression that adequacy of pensions is not compromised. In the Annex of the report the consequence of the new system is stated more clearly: «In the long term, a reasonable standard of living in old age can only be achieved by supplementary old-age provision, and state support for this is a key element of the reform» (FRG 2002, Annex II: 11). In practice this means that the «*Lebensstandardsicherungs*» principle is partly abandoned as part of the goal of statutory provision in the long term and it is up to the individual to secure this by additional savings through the new private pension instruments.

As concerns the minimum security element of adequacy this point to a challenge of the German system built on statutory provision of standard security which aims at providing a reasonable standard of living related to former income. The statutory system covers broadly, i.e. around 88% of working people in Germany, but for those uncovered having inadequate income sources in old age they have to rely on family support and/or social assistance.[10] Elderly people often do not claim social security, because they fear the social security offices will claim maintenance from their children in accordance with German family legislation and the principle of reciprocal obligation of support (*unterhaltspflichtig*) (Op.cit: 12, Ploug and Kvist 1994: 190).[11] To overcome this problem the new pension reform introduces the Needs-related basic insurance. This basic insurance aims at providing everyone with a minimum income in line with what is provided by the non-institutional subsistence relief under the Federal Social Security Act. Benefits are dependent on means, i.e. there is an income and asset test as for social security (*Sozialhilfe*). But there is no claim of maintenance against children and parents with an annual income below EUR 100 000, if their relatives claim basic insurance. Measures to improve old age provision for women including the new enhancement of low pay during the childcare stage for pension calculation purposes, child weighting of contribution periods in pension calculation, equalisation measure for care of several children and reform of survivors' pension law, introduced by the 2001 reform also contribute in securing adequacy of pensions.

Whereas the 2002 report gave a broader sustainability legitimisation for the system emphasising the importance of adequacy and the level of provision, the 2005 report is more concerned with social policy as a contributor to promoting growth and employment: «social security is a productive economic factor which creates the major preconditions for a flourishing economy» (FRG 2005: 6). Thus social security is seen as instrumental in providing growth and jobs because with confidence in the system and its provision of social security consumers' confidence and people's willingness to invest is secured.

The 2005 report states that the ambitions of the government are in line with the refocused Lisbon Agenda emphasising growth and employment. It is the «Agenda 2010» that presents the main strategy and within that strategy one of the major goals is to safeguard the financial foundation on which social security is based, and to reduce additional wage costs. This implies that within pensions focus will be on policies of cost containment. The government seems to be in a state of war where it is in need of: «building a line of defence for old age pension provision against future demographic trends» (op.cit: 6). The key in that defence is however a substantial increase in additional non-statutory private or occupational pensions, i.e. the introduction of the Riester pension, although with substantial state support. It is said that this will guarantee adequate old-age provision also in the future, but clearly this can only be guaranteed to the extent individuals and households make the necessary savings needed and have the

[10] In 2000 the number of recipients of subsistence relief aged 65 and older was 185 831 (10.5% of all recipient and 1,4% of the population)(op.cit: 18).

[11] The figures above therefore may understate the number of older people with inadequate incomes.

ability to do so.[12] In communicating the reforms the government argues that the statutory old-age pension insurance will continue to be the most important pillar of old-age provision and so continuity is stressed. On the other hand the Riester reform is described as part of a:

> ... paradigm shift in pensions initiated by the federal government in 2001 (that) is under full steam, and the share of private pensions among the universal spread of capital-covered pensions is considerable (op.cit: 11).

The measures adopted in 2004 which makes up the main bulk of the changes since the 2002 report are based on proposals put forward by an independent «Commission for Sustainable Funding of the Social Security Systems». The Commission consists of members from the academic community and relevant organizations, i.e. social partners, private insurance companies, employers and economic consultants. The NSR states that the Commission has prepared and exerted a strong influence on pension reforms in the country (Op.cit: 12). The main recommendations of the Commission included the introduction of a «demographic component» within a new pension formula and a gradual increase in the retirement after 2011 (Clasen 2005: 117).

The heart concerns of the government consist firstly in providing statutory target values for pension levels and contribution rates in the long term. This represents a shift from a expenditure oriented policy, where the level of expenditure decides the level of contributions needed to cover expenditures to a «revenue-oriented expenditure policy», where fixed contribution limits controls the amount of spending (Schmäl 2003, Clasen 2005). In this way the defined contribution approach as known from private individual and occupational schemes gain importance within the statutory framework. The aim of the government as concerns the lower limit of the benefit level before tax is that this should not go below 46% until 2020 and 43% until 2030. Correspondingly the contribution rate is to be 20% until 2020 and not exceed 22% until 2030. The core points in the stabilisation of the contribution rate, is that this will contribute in stabilising the supplementary wage costs and thereby safeguard future employment. The redefinition of the lower limit of provision reduces burden on the federal budget, which then can be used to consolidate the budget and to produce a further reduction in the burden of taxes and charges (op.cit.: 9).

Secondly, the indexing of benefits to wages and contributions and the actuarially calculated deductions and bonuses provide strong incentives for employment and so are geared towards the aim of public cost containment and economic growth. This could also be seen as the key discourse which mainly is an economic sustainability discourse wherein the mainstay of values is that of public cost-containment and the creation of economic growth to boost employment (preferably within the private sector). Pension policies are framed by this overall discourse and its imperatives in that pension policy ought to be instrumental in achieving these overall goals. This also means that the intrinsic legitimacy of social and pension policy for instance through a social right

[12] Changes in contribution rates may illustrate the substantial impact of the reforms. Thus without any reforms (as from 1992) contributions would have reached 41.7% in 2030 according to the Prognos 87 lower scenario. The impact of the Pension Reform Act of 1992 (RRG 1992) was to lower contribution rates to 26.9%. The Old Age Insurance Sustainability Act of 2004 additionally lowered contribution rates down to 22% in 2030. Clearly to compensate just a part of the contribution reductions, substantial private savings are needed.

perspective has a more peripheral role, whereas legitimacy is now provided by referring to the instrumentality of social security for economic growth or social policy as a productive factor.

