# Unions as Social Agents in the Pension Privatisation Processes

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This paper investigates the role of unions as social actors in pension reform processes that involve privatization. The paper begins by discussing the theoretical literature on pension reform, with particular focus on the role of trade unions as representatives of pension policy stakeholders. I discuss the sources of union preferences with regard to privatization and discuss their role in reform processes. Next, the paper examines different dimensions of pension privatization. The final section of the paper discusses the implications of the analysis for unions and pension privatization.

**Unions and Pension Privatization**

Esping-Andersen's (1990) regime approach is by now the standard point of departure for analyzing welfare states. Esping-Anderson argues that welfare states cluster into three distinct regimes: liberal, corporatist, and social democratic. Liberal welfare states such as the USA and Great Britain, means-tested benefits, modest social insurance, and private and occupational alternatives to state welfare predominate. In corporatist/conservative welfare states such as Germany, publicly provided social insurance programs reinforce status and income differentials. Finally, the social democratic welfare regime is characterized by the dominance of universal, state-financed benefits and services and a minimal role for private or market alternatives to state welfare.

Esping-Andersen arrives at this typology by examining three main dimensions of welfare state regimes: the quality of social rights (whether social benefits are awarded as a matter or right, rather than on the basis of labor market performance or status), social stratification (whether programs are universal, means-tested, or occupationally based), and the relationship between state, market and family (the extent of state produced and financed welfare as opposed to family or market produced welfare). The notion of social rights also captures the extent to which welfare states promote "decommodification," or the ability of citizens to secure basic needs outside the market.

For pension systems, Esping-Andersen focuses on the public-private mix in pension provision as well as the quality of social rights. Sweden, Norway and Denmark exemplify the social democratic regime because the state dominates pension provision, and benefits are not generally differentiated according to occupational status. The corporatist pension regime, exemplified by Germany, France, and the Netherlands, is marked by pension arrangements that differ according to occupational status, even if the state plays a large role in pension provision.[1] The liberal regime, exemplified by the Anglo-Saxon countries, is characterized by a large role for the market in pension provision. Finally, the Mediterranean or Southern pension regime, exemplified by Spain and Portugal shares many features of the corporatist/conservative regime, except that pension schemes are not mature and there may be many gaps in coverage.[2]

Esping-Andersen argues that that three variables explain social policy outcomes: "the nature of class mobilization (especially the working class), class political coalition structures, and the historical legacy of regime institutionalization" (Esping-Andersen 1990: 29). Thus according to Esping-Andersen's theory, organized social groups are the main actors in the process of welfare state development, mobilizing for social programs tailored to their ideology and political goals, whether socialist, christian democratic, or liberal. As Esping-Andersen himself argues, his theory should be capable of explaining not just welfare state expansion, but also the restructuring or scaling back of welfare states.

Paul Pierson challenges this view by arguing that the reorganization and retrenchment of welfare states cannot be explained by theories such as Esping-Andersen's, because these theories focus on the "old" politics of the welfare state. He argues that the politics of retrenchment is very different from the dynamics of welfare state expansion. Whereas expansion policies are generally popular, retrenchment initiatives usually provoke public opposition. Thus retrenchment is politically difficult, largely because of the mobilizing potential of interest groups and policy advocates that previous policies helped to create. According to Pierson, these feedback effects of previous policies, rather than the influence of political parties, social movements, and

[1] The Netherlands does not fit easily into this category because the Dutch pension system includes a universal, basic pension.

[2] Since the 1990 publication of *The Three Worlds of Welfare Capitalism*, there has been much criticism of Esping-Andersen's typology, most notably by those who argued that such a typology should include a fourth regime encompassing Southern Europe. See for example, Martin Rhodes (ed). *Southern European Welfare States*.

labor organizations, are the crucial variable for explaining the institutional resistance of welfare states to change.