A third point concerns expansion of additional old age pensions through occupational and individual schemes. The aim of this expansion is to close the gap as a result of reduced statutory provision. In this context the government offers:

> Massive state support … for such private and occupational retirement provision, the promotion measures ensuring in particular that those on low wages can also make provision to the envisaged degree. The Old Age Income Act (*Alterseinkünfte-gesetz)*, which entered into force on 1 January 2005, creates an attractive framework for additional old-age pensions. Conversion to downstream taxation decreases the burden on employee income, thereby releasing additional funds which are to be used for private old-age pensions (Op.cit: 10).

In this case the concern for public cost-containment is not mentioned although there must be a cost of the «massive state support» and «downstream taxation» in the form of tax expenditures and direct subsidies.[13] However as mentioned previously these costs and especially the tax expenditures belong to the hidden welfare state. This increased reliance on tax expenditures in financing pensions seem to be a trend across many countries implementing new pension reforms involving a greater role for the private sector. In this way contribution rates and tax levels are seemingly contained, but some of the costs pop up as more or less hidden tax expenditures. This also gives evidence to the focus on public cost-containment, not necessarily on costs and total costs per se. As referred to above Schmäl points out that the private contribution rate also will increase.

As concerns the minimum security part of the adequacy concept the government in 2003 introduced a basic insurance in old age. This is a social assistance benefit, to be drawn by those in need. These are people above the age of 65 as well as from the age of 18 and onwards, and whose earning capacity are fully reduced in the long term for medical reasons. Need is defined in terms of available income and assets. If these are not sufficient to acquire necessary subsistence this qualifies for receiving the benefit. The standard of living dimension of adequacy is provided through the statutory old age insurance which remains the first and most important pillar of the old-age pension provision. However, the future will bring about a change towards increased reliance on second and third pillar provision in order to achieve standard security. Again, it is the goal of safeguarding pensions in the long run through public cost-containment that impinge on the standard security element. As described above the core of the Old Age Pensions Insurance Sustainability Act of 2004 addresses this by introducing the sustainability factor in the pension adjustment formula. In addition the promotion of second and third pillar pensions through subsidies and tax incentives is meant to compensate the reduction in first pillar provision.

The solidarity aspect is secured through elements in the statutory old age pension, above all this concerns the risk of premature incapacity for earning and more generally

[13] Downstream taxation implies a so-called EET regime of taxation, where contributions and fund income is exempted from taxation, whereas pensions benefits are taxed.

the contribution measurement which disregards any factors such as state of health, other risks or gender.[14]

Finally it should be mentioned that since the key issue of the OMC process on pensions is financial sustainability, the European Employment Strategy and the BEPG is included as part of the OMC on pensions and hence a high level of employment is a priority.

UK: Continuance, individual choice and pension education

How does the UK government act to secure the goals set by the OMC in pensions? The UK NSR (2002) initially stresses the substantial contribution to retirement security made by its long-established history of occupational and personal pension provision. The broad strategic objectives outlined could be seen as continuing this historical path of pension provision. For today's pensioners the goals are to combat poverty and ensure that saving is rewarded and for future pensioners to encourage saving through the private sector where that is suitable and to make available security for those who need to rely on state provision (UK 2002: 3). The means of obtaining these objectives are to provide a minimum income level for pensioners, to offer new products which reward savings, broadening access to affordable second pensions, provide products and information to encourage people to save and to help people understand their pension options. Thus, also as regards the means, the institutional legacies of the past are sustained in terms of combining public provision of minimum pensions with an extensive system of occupational and private provision. Adequacy and sustainability in the UK context of public provision is seen to be closely interconnected in the following way:

> The Government has set clear priorities for public spending on pensions and benefits for older people which keep it sustainable under demographic pressures and maintain its ability to meet real social needs. Public spending on pensions in future decades is projected to remain at broadly around current levels as a proportion of GDP. This follows from a choice to focus state resources on low income households and link these entitlements to growth in national prosperity, rather than focussing funding on earnings-related support which would direct funds to higher income groups (op.cit: 3).

Thus, sustainability is understood within a public expenditure context wherein sustainability means to keep public expenditure (in this case public pension expenditure) at a fairly low level. This is paralleled by an understanding of adequacy which is confined to minimum security, where the state has a direct responsibility in terms of provision. Adequacy in terms of income related security is not considered as a key concern for the state in terms of provision. The argument is that there exists a basic choice between either targeting resources on low income households or to fund income-related benefits

[14] Solidarity is also built into the system via compensation for periods were no contributions are made, for instance during child-rearing, which is paid for by subsidies from the Federation based on general revenue. Additional old age pensions also contain such solidarity elements for instance unisex tariffs applicable since 2006 onwards and pensions for incapacity. The introduction of downstream taxation is seen as a solidarity element in allowing younger cohorts to contribute to a pension more easily and postpone taxation until old age.

for higher income groups, i.e. the possibility of combining both goals within a public system, is not seen as an option. Thus, both an institutional path dependency and an ideological adherence to targeting of resources inform the basic strategy of the UK and how the concepts of adequacy and sustainability are structured. In its turn this is also reflected in the means chosen to obtain the common sub-goals of the OMC process.

As concern the adequacy of pensions the strategy of the government is to maintain and support the major contribution made by the private pension sector in enabling pensioners to enjoy economic growth and to target state resources on improving the position of the poorest relative to rising national wealth (op.cit: 5). To tackle low incomes among older people the Minimum Income Gurantee was introduced in 1997 and secures a minimum income level for all people above the age of 60. From 2003 the Pension Credit replaced the MIG and provides a minimum income, since the Pension Credit still contains a guaranteed income. The pension credit is more savings friendly than the previous arrangement for those in the lower income deciles with small savings.

As concerns adequacy in terms of a reasonable income replacement, the focus of the government is on broadening the access to appropriate pension arrangements and enabling individuals to make informed choices about their living standard in retirement and the action they can take to achieve it:

> The Government does not attempt to define for its citizens what an appropriate level of income replacement should be. The focus of UK policy is on guaranteeing a minimum income for low income groups, expanding access to state second pensions for low earners, carers and disabled people, and improving information, awareness and the availability of suitable products to encourage others to make appropriate provision (op.cit: 8).

The question of access includes the basic pension which makes up the foundation of retirement income. 98% of pensioners had income from this scheme in 2000/2001.

The State Earnings Related Pension Scheme (SERPS) introduced in 1978 provides small earning related benefits and people who contribute to a private or occupational pension contract out of SERPS and receive National Insurance Contributions (NIC) rebates that are to be used to build up a private pension. In 1996/97, 72.6% of 20–59 years old (paying NICs) contracted out of SERPS. Within this area the main objective of the government is to secure that people has access to decent second pensions. This was done by introducing the State Second Pension in April 2002. Whereas SERPS only provides earnings-related benefits the new scheme will concentrate on helping lower paid, carers and disabled people. These were people with low or no entitlements to SERPS because of being out of work and hence not being able to pay contributions. The S2P scheme aims at securing that people earning more than the Lower Earnings Limit (currently £3900 a year – the level at which NIC's became due) but less than around £10800 will be treated as if they had earned £10800 in that year. This will imply a doubling of the amount they would have received within the SERPS scheme.

Moderate earners defined as up to around £24600 will also gain but on a gliding scale as compared with SERPS. Those at the moderate earners limit (£24600) get the same as before from their S2P. Carers and disabled people with broken work records will get about £1 a week S2P (Op.cit.: 9). In addition, the S2P will not have an impact on those near retirement age or those already retired from these groups with broken work records. They will have to rely on the Basic Pension and the Pension Credit and possible contributions to occupational and private pensions. However, these groups are the most unlikely to contribute to a personal or occupational pension. There is a strong relationship between income and contribution to a private pension. The overall aim of the government is to continue and increase the reliance on occupational and private pensions. To obtain this groups on lower incomes have to be provided with greater access to contribution based schemes. Therefore the Stakeholder Pension was introduced in April 2001. The scheme has simple low charges (1% of fund value) flexibility for participants to vary contributions or move between schemes without any financial penalty, simplified tax arrangements with £3600 pa contribution limit and open to non-earners. From October the same year all employers with 5 or more employees are obliged to offer access to a stakeholder pension (unless they have their own occupational scheme or contribute to a personal pension on their employees' behalf). The Stakeholder pension design follow the general move of pension schemes from being defined benefit schemes to defined contribution arrangements. This is also in line with the prominence put on personal responsibility for saving:

> ..., the Government is also undertaking a range of initiatives to increase people's understanding of the need to take responsibility for their retirement income to make sure they can make informed choices to achieve their expectations around living standard in retirement (op.cit: 11).

Measures here include pension forecasts, money purchase illustrations and a pension education publicity campaign. The third sub-goal under the adequacy heading of promoting solidarity between and within generations is addressed by letting each generation pay for their own pensions via adequate savings and thus avoid rising taxes. Solidarity within generations consists of targeting public resources on low income pensioners and to promote volunteering by older people (op.cit: 12–13).

In terms of financial sustainability the UK has reached and surpassed the employment goals of the EES. The basic strategy is to move people from welfare to work. The Jobseekers Allowance and New Deals programs all are intended to create work incentives. Tax credits and National Minimum Wage add to these measures. Age positive employment practices, combating age discrimination through implementation of age legislation aims at improving employment possibilities for older persons. There is also a voluntary New Deal program for those aged 50 and above. To make people stay longer in the labour market and above SPA pension increments are provided. In addition the current maximum deferral period of 5 years will be ended in 2010 and from this year increments for staying longer will be increased.

Long-term fiscal projections show that public fiscal policy is sustainable over the long term. The UK public pension share as an important part of public fiscal sustainability is projected to fall from 5.5 per cent of GDP in 2000 to 4.4 per cent in 2050. (These figures exclude the Pension Credit.) This is exceptional in a comparative perspective as this share is expected to rise in all other OECD countries. Generational account for the UK also projects that future taxation and spending is generationally neutral, meaning that current generations are not favoured over future generations in terms of net lifetime tax transfers.[15]

At the ideological level the government in the NSR 2005 report restates it's commitment to a targeted system of public pension provision and with limited state responsibility beyond securing a minimum income for people in old age and hence to prevent poverty in retirement. Thus in terms of adequacy the UK Government: «aims to target State Pension spending at those who need it most» (UK 2005: 8). Regarding the question of maintaining living standards the report stresses that: «The UK may be distinct because they regard 'target' retirement income as something for individuals and families to choose themselves» (UK 2005: 5). In terms of sustainability three key factors are mentioned; increasing labour market participation and extending working life, wherein active ageing is central; promoting a system that includes public and private sector involvement, including a future of stronger private sector involvement and thirdly to increase future savings. It is argued that because of its history of private pension provision the UK is well placed to overcome the demographic challenge whilst keeping state expenditure on pensions sustainable in the future (op.cit: 42).[16]