The central claim of Pierson's new politics thesis is that retrenchment is a "distinctive and difficult enterprise" that is likely to involve political dynamics fundamentally different from those associated with welfare state expansion. Thus retrenchment involves a politics of "blame avoidance" rather than the "credit claiming" that characterizes the extension of welfare state policies. The upshot of the argument is that retrenchment is successful only when politicians are able to devise strategies that minimize popular opposition to proposed policy changes. Thus the new politics thesis portrays retrenchment as a politically risky process (Pierson, 1994, pp. 1-2).

Despite significant differences, both Esping-Andersen and Pierson share an emphasis on two crucial variables: the organizational resources of important welfare state stakeholders and the structure of existing welfare state institutions. The organizational resources of affected interests shape the extent to which politicians can mobilize support for their reform plans, and policy legacies constrain the range the options available to policymakers seeking reform (Pierson 2001; Anderson and Meyer 2003).

Before turning to the issue of how organized social groups influence pension reform, the role of policy legacies deserves some attention, because historical choices structure the menu of pension options available in reform discussions and past policy decisions shape the preferences of social groups (Pierson 1994, 2001; Myles and Pierson 2001).

As Myles and Pierson (2001) argue, pensions are a classic case of path dependent change. Because pensions usually entail long-term, costly benefit commitments to large groups of voters, the structure of existing policies seriously constrains the prospects for reform. Moreover, the groups with a large stake in existing policies have an important impact on reform, not least because of the enormous political risks involved in scaling back and/or re-organizing pension arrangements (Pierson 1994; Weaver and Pierson 1993).

Myles and Pierson (2001) argue that the maturity of a public pension system is a critical variable influencing reform outcomes. Myles and Pierson argue that the longer a country has had a pay-as-you-go (PAYG) pension system in place, the more difficult it is to reduce or privatize public pension commitments. Lindbom and Green-Pedersen (2002) build on this approach to argue that the "double payment" problem is the "mechanism of reproduction" that makes it extremely difficult to reduce/privatize public pensions. Large, PAYG public pension schemes that cover all or most of the workforce generate commitments over many decades that are similar to property rights. In order for privatization to be possible, current workers would have to pay twice: once for current pensioners in the public scheme and a second time for their own private pensions. Because the political costs of such a strategy are exceedingly high, full-scale privatization of public PAYG pensions is nearly impossible.

For countries with mature, PAYG public pension schemes (Germany, Sweden, France, Italy, the Netherlands,[3] among others), past policies are highly constraining; policymakers and affected social interests make their policy choices in a context in which large scale privatization is nearly impossible. The main options available are "parametric" reforms that introduce changes within the existing public pension structure. For example, benefit formulae can be made less generous, contributions can be raised, partial privatization can be introduced to supplement public benefits, etc.

A second group of countries did not legislate earnings-related, PAYG public pensions during the decades immediately following World War II. This cluster includes Denmark, the Netherlands, Switzerland and the Southern European welfare states. Here there is usually a basic form of public provision, and earnings-related benefits are organized collectively, usually as occupational pensions negotiated as part of collective wage agreements (Myles and Pierson 2001). Although earnings-related pensions are organized by the market and not the state, the role of the state is still crucial in terms of *regulation*. For example, the Dutch regulatory framework establishes rules for investment and capital coverage, and the Ministry of Social Affairs can extend mandatory pension provision to entire sectors and branches in the economy. The result is a coverage level of about 92% (SER 2001). However, the provisions of specific pension schemes (premiums; benefit formula, indexing, etc) are left to corporatist pension fund boards. In

[3] Again the Netherlands is a difficult case to categorize because it has a fairly generous public flat-rate pension and quasi-mandatory private occupational pension schemes.

Switzerland, regulation appears even tougher; state regulation mandates a minimum rate of return, for example (Bonoli 2003).

In both clusters of pension systems, organized labor plays a crucial role in decision-making about pension policy and in administration. In both types of pension regime, labor's main interest is in the protection/improvement of the status quo, mainly because pensions (both public and private) represent deferred wages. I will return to this point below.