A key aspect of the UK strategy is the weight put on education in terms of financial education as this is laid out in the Informed Choice program which intends to help people to make informed and effective choices about working and saving for their retirement. Since the UK pension policy deliberately sets out to increase the importance of private pension sources the success of this critically depend on the trust in these institutions from the public at large and in addition that individuals as market actors in this field are competent in terms of knowledge and action to make the right choices. The mis-selling of personal pensions threatened this trust and the government therefore compensated the victims of mis-selling and introduced the Pension Protection Fund to

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15 Given the importance of occupational and private pensions within the UK system objective 10 concerning the appropriate regulatory frameworks and management needed in order to provide private and public funded pension schemes that offer efficient, affordable, portable and secure pensions should be mentioned. In the UK this concerns private and occupational pension schemes. Here the basic strategy is to ensure that the stability of investment in funded schemes is secured through macroeconomic policies designed to deliver stable long-term growth, through competitive markets, and appropriate regulation. In addition regulations are increasingly seen as needed to provide security for members of these schemes. It is the Pension Act of 1995 that forms the basis of regulation of private pensions. Occupational pensions have to be set up under trust law in order to benefit from tax relief. Trust law implies that responsibility for running the scheme is placed on a third party, legally separated from employers and members. The regulatory regime includes the Occupational Pensions Regulatory Authority which is able to take action if breaches of the Pension Act occur, Minimum Funding Requirement which describes minimum funding levels. This regulation will be changed providing a new regime for scheme funding in line with the requirements of the proposals for an EU directive on the activities of institutions for occupational retirement provision. For private pensions the Financial Service Authority is the statutory regulator. This Authority assumed its power in 2001. Framework and objectives is set up in the Financial Services and Markets Act 2000. The statutory objectives of the FSA are Market confidence, Public awareness, Consumer protection, and reduction of financial crime. This is secured through several measures to protect consumers, regulate industry and by providing rules on particular firms. The FSA also have provided redress for consumers because of the mis-selling of private pension products in the late 1980s and early 1990s. Although intended to provide security and confidence all the regulations adds to the complexity of the system. Therefore the Government aims to simplify the occupational and personal pensions system. The Pickering and Sandler reviews reporting in 2002 both included proposals to simplify provision and regulation.

16 As concerns modernisation the UK response is to facilitate labour mobility and movement across borders, secure fairer outcomes and gender equality and to implement the Informed Choice program that includes raising awareness and education, a web based planner, pension forecasts, partnerships and improving public services for older people. In addition it aims at improving public debate and building consensus on reforms (op.cit: 40).

protect people in the event of insolvency of their employer.[17] In addition appropriate regulation is also needed to rebuild confidence in non-state forms of saving. In this context financial education could be seen as an additional measure helping individuals to avoid such situations. The key precondition for the voluntarist approach to be successful is that people make informed decisions and act accordingly in order to secure that the preferred individual target level is obtained. This is why financial education is vital within this perspective. It is all about creating competent, autonomous and rational market actors without questioning the market logic itself. Or rather, the focus on education and information should be seen as a way of increasing the legitimacy of the market, by reducing asymmetry of information and hence to approach the ideal of the perfect market. In a situation where market actors are seen as competent, it is also easier to blame individuals if something goes wrong, i.e. for instance if their chosen target replacement rate ends up not being fulfilled, because the individual originally posited the information and knowledge to make wise decisions and hence is seen as responsible for the outcome.[18]

> This strategy aims to ensure that people in UK are better informed so as to be able to take greater responsibility for their financial affairs and play a more active role in the market for financial services (UK 2005: 15).

Focus on the individual's capability in terms of knowledge and information to make rational decisions about savings tend to eschew the question of capability in terms of resources somewhat into the background. But this question comes to mind especially for groups with poor resources. The situation is paradoxical in that those groups that potentially could benefit from the financial education often are situated in societal and economic contexts where long term planning for the future takes the back seat of priority, which is determined by day to day struggles for making ends meet. Instable working careers with many short-term contracts, health problems and low pay all contribute to this situation where short term planning and immediate concerns take precedence. It could be argued that the emphasis on education in long term financial planning and rational calculation fits better within a middle class context of more secure and long term employment and a sufficient income to save from. However, as the concept of «under-saving» is applied this clearly shows that the government is aware of the distributional aspect of the individual capability approach and its limits within an economy of still substantial income inequalities. What is clear is that in this way the New Labour slogan of «Education, education and education» also trickles into the pension discourse.

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[17] The regulation of private pensions became a prominent issue in the early 1990s. In 1991 a leading newspaper owner, Robert Maxwell, had misappropriated occupational pension funds to shore up unsuccessful businesses. The second scandal, concerned the mis-selling of personal pensions, where individuals were encouraged by agents eager for commissions to opt out of SERPS even if it was not in their interest to do so (Larsen and Daguerre 2002–2003: 12). Both of these scandals revealed a serious lack of regulation of the private pension industry.

[18] The importance of financial education is also stressed in a life course perspective wherein the Department of Work and Pensions (DWP) assesses the potential for a school based financial education study that would focus on delivering a pension-related element of financial education that would be meaningful and engaging for children (UK 2005: 16).