**Union Preferences Regarding Pension Reform and Privatization**

What are union preferences concerning pension reform, and in particular, pension privatization?[4] In a recent article, Anderson and Meyer (2003) focus on the organizational structure of union membership to try to explain union preferences concerning pension reform. To do this, the authors focus on the organizational structure of unions as well as their role in the political decision-making process. Both variables are argued to influence unions pension preferences and their political behavior.

When are unions likely to accept changes that hurt their members and when is labor likely to mobilize against cutbacks (cf. Anderson 2001)? Many authors argue that unions may follow public-regarding strategies when they want to make sure that existing welfare state programs do not harm economic growth and public finances (Garrett 1998; Swenson 1992; Schwartz 1998). According to this line of argument, budgetary constraints and program deficits undermine the financial sustainability of the welfare state and create uncertainty about the state's ability to meet its future welfare commitments. Under these conditions, unions have an incentive to cooperate with politicians pursuing reforms designed to improve public finances, enhance the performance of social programs, and promote competitiveness. Union participation in the negotiation of such reforms may also increase the likelihood of success and guarantee that the burden of adjustment is fairly distributed (Myles and Pierson 2001; Ebbinghaus and Hassel 2000). The basic point here is that pension reform, even if it involves some losses, is preferable to the status quo because a reformed (albeit less generous for some groups) pension system is considered to be better than a public pension system that appears financially unsustainable.

[4] This section draws heavily on Anderson and Meyer (2003).

However, unions do not always follow public-regarding policies. Following Olson (1984), organizations representing narrow interests have strong incentives to engage in rent-seeking behavior, while encompassing organizations have an incentive to consider the macroeconomic and societal impact of their policies. Because encompassing organizations represent the interests of a large segment of society, their members share in both the benefits and the losses resulting from policies that affect their members. Organizations pursuing narrow interests do not have the same incentive.

In order to examine the issue of where pension preferences come from, it is useful to think of pensions as a deferred wage. Pension policy involves a trade off between wage earners' interest in maximizing deferred wages and promoting economic growth. Public pensions are more complicated than wage bargaining because pensions involve a long term deferred wage promise and potentially pit current workers (who finance pensions) against current pensioners. Thus, (current and former) wage earners' interests are not homogeneous because current pensioners' (former wage earners) maximization of deferred wage income may involve wage losses for current wage earners (future pensioners) if payroll contribution increases limit real wage increases. Conversely, the maximization of current wages (by keeping payroll contributions stable or decreasing them) may imply reductions (or slower increases) in the deferred wages of current pensioners. Finally, a financially unstable PAYG pension system threatens the long term interests of current workers in maximizing deferred wage income because of doubts that the pension system can deliver on its promises. The essential point here is that pension reform usually entails a three sided trade off, or "trilemma" (cf. Swenson 1989), between the short term interests of current pensioners in maximizing pension income, the short term interests of current workers in maximizing wage income, and the long term interests of current workers in maximizing deferred wage income. Union organization (as discussed above) and membership composition are likely to significantly shape the way this trilemma is resolved.

How does membership composition influence union preferences? High levels of union density, the centralization of authority, and union concentration increase the likelihood that unions will pursue encompassing interests. However, we also need to look at membership composition, particularly gender balance and age structure. Union membership structures that include both younger and older workers contribute to encompassing interest group behavior by unions because union strategy must balance the interests of both groups of workers. The opposite is also true: low levels of union density and membership composition dominated by one age cohort and/or gender are more likely to incline unions to the pursuit of narrow interests.

These arguments suggest the following propositions. Narrowly organized unions are hypothesized to block attempts at change that entail losses for their members, and unions characterized by encompassing organization are predicted to cooperate in pension reforms when proposed changes balance long term and short term interests of their members. If unions accept that program changes are necessary in order to improve public finances and competitiveness, they have an incentive to cooperate in policy change to the extent that they are also invited to influence the content of reform. If interests are encompassing, unions have an incentive to internalize costs of adjustment, i.e. they accept the trade off that some cuts have to be made in return for pension system sustainability, especially if savings can also be used to improve coverage of vulnerable groups. If interests are narrow, there is little incentive to internalize the costs of adjustment.

**"Young" Pension Systems with Large Occupational Pension Sectors**

The arguments outlined above apply largely to the first cluster of countries discussed by Myles and Pierson, the mature PAYG *public* pension systems. What are union preferences in the context of a mixed system like that in the Netherlands, Denmark and Switzerland, in which the public pension system provides a basic level of support, and mandatory (or quasi-mandatory) occupational pensions cover the rest of the workforce? Again, earnings-related pensions are a form of deferred wage, so the logic of decision-making is roughly similar to that of wage bargaining. It is not inconceivable that unions may accept "pension moderation" for the same reasons that they accept wage moderation.

The logic of increased wage discipline is straightforward: high wage costs, including the employer contributions that finance pensions, may damage competitiveness, leading to decreased investment and increased unemployment. The ability of firms to move production from one location to another also creates downward pressure on the taxes and social security contributions paid by firms. Thus, to the extent that employer-financed payroll contributions constitute a mobile tax base, the dynamics of the single market creates downward pressure on this type of tax.

**Public v. Mixed Pension Systems**

The experiences of Denmark, Switzerland and the Netherlands suggest that the public, PAYG route is not the only way to achieve the kind of distributional outcomes that are desirable from a union point of view. Denmark, Switzerland, and the Netherlands provide a universal basic pension, but supplementary pensions are organized in the private sector. Despite the location of supplementary pensions in the private sector, these two public-private pension regimes deliver outcomes not usually associated with such a public-private mix. Old age poverty levels in all three countries match outcomes in, for example, Sweden, and income inequality among pensioners is low. The Dutch and Danish pension regimes also perform well in terms of financial sustainability, the promotion of savings, and minimizing labor market distortions (Anderson 2002).

In countries with large occupational pension sectors, the key issue for unions is ***regulation***. In the three countries mentioned above, (NL, DK, CH), the state plays an important role in defining who is eligible for coverage, how assets are invested, rules about capital coverage, and rules about protecting pension assets in the case of employer bankruptcy. In other words, the question facing unions is not one of whether to privatize, since occupational pensions are already in the market sector; rather, the question is how private occupational pensions should be ***regulated***.

**How do Unions Influence Reform Processes?**

The institutional context within which unions participate or try to influence policymaking is important because the institutional context of pension policy decision-making influences the extent to which pension policy reform follows a more political logic or a more market logic. When the social partners are responsible for pension policy decisions via wage bargaining, policy change is taken out of electoral competition, there are fewer veto points, and bargaining is potentially less conflictual. Here, pension decisions are more likely to follow a market logic because occupational pensions are negotiated explicitly as part of wages. In contrast, when the legislature is responsible for pension policy change, the likelihood of pension policy politicization increases, and change may be more blocked because of electoral risks (Pierson 1994).

In the legislative decision-making process,[5] there are generally four avenues of union influence on political processes concerning public pensions: the administrative channel; the public arena; the wage bargaining arena; and via cooperation with political parties, especially the Social Democratic party. First, union participation in the administrative apparatus of the welfare state provides them with a potentially important voice in relevant decision-making. Union officials may possess privileged access to information and expertise, and their role in administration offers opportunities to implement policies according to their interests. A second channel of influence is the public arena. As mass organizations, unions possess the resources to influence public opinion concerning welfare issues by staging information campaigns, mobilizing their members to exert influence on politicians, or as a last resort, engaging in industrial action. Third, unions' status as partners in collective bargaining means they can influence social policy to the extent that social policy issues are on the bargaining agenda. Finally, unions in most advanced capitalist countries are closely allied with Left or Labor parties, although the nature of this relationship varies greatly.