Norway: Sustainability through demographic adjustments and a new division of pension pillars

Norwegian reform plans was initiated by setting up a Pension Commission which was appointed by the Stoltenberg I Government (Labour Party) on 30 March 2001. The Commission was empowered to clarify the main objectives and principles underpinning a comprehensive pension system. The Government stressed the importance of a future pension system characterised by stability, simplicity and a long-term perspective, at the same time contributing to meeting the challenges related to ageing and an increasing tendency to retire early. An ageing population combined with increased pension benefits will contribute toward a sharp increase in pension expenditures in coming decades. The reform is expected to take effect as from 2010. The title of the report was «Modernised National Insurance: Sustainable pension for the future» and thus the focus on sustainability and modernisation parallels the key goals of the OMC process. The Pension Commission emphasised the importance of work as the basis for common welfare and as the most important resource of the nation. It also stressed that the National Insurance Scheme (NIS) should be the main element of the overall pension system. However, to be able to accomplish this, the NIS must not promise more than it can deliver in the long run. The Pension Commission warned against relying on increased taxation:

> The ability to pay taxes and premiums is enhanced when the economy and businesses are doing well. However, a high and increasing tax level may make production too costly, thus undermining our financial safety and welfare (Pension Commission, English version 2004: 2).

This is implicitly close to the tax competition view of globalisation wherein tax increases are excluded from the policy framework defined by the Pension Commission. In addition, the Pension Commission questioned the viability of what they call the Norwegian model of intergenerational solidarity. The sharp increase in the number of elderly will put this model under strain. In order to avoid generational conflict, the system has to be restructured accordingly. On the other hand, the Pension Commission pointed out the possibility of lessening the burden by stimulating growth and work. In the same manner, the building up of wealth through the Pension Fund will help smooth out intergenerational and business cycle effects.

Three factors are pointed out as crucial motivations for the need for reform that all point to the centrality of sustainability as the key issue of pension reform: the sharp increase in the number of retirees, the doubling of pension expenditures if nothing is done, and the fact that petroleum revenues are insufficient to absorb the increase in pension expenditure. Against the background of demographic and economic challenges, the Pension Commission suggested 10 main proposals for pension reform. In the table below the most important of these are allocated under the three overarching goals as found in the OMC in pensions:

Table 3. Adequacy, Financial sustainability and modernisation goals of the Norwegian pension reform plan.

Adequacy	Financial Sustainability	Modernisation
Everyone is to be guaranteed a minimum pension from the National Insurance Scheme	Pensions to be related to overall lifetime income	Supplementary pension schemes are to be organised so as to make them clearly an add-on to the National Insurance Scheme
Unpaid care for children and for sick, disabled or elderly people to give entitlement to pension benefits. (Also relevant for modernisation	The pension one receives is to be related to the contributions one pays to the pension scheme. Earned pension to increase in line with wage growth. (also an Adequacy element)	
Pension payments are to be adjusted annually in line with the mean of wage and price changes. This will apply to anyone who receives a pension payment after the reform becomes effective	The longer one defers retirement, the higher pension one will receive and vice versa	
Introducing an obligatory occupational pension system (Also to be placed under the sustainability heading)*	Future pension benefits will be calculated on the basis of remaining life expectancy at 67 years for the age group to which one belongs. If life expectancy increases, one will have to postpone retirement to receive the same pension	
	A new Government Pension Fund is to be created on the basis of the Government Petroleum Fund and the National Insurance Fund. The purpose is to establish a closer link between fund capital and government pension obligations	

Source: Own composition based on NOU 2004

* The Pension Commission was split on this issue: A majority did not favour mandatory occupational pensions. However such a system was enacted in 2006

As the table reveals most of the propositions may be classified under the sustainability heading, although some of the reform elements also could be seen to serve adequacy and modernisation goals. The most important measure to improve future financial sustainability of the pension system is the life expectancy adjustment measure. It implies a strong economic incentive for continuing work as life expectancy increases. The principle behind the life expectancy adjustment is that different expectations of the number of pension years will result in different yearly pension benefits, but that overall or total benefits will remain constant for the same level of earned pensions. Thus, if new cohorts of retirees are expected to live longer than previous cohorts, the annual pension will be less. To counteract this, the individual may choose to work longer. To illustrate, if life expectancy increases by one year, the retirement age has to increase by 8 months to compensate. This is the case in Sweden, which is comparable to Norway in this respect (NOU 2004:1, p. 110). The life expectancy adjustment ratio will be the same for men and women. As the adjustment ratios are put into effect, the replacement ratio, if retiring at 67, will gradually be reduced. Thus people will be stimulated to work longer in order to achieve a satisfactory degree of compensation. To avoid this effect on replacement rates, each age cohort must postpone retirement by 2, 5–3 years by 2050. It is expected that in terms of cost, this measure will reduce expenditures by 18% in 2050, compared to prolonging the existing system. This proposal is the most important one in terms of cost reductions and sustainability. The principle of lifelong contributions aims at securing that all working years shall give rise to pension entitlements and hence create a much stronger link between labour incomes and pensions than is currently the case. It implies a removal of the present best earnings rule (the 20 best years) and 40 years rule (i.e. the number of years required to obtain a full pension for a given pension level). The Pension Commission proposed a ceiling on annual income that qualifies for pension entitlements. For those with income at this ceiling, the new reform will represent the largest gain in terms of benefit increases compared with the present system. This results directly from the proposal for a close correlation between pension level, labour income and pension contributions. Today, income that exceeds the upper ceiling of 12G for earning pension points as well as incomes in the range of 6G-12G with reduced pension earnings also pay full NIS contributions on this part of their incomes. This adds to the general tax financing and redistributive character of the present system. By removing these elements, the Pension Commission aimed at providing a clearer individual ownership for the pension part of the NIS.[19]

The flexible retirement proposal provides the opportunity to take out an early retirement under the NIS upon reaching the age of 62. The basic principle is that each individual should meet the main cost of choosing to take early retirement, whereas each individual will receive a correspondingly higher pension if he or she chooses to prolong working life. The underlying motivation and legitimisation is the principle of actuarially correct deductions present in private insurance. However, this principle was somewhat modified since the Pension Commission proposed that an amount of NOK 30000 of the earned pension will be paid out irrespective of retirement age.[20] This means that individuals with low entitlements will face a relatively smaller reduction than those with high entitlements. Here it should be added that the possibility for taking early retirement was restricted. Only those with an earned pension after adjustment (actuarial deduction and the NOK 30000 amount), that is above the guaranteed pension would have the possibility to make use of early retirement, i.e., before the age of 67 (NOU 2004:1, p.124).