Probably the most effective channel for union influence is direct negotiation over pension issues with political parties sympathetic to union interests. As long as politicians make decisions about pensions, the legislative arena is most important. For example, in Sweden and Germany, earnings-related pensions are public and legislatively controlled so direct bargaining with political parties is likely to be the most effective channel of union influence. Social Democratic parties across Western Europe have close ties to the labor movement, but the nature and extent of these links varies considerably. In both Germany and Sweden, there are close ties between the Social Democratic parties and the unions, but these links are closer and more institutionalized in Sweden than in Germany.

In contrast, in the United States, UK, Switzerland or Netherlands, where occupational pensions are (mainly) private, unions must try to exert their influence via two routes: the legislative route and the collective bargaining route. Again, union interests concerning pension policy is closely linked to the role of pensions as a deferred

[5] This section draws heavily on Anderson and Meyer (2003).

wage. The legislative arena is likely to be more important for the regulation of occupational pensions, whereas the provisions of different arrangements (premium levels, indexation, benefit formulas, etc) are negotiated in collective agreements.

To summarize the discussion so far, there are several important influences on union preferences and political strategy concerning pension reform/privatization.

1. Union organizational structure: Fragmented union movements are more likely to defend the status quo, even when financial and demographic pressures are substantial. Centralized, encompassing union structure increases the likelihood that unions will cooperate in reforms that trade some moderate benefit reductions for long-term pension system sustainability.

2.. The age and gender balance of union membership: Unions with membership structures that are uneven in terms of age/gender (for example, older, male workers) are more likely to resist changes that hurt these groups. Unions with more balanced membership structure in terms of age and gender are more likely to cooperate in reforms that spread the impact of cuts across age groups and gender.

3. The structure of existing pension scheme(s). Existing structures such as the method of financing (payroll tax v. general revenues), benefit formula (career earnings v. formulas that give more weight to a number of "best" earning years), indexation, credits for child-rearing, etc., set the parameters for reform options.

A brief examination of union involvement in recent pension reforms illustrates these arguments.

**Sweden**[6]:

In the 1990s, Sweden transformed its defined benefit public pension system into a defined contribution system that includes a mandatory, funded, individual investment account. The Social Democratic party leadership advocated reform in response to financial and demographic pressures. In 1990, experts predicted that payroll taxes would have to increase to 33.1% of wages (the rate was 18.5% in 1990) by 2025 with an average economic growth rate of 1% (Ståhlberg 1990).

[6] See Anderson and Weaver (2003); Anderson (2003); and Anderson and Meyer (2003) for more detailed discussions.

In contrast to the widespread public protest that accompanies pension reforms in other European countries, the Swedish reform did not provoke widespread outcry, mainly because current pensioners were exempted from most cuts, and some groups of workers would actually get better benefits in the new system.

The reform abolished the old “best 15 years of 30” years of labor market participation benefit formula with a formula based on lifetime earnings. Additionally, the reformed pension system includes new individual pension investment accounts, known as the "premium reserve." About 13% of workers' pension contributions are paid into individual investment accounts that resemble mutual funds. Workers can choose one of more than 600 premium pension schemes offered by financial service companies, or they can let a state fund manage their money. Future benefits depend solely on the rate of return in the individual account. The main pension benefit will still come from the public, Pay-As-You-Go system.

The existence of large public pension funds facilitated Sweden's transition to a new pension system. The old pension system was partially funded, and pension assets were publicly managed in several large collective investment funds. These funds contained assets totaling more than 35% of GDP, and some of the assets have been used to finance the transition to the new system. The remaining pension funds are smaller and will function as buffer funds in the new system.

The Swedish reform is fairly successful in correcting perceived program weaknesses and in defending social democratic values. Existing pension policy in Sweden provided opportunities for 'turning vices into virtues' and for financing the transition to a new system. Unions tacitly accepted the necessity of pension reform and their influence contributed to the adoption of a reform that balanced the correction of program weaknesses with measures to protect and/or expand core social democratic values.

**Germany**[7]:

In 2001/2002 the Social Democratic/Green coalition government adopted a significant pension reform designed to slow the growth the pension spending and hold contributions below 22% of qualifying income. To achieve these goals, the reform

[7] See Anderson and Meyer (2003) for a detailed discussion.

includes modest benefit reductions for future pensioners and introduces a voluntary private investment scheme. There is no legal obligation for citizens to invest in private or occupational pension schemes, but there are strong incentives to do so. Citizens will either receive a flat-rate state subsidy to pension funds contributions or they will receive a tax break for their contributions.

The background to the reform was the deteriorating state of the economy and dramatically rising pension costs and payroll taxes. Official forecasts predicted a contribution rate of about 26 percent by 2030 at the current rate of growth. Currently, the federal subsidy to the pension system totals 65 billion euros annually. This amount equals about one third of pension system revenues and makes up 25% of the federal government budget.

For employers the reform reduces mandatory contributions while they are under no obligation to pay for the private pension schemes; however, employees have the right to demand that employers deduct contributions from their payroll to go directly into an occupational or private pension fund. Employers have to provide this saving opportunity, but are allowed to choose the type they want to offer.

German unions opposed the reform plans of the SPD government and only had moderate influence on the final reform compromise. Anderson and Meyer (2003) argue that German unions pursued the narrow interests of their predominantly older, male membership. In Germany, unions represented mainly the interests of core workers, who were already well-protected in the existing system. In addition, existing German pension policy was highly constraining; there were few opportunities for finding savings within the existing rules, such as reducing inequalities between different groups, etc.

Almost two years later, at the beginning of 2003 it is becoming increasingly clear that the reform is not the long-term solution the coalition parties had hoped for. Between 2001 and 2003 take up rates of private pensions were very low. In addition, despite the cost containment measures, towards the end of 2002 the reserves of the public pension funds again were too low, because of high unemployment. Thus, not long after a razor-thin victory of the SPD and the Greens in the general elections in September 2002 the government passed a “protection of contributions law” that raised pension contributions by 0.4 percentage points and increased the income threshold for contributions to public pensions by January 2003 (Bundestagdrucksache 15/28). At the same time a commission of experts and members of corporate bodies was set up whose mission it is to design a scheme for a complete overhaul of the social insurance systems (www.spd.de). This shows that the search for a more viable solution for the public pension system is far from over.

**Is Reform/Privatization really necessary?**

The two cases discussed above are notable in that there was general agreement among experts (including union experts) about the need for reform, but there were widely diverging opinions about what reforms should entail. However, proponents of pension reform often make their case as if there were total agreement about the need for reform. Reform advocates often cite demographic and economic pressures as central motivations for reform, and it is crucial for pension policy stakeholders to carefully examine such arguments for validity. I will not address this point further, and instead want to focus on situations in which there are plausible reasons (from a progressive point of view) for supporting particular types of reform.

Not all public, PAYG pension systems are necessarily "good" from a redistributive point of view. Levy (1999) argues persuasively that a viable strategy for welfare state reform is turning "vices into virtues." Levy argues that there is a left-progressive approach to welfare reform that is distinctly partisan. In contrast to neoliberal restructuring, left-progressive reformers pursue policies designed to correct inefficiencies in the welfare state without significantly compromising commitments to disadvantaged groups.

If we examine public pension schemes in Europe, there has been a considerable amount of reform that has focused on correcting weaknesses or inequities. For example, the Swedish pension reform of 1994/98 corrected several significant weaknesses in the existing PAYG system, such as the gradual erosion of the value of earnings-related benefits,[8] and the unintended redistribution from blue collar to white collar groups. Similarly, Germany is a good case to look for “vices” that could potentially be turned into

[8] In the old pension system, pension rights and payments were indexed to inflation. Because wages generally increase faster than inflation, this indexing mechanism led to a decline in the real value of pensions relative to real wages.