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19 However, it does not mean that these higher incomes will have lower taxes at the general level, only that these taxes are removed from being part of the pension scheme financing to the general income tax system, i.e., in the form of taxes on gross income (confer NOU 2004:1, p. 141).

20 The non-adjustable amount of NOK 30000 within the flexible retirement scheme will be adjusted in value terms as an average of price- and wage growth over time. With an expected wage growth in excess of price growth, the non-adjustable amount as a value of wages will be reduced, and the pension system will gradually approach a system of purely actuarially correct adjustments of pensions.

As concerns adequacy the introduction of a guaranteed pension represents a stronger targeting of basic pensions than does the present system. The present system of basic security pensions consists of two elements: a universal (categorical) basic pension (age and residence) and a special supplement (*særtillegg*) that is tested against the income-related part of the pension. In this way, every citizen is secured a minimum pension. The new proposal of a guaranteed pension extends the targeting through pension income testing for the whole basic security element of the pension. Unpaid care credits implies more favourable pension entitlements based on unpaid care for one's own children below school age and for sick, disabled or elderly people as compared to the present arrangement introduced in 1992.

Compared to continuing the present system, the recommendations of the Pension Commission are somewhat uncertainly assessed to lead to a reduction of expenditures on old age pension, of about 20%. This suggests that pension spending in 2050 will amount to 12, 5% of GDP, i.e., 2, 7% point lower than what an un-reformed system would require. In this case, pension spending would be 15.2% of GDP in 2050.

As mentioned above the Pension Commission was divided on the issue of introducing mandatory occupational pensions. Since the Pension Commission was divided and a majority opposed the introduction of mandatory occupational pensions, this topic gained increasing momentum as part of the tariff negotiations in 2004. The outcome was an agreement between the labour market parties to establish an arrangement securing a supplementary pension through the labour market for every employee. However, it was understood that the government had to contribute in some way to establish such an arrangement. On December 10, 2004, the Bondevik II government presented its report No. 12 (2004–2005) to the parliament, «Pension Reform – Safeguarding Our Pensions» which included its intention of providing a system of mandatory occupational pensions (Finansdepartementet 2004–2005). On May the 19th. 2005, an agreement on the main structure of the future pension system was reached between five political parties encompassing the three Government parties: Conservative, Christian People's and Liberal, and two of the opposition parties: Labour and Centre party (Finansdepartementet 2005). The parliament decided on the 26th of May that legislative rules on a mandatory occupational pension scheme to take effect on the 1st of January 2006.

To complete the understanding of this issue, it is important to note that a new framework for existing and new occupational pensions had already been legislated in 2000 and implemented as of 2001. The legislation provides for occupational schemes based on defined contribution plans and for elements of defined contribution to be included in existing pension schemes based on defined benefit. All these arrangements are net coordinated schemes, and the law excluded gross coordinated schemes within the private sector from being tax deductible expenses for firms (NHO 2004: 14). In this way, the model of the private insurance scheme based on defined contributions and the principle of actuarial fairness, i.e., reflecting the logic of the third pension pillar, was established within the system of occupational pensions and thus broke with the traditional defined benefit arrangements. Since all this happened before the establishment of the Pension Commission, it became a natural reference point for discussing the specific topic of reform of occupational pensions and also more generally concerning the NIS scheme itself. Here the recommendations of the Commission represent a movement towards the principle of actuarial fairness.

As concerns the other main proposals of the Commission the Bondevik government:

> … agrees with the main principles underpinning the proposal for a modernised National Insurance Scheme, as launched by the majority of the members of the Pension Commission, but acknowledges that there may be a need for changes and additional review of certain aspects (Finansdepartmentet (2004–2005).

One aspect that is in need of change according to the government is the gender profile of the original Pension Commission proposal. Here the government proposes to create a more balanced system by improving pension entitlements based on unpaid care work and by offering increased access to early retirement. On this point, the government has responded to the critical voices emanating through the consultation round and the general debate following the submission of the Commission's report. In addition the distributive profile of benefits is changed so as to provide better provision for those on low and middle incomes as compared to the Commission proposal (Innst.S. nr. 195 (2004–2005)).

Still, the most important principle in terms of cost savings, i.e., the life expectancy adjustment ratio, is supported by the government and encompasses a broad consensus in the parliament. At a general level then, the government proposal represents a moderate turn away from the dominant economic incentive thinking of the original proposal by giving gender, distributive and social concerns a somewhat stronger say in the scheme. As concerns specific contribution rules or specified threshold amounts or rates for a new pension system, these more concrete measures are to be discussed in connection with the recent issuing (October 2006) of a government white paper to *Stortinget* (the Parliament) (St.meld. nr. 5 (2006–2007)).[21]

Comparative discussion and some preliminary conclusions

The introduction of this paper posed two questions Does the OMC process promote a particular kind of pension system model through its goal of providing adequate, sustainable and modernized pensions? How does it compare to and does it challenge existing national systems as found in the three selected cases in terms of their institutional and normative foundations? In addition, the paper briefly has discussed in what way the OMC in pension potentially impact national pension debates and reforms.