“virtues.” During the past several decades, German employers and unions have used the public pension system as part of their joint strategy of facilitating early labor force exit. Firms have the opportunity to shed unneeded older workers and unions gain because (in theory) a job vacancy is created that can be filled by a younger worker (Ebbinghaus 2002). This is certainly defensible from a distributional point of view, but one consequence of this strategy is that firms do not pay the full costs of retirement even though they benefit from the fact that an older worker is replaced by a younger worker who is often more productive than the older worker who just retired.

Until recent reforms, the Italian pension system was highly inefficient and inequitable. Different types of pension benefits, especially disability pensions and pensions for low-income pensioners were widely used for political patronage, as a substitute for unemployment benefits, and to ease social conflict (Franco 2000). Pensions also encouraged black market employment; there were huge incentives to retire early and then to work outside the regular market. The system was also segmented, with different systems for public and private sector workers, and the rules were not fully harmonized. Political parties could target benefits to specific groups, making reform difficult. The expansion of the pension system, generous rules, and the widespread occurrence of fraud meant huge expenditures. In fact, Italian pension spending dominates social expenditure, at 63% of social expenditure compared to 42% in the EU (1995) (see also Jessoula 2003 and Baccaro 2001).

While it is true that most or all of these reforms discussed above involved some losses for current and/or future pensioners, these losses were balanced by improvements in the form of increased financial sustainability, better benefits for disadvantaged groups, etc.

**What is Privatization and is it always 'bad?"**

What exactly is privatization and when is it not necessarily a bad thing from the point of view of trade unions and other interest groups representing large groups of current and future pensioners? Here I want to discuss two types of privatization: the introduction of a private component into a public, PAYGO system, and the regulation of earnings-related occupational pensions.

The introduction of an individual private component into public, earnings-related pension schemes was a notable feature of both the recent German and Swedish reforms. The new Swedish system contains a “premium reserve”: of the total 18.5% in pension contributions, 2.5% will be placed in an individual investment fund based on the defined contribution principle. To minimize administrative costs, pension contributions and fund choices are centrally managed by a government agency, and individuals have a wide range of fund choices. Social organizations, notably LO (blue collar trade union federation) were offered the opportunity to partner with fund companies in offering fund choices. All fund balances will be annuitized at the time of retirement. In addition, an existing quasi-mandatory supplementary pension that covers blue-collar workers was also converted into a defined contribution plan (Palmer 2002: 181).

The new German “Riester Rente” is less ambitious than the Swedish premium reserve. The Riester Pensions are voluntary accounts encouraged by tax incentives, and their goal is to provide private investment income to offset future decreases in public pension benefits. Wage earners may choose to contribute to union-administered pension schemes. So far, take up rates have been low.

Regulation of occupational pensions is also crucial for the established occupational systems like the Netherlands, Denmark and Switzerland. All three countries have extensive occupational pension sectors covering 80-100% of workers. Perhaps the most important aspect of regulation involves mandating. The degree of compulsion differs in all three countries.

In Switzerland employers are legally required to provide occupational pensions to workers with incomes at least 35% of the average wage. Combined with the basic pension, this pension benefit amounts to about 60% of average income. One notable feature of the Swiss system is the required minimum rate of return: 4% (Bonoli 2003).

In the Netherlands, occupational pensions are quasi-mandatory. The law on Mandatory Participation in Sectoral Pension Funds (Wet betreffende de verplichte deelneming in een berijfspensioenfonds, Bpf) dates to 1949 and permits the Ministry of Social Affairs to require an entire sector to participate in the same pension fund if a formal request is made. The principle of mandatory extension means that well over 90% of workers are covered by an occupational pension. The provisions of individual pension schemes (there are more than 900) are negotiated as part of collective agreements with corporatist administrative boards deciding on the details of benefits and financing (SER 2001; Anderson 2003).