In terms of institutional set up the OMC pension structure consists of a public pension pillar that still has a major but relatively less important role in providing income in old age as compared to the present system. A stronger focus on poverty prevention within the first pillar is envisaged, whereas standard security is increasingly to be provided through second pillar occupational and third pillar private pensions.

[21] The broad agreement between the major political parties in May 2005 kept the pension reform issue to a large degree outside the election campaign of 2005. A red-green three party government (Stoltenberg II) took office in October 2005 headed by Jens Stoltenberg from the Labour Party.

In addition to the new division between pension pillars, the «OMC pension regime» implies normative changes within pension pillars as well: This includes strengthening the employment friendliness of the first pillar by introducing actuarial deductions and bonuses into the retirement decision, to reinforce the link between contributions and pension benefits, to introduce demographic adjustments into the pension formula so that each generation face the costs of increasing longevity. In short these normative changes points to a future of increasing individual responsibility for the risks of old age in terms of income security. Also within second pillar occupational pensions these normative elements are making their way as traditional defined benefit schemes are replaced or added by defined contribution systems. A twofold process of institutional and normative change is foreseen by this pension edifice, in terms of a shifting balance towards increasing reliance on more market conform systems of provision through occupational and private pension institutions and secondly by a partial internal normative identity shift characterised by a more prominent role of core elements from private pension schemes.

However, this shift towards more market conform or economic action based provision is not hegemonic or total. The acknowledgement of unpaid care work in determining pension benefits, the adherence to greater equality between men and women and most importantly prevention of social exclusion reveals the presence of a social justice or solidaristic action perspective.

To conclude then, the pension edifice of the OMC points towards a multi-pillar design and away from the European Continental design (Bismarckian) in terms of reducing the statutory social insurance provision and providing a greater scope for private pensions. Greater scope for funded elements in addition to PAYG financing is also an important trait that challenges especially the Continental design, but also the Nordic model to some extent. Focus on poverty avoidance and social exclusion of older persons also confronts the Bismarckian systems and their identity with the principle of living standard. At the same time the focus on social exclusion and poverty prevention addresses weaknesses in the Beveridgean model with traditionally high levels of pension poverty and income inequality.

Because of this it could also be portrayed as a hybrid model of pension provision containing elements from all three pension systems and so recent pension reforms seems to fit the hybridization view put forward by Zeitlin (2003). But this observation must be further qualified since it is really «hybridization with a bias» that are taking place, i.e. a new pension blend that contain fewest traits from the Continental or Bismarckian model and with more prominence to elements known from multi-pillar systems as well as minimum pension guarantees as found in the new post-reform Nordic model.

The importance of financial sustainability, especially confined to the need of containing public pension spending within the OMC for pensions has clear and different implications for the three national cases discussed here:

For the UK financial sustainability in this meaning is not seen to represent any challenge to the system of pension provision. Public expenditures are comparatively low and are, in contrast to all other countries, expected to be reduced in the future. Thus with confidence the UK in observing the OMC in pensions can continue the historical path followed with a strong role of occupational and private provision and public spending targeted on the poor.[22]

For the German case financial sustainability is the key challenge that underscores the need for more paradigmatic changes in terms of reducing public pillar provision by stabilising contribution rates and by increasing reliance on second and third pillar provision.

Also for Norway the reform strategy focuses on the issue of financial sustainability, which motivates introduction of demographic adjustments in the public pension formula and also increased reliance on second pillar pensions in the form of a system of mandatory occupational pensions. Clearly revenues from oil production fed into the Pension Fund eases the financial burden for Norway, but still this fact has not turned Norway on a different track than the general direction of international pension reforms, although it may have postponed reforms.

What is the possible impact of the OMC in pensions on national reforms? Based on the limited empirical material analysed here a complete and definite answer can not be provided and the focus is on potential impact more than on factual influence. The paper has focused on the ideational dimension of discourse (Schmidt 2001) and have emphasised firstly, how a particular understanding of financial sustainability has framed some policy solutions as legitimate whereas others have been excluded. Secondly, the primacy of financial sustainability has also impacted how the issue of adequacy is outlined and which policy solutions that are seen as being congruent with financial sustainability. In this way discourse may have an impact by drawing the borders between legitimate and excluded policy solutions. Observing that national reforms or reform elements fit or follows the OMC is no proof of OMC influence since its policy recommendations are not unique but resembles that of other international actors such as the OECD and the World Bank as well as that of particular actors within national policy communities. But the importance of the OMC process for national reforms could be its ability to reinforce reform topics on the national agenda that are in line with the OMC on pensions and provide national actors promoting such measures with additional support. In this respect the OMC in pensions may have more significance than the other international actors mentioned, because of the closer interaction between the member states and the Commission.