In Denmark, occupational pensions have been part of wage bargaining rounds for several decades. A public supplementary pension scheme (ATP) covering the whole labor market (assets total 19% of GDP) provides modest benefits. Because of the weakness of earnings-related pensions, "labor market pensions" have expanded to fill this gap. Labor market pensions cover 85-90% of wage earners (assets total 29% of GDP) and most schemes are defined contribution. Prior to the 1980s only about one third of wage earners were covered by occupational pensions. The individual private pension pillar is relatively well developed in Denmark, largely because premiums are tax deductible. For middle and higher income groups, the weakness of occupational pensions often meant that individual pension savings was the main way to achieve coverage above the basic pension.

The experiences of these three countries shows that occupational pensions located in the market sector are potentially capable of delivering coverage and benefits comparable to those of public, PAYG schemes. However, recent experiences in all three countries also demonstrate the weaknesses and risks inherent in this type of system. These weaknesses can only be addressed by regulation. The next section discusses several of the most significant weaknesses/risks associated with private pensions.

**Investment Risk/Capital Coverage Requirements**

Pension funds across Europe have suffered dramatic investment losses as a result of the bear market. For example, the largest Dutch pension fund, ABP, lost 7.2% on its investments in 2002. This resulted in a drop in capital value to 135.5 billion euros, down from 147 billion euros a year earlier. The decrease in capital value also meant a drop in ABP's coverage ratio to 103% at the end of 2002, from 122% a year earlier. Dutch regulations require minimum capital coverage of 105%, so the pension board of ABP had to negotiate a mix of premium hikes and modified indexation of current pensions in order to restore balance. Similarly, the new Swedish premium pension investment funds have experienced heavy losses, about 10-15% of value in 2001.

**Increasing Costs**

The Dutch and Swiss cases also clearly show that funded occupational pensions are not immune to cost pressures. Increasing life expectancy has increased the cost of annuities in Switzerland, and poor fund performance in the Netherlands has necessitated increases in premiums.

**Membership Issues**

Occupational pensions in Denmark, Switzerland and the Netherlands do not cover all labor market participants. Part time workers or those with atypical earnings profiles are often excluded. Recent Dutch reforms have improved coverage, but there is room for improvement in all three countries.

**Conclusion**

The role of unions in pension reform processes is complex, and union interests cannot be reduced to a simple acceptance or opposition to planned reforms. While unions in some countries (often) mobilize their membership against reforms (France, Austria), unions in other countries explicitly or tacitly cooperate in reforms. As the Swedish and Italian cases show, a "vice into virtue" strategy that targets inequities in current pension policy can be the basis for a viable reform strategy. The savings generated by reducing benefits for privileged groups can then be used to protect or expand coverage for other groups, especially vulnerable groups.

The recent German reform experience demonstrates that unions (in alliance with employers) can adapt new private pension savings accounts for more solidaristic purposes. Although the rate of participation in the new Riester Pension scheme has been low, the greatest response has come from unions and employers who have used the new provisions as the basis for collectively bargained supplementary pensions. Swedish unions have followed a similar path by introducing collective pension schemes that provide both pure supplementary pensions and which are eligible for the new premium pension scheme. This collectivization strategy has several advantages, besides promoting the goal of solidarity. Unions play an important role in the administration of the new collective schemes, and they can use their collective bargaining power to ensure that fund management fees are keep down and investment risks are minimized.

Belgium has also taken steps toward expanding occupational pension coverage. A recent reform establishes a framework for the introduction of sector-wide, defined contribution occupational pension arrangements that are intended to increase occupational pension coverage to two-thirds of the population. Thus Belgium, like Sweden and Germany, has introduced a significant element of privatization into the overall pension system. Extreme public indebtedness limit the ability of the state to increase pension spending, so the "second-best" option was the expansion of occupational pensions within a framework still dominated by the public pension pillar.

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