It is when we situate the OMC process within a broader framework of European policy initiatives and focuses on the interaction between these processes the potential impact is spelled out more clearly. Thus, the OMC on pensions could be seen as an arena where competing policy paradigms and policy communities are struggling for hegemony. This is also evidenced in terms of the division of labour between Economic Policy Committee (EPC) and the Social Protection Committee (SPC) as concerns the

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[22] The UK could be considered as an experiment in confronting a double challenge: increasing reliance on market mechanism in providing retirement income and at the same time securing adequacy for more people. The strategy challenges the view of welfare state researchers that targeting benefits on the poor makes for poor social policy. Can increasing targeting on the poor reduce poverty rates? And given existing and growing inequalities of pay and incomes, will increasing reliance on private provision manage to provide adequate pensions for those on middle and low incomes? There is also a conflict between increasing market provision and the need to regulate in order to provide pension products available to low and middle income people. Too much regulation can increase costs of provision and so exclude those on lower incomes.

three overarching goals. Here the EPC is to develop indicators particularly for the long-term financial sustainability of pension systems and prepares simulations to be carried out by the member states. On the other hand the SPC is to have a particular focus on the adequacy of pensions and adaptation to a changing society (modernisation) (SPC and EPC 2001: 10). The 11 goals of pension policy reflect this struggle of trying to balance the social and the economic perspective and by expressing the goals rather broadly. One such tension is seen in the conceptualisation of solidarity from an understanding that stresses a collective and redistributive orientation towards a form of individualist solidarity underling a clear link between contribution and rewards. In this way the struggle between «economic» and «solidaristic» action (Leibfried 2005) is also part of the OMC process as well as national reform processes. Going back to what was said initially about different pension institutions and their adhering discourses and European market initiatives we may foresee a two stage process towards increasing market making, linking the OMC in pension and the build up of a European competition regime. The first stage involves two key elements of the OMC: The move towards increasing reliance on second and third pillar provision is a step towards increasing market reliance in pension provision. The second element concerns the internal restructuring of each pension pillar wherein traces from an «economic» market discourse grow and so gradually weakens the particular institutional identity and legitimacy of pension institutions building on a non-market redistributive logic. In this way the OMC process increases the numbers of «market traces» (Schulte 1999, quoted in Leibfried 2005: 266) and so gradually redefines the border between economic and solidaristic action. The effect would then be to expand the area of economic action and hence to be absorbed by a second stage of continuing processes of European market making. Whatever the result of this process of boundary drawing it reveals the systematic importance of discourse as one factor determining this outcome.

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Annex I: Open Method of Coordination (OMC)

«Implementing a new open method of coordination.

37. Implementation of the strategic goal will be facilitated by applying a new open method of coordination as the means of spreading best practice and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States to progressively develop their own policies, involves:
- fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review organised as mutual learning processes.

38. A fully decentralised approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using variable forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with

different providers and users, namely the social partners, companies and NGOs.» (European Council 2000).

Annex II: OMC in pensions

«*Adequacy of pensions*

Member states should safeguard the capacity of pension systems to meet their social objectives. To this end against the background of their specific national circumstances they should:

1. Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living: that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life,[23]
2. Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standards after retirement; and
3. Promote solidarity within and between generations

Financial sustainability of pension systems

Member States should follow a multi-faceted strategy to place pension systems on a sound financial footing, including a suitable combination of policies to:

4. Achieve a high level of employment through, where necessary, comprehensive labour market reforms, as provided by the European Employment Strategy and in a way consistent with the BEPG;.
5. Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; that workers are not encouraged to take up early retirement and are not penalised for staying in the labour market beyond the standard retirement age; and that pension systems facilitate the option of gradual retirement;
6. Reform pension systems in appropriate ways taking into account the overall objective of maintaining the sustainability of public finances. At the same time sustainability of pensions needs to be accompanied by sound fiscal policies, including where necessary, a reduction of debt.[24] Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds;
7. Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter; and
8. Ensure, through appropriate regulatory frameworks and through sound management, that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security.

[23] «In this respect, benefits and tax advantages other than pensions should also be taken into account where appropriate».

[24] «Member States strategies to ensure sound and sustainable finances are reported and assessed in the framework of the BEPG and the Stability and Growth Pact and should be in accordance with these».

Modernisation of pension systems in response to changing needs of the economy, society and individuals

9. Ensure that pension systems are compatible with the requirements of flexibility and security on the labour market; that, without prejudice to the coherence of Member States' tax systems, labour market mobility within Member States and across borders and non-standard employment forms do not penalise people's pension entitlements and that self-employment is not discouraged by pension systems;
10. Review pension provisions with a view to ensuring the principle of equal treatment between women and men, taking into account obligations under EU law; and
11. Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regard to the likely evolution of benefit levels and contribution rates. Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies» (SPC and EPC 2001: 6–7).

Annex III: Main proposals of the Norwegian Pension Commission:

1. «Pensions are to be related to overall lifetime income.
2. Everyone is to be guaranteed a pension that is no lower than the current minimum public pension from the National Insurance Scheme.
3. The pension one receives is to be related to the contributions one pays to the pension scheme. Earned pension to increase in line with wage growth.
4. Unpaid care for children and for sick, disabled or elderly people to give entitlement to pension benefits.
5. The longer one defers retirement, the higher pension one will receive. One may opt to receive a pension from the National Insurance Scheme upon reaching the age of 62, but the pension will, in that case, be lower than if one extends working life. The Government should focus its financial contribution for early retirement pensions on the general scheme and not on other schemes.
6. Supplementary pension schemes are to be organised so as to make them clearly an add-on to the National Insurance Scheme.
7. To make the pension system financially sustainable, the pension will be calculated on the basis of remaining life expectancy at 67 years for the age group to which one belongs. If life expectancy increases, one will have to postpone retirement to receive the same pension.
8. The new rules should be introduced gradually, affecting mainly the coming generations of retirees. People born in 1950 and earlier will largely fall outside the scope of the reform. People born in 1965 and later will be fully

encompassed by the reform. People born during the years 1951–1964 will receive their pension from both the old and new systems.

9. Pension payments are to be adjusted annually in line with the mean of wage and price changes. This will apply to anyone who receives a pension payment after the reform becomes effective.
10. A new Government Pension Fund is to be created on the basis of the Government Petroleum Fund and the National Insurance Fund. The purpose is to establish a closer link between fund capital and government pension obligations.» (NOU 2004: 11–13).

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