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The politics of multipillar pension restructuring in Denmark, the Netherlands and Switzerland

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Karen M. Anderson*

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Denmark, the Netherlands and Switzerland**

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Reichpietschufer 50, 10785 Berlin
<http://www.wzb.eu>

* Karen M. Anderson is Associate Professor, Department of Political Science, Nijmegen University, the Netherlands. In May 2007 she worked as a visiting researcher in the Research Unit Inequality and Social Integration.

Abstract

This paper analyzes the restructuring of private, occupational pensions in the Netherlands, Denmark and Switzerland. Despite the institutional similarities of all three systems (extensive pre-funding, collectively organized pensions, near-universal coverage), the three systems differ in important ways in terms of governance. The paper investigates the ways in which these variable governance structures shaped responses to the stock market downturn in 2001-2002. The Dutch occupational pension system experienced substantial retrenchment (shift from career earnings to average earnings formulae in defined benefit (DB) schemes as well as increased contributions) whereas the Danish and Swiss schemes sustained fewer cutbacks. The paper argues that the DB structure of Dutch pensions as well as the specifics of the regulatory framework forced a drastic adaptation to changes in financial markets, whereas the flexible defined contribution (DC) framework in Denmark and Switzerland facilitated a more modest adaptation to the market downturn.

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Introduction

Retrenchment in second pillar pensions poses a puzzle for the welfare state literature. With few exceptions (for example, Bridgen and Meyer 2006) the retrenchment literature has focused on *publicly organized* social policies. Private and occupational social policies usually enter the analysis only to the extent that they offer compensation opportunities for politicians seeking to reduce the electoral risks associated with scaling back public commitments (Pierson 1994). An emerging literature questions this focus on retrenchment in public social policies, asking how different public-private mixes, especially the interplay between public and occupational welfare, shape retrenchment dynamics in privately organized occupational welfare (Myles and Pierson 2001; Trampusch 2006; Hacker 2002).

Multipillar pension systems are often touted as the answer to the financing problems facing many OECD countries' public pension systems (see World Bank 1994). The Swiss system has been celebrated as the "triumph of common sense," (Quiesser and Vittas 2000) and in 2007 the Dutch and Danish systems were recently ranked among Europe's "best pension systems" by an influential consultancy (Aon). These countries share an approach to retirement provision that combines a public, universal basic pension scheme that is highly effective in preventing old-age poverty (the first pillar), an extensive, quasi-mandatory system of pre-funded, earnings-related occupational pensions (the second pillar) and considerable private pension coverage (the third pillar). Advocates argue that the multipillar approach has several advantages over a system dominated by public provision: risks are spread across the pillars, and pre-funding creates a large pool of investment capital (World Bank 1994). What is less well-known, and certainly less emphasized in public debates about the future direction of pension policy in Europe, is that multipillar systems are not immune to economic and demographic challenges. Much like the public, pay-as-you-go (current revenues finance current benefits) pension schemes that are being radically restructured to cope with unfavorable dependency ratios and a climate of "permanent austerity," second pillar pensions in Switzerland, Denmark, and the Netherlands have been radically restructured since 2000, largely because of erratic financial market performance since 2000.

This paper contributes to the growing literature on "private" social policy and the politics of regulation by analyzing the politics associated with the retrenchment of occupational pensions. The multi-pillar pension systems in the Netherlands, Denmark, and Switzerland are especially good cases for investigating the dynamics of retrenchment and restructuring in *private* social insurance policies. All three countries boast highly developed first and second pillar pension schemes; the size of the first and second pillars (measured in terms of scope and maturity) in all three countries is roughly similar, as is the degree of compulsion in the second pillar.¹ This means that these two key parameters of the "public-private mix" are held constant, and the regulatory framework and benefit

design of occupational pension arrangements are allowed to vary across the three countries. This permits an analysis of the ways in which the institutional structure of occupational pensions shapes the responses of occupational pension providers to financial market turbulence, especially the distribution of gains and losses from market performance.

Drawing on the work of Hacker (2002) this paper argues that the structure of occupational pension regulation and provision creates a politics of *regulation* that is in many ways different from the *distributional* politics surrounding public pensions. The regulation and decision-making concerning private, occupational pensions is a low-visibility process involving actors and interests that differ substantially from those involved in public pension politics. Moreover, institutional change processes in private occupational pensions are governed by a market logic rather than a political logic (Anderson 2002; Hacker 2002). Whereas elected politicians make decisions concerning the downward adjustment of public pensions to unfavorable economic developments, the boards of pension schemes make these decisions in many, if not, most European occupational schemes. This means that the groups negatively affected by occupational pension restructuring cannot blame elected politicians for their losses. Instead, responsibility for losses is shared among many decentralized actors associated with the pension schemes themselves, and pension losses can be blamed on the anonymous workings of the market rather than politically accountable actors.

The paper is organized as follows. The next section discusses the political science literature concerning the regulation of private occupational welfare. The second section offers a detailed analysis of the restructuring of occupational pensions in the Netherlands in the 2000s. The third section briefly discusses similar processes in Denmark and Switzerland. The paper concludes with a brief discussion of the lessons of the Dutch, Danish and Swiss experiences in terms of second pillar pension regulation and the literature on “private social policy.”²

The Politics of Private Social Insurance

The distinction between public and private welfare is not new. Indeed, Richard Titmuss (1958) included occupational welfare in his influential typology of welfare provision. Papadakis and Taylor-Gooby (1987) analyzed the “private provision of public welfare,” and research into differences in public-private mixes have been a staple of welfare state research for more than two decades (e.g. Rein and Rainwater 1986; see also Shalev 1996). A broader focus on regulatory politics has also been an important focus of political science research for at least four decades,³ although most research has focused on areas other than

social policy. With the expansion of the European Union's activities in the area of social policy, however, scholarship in this area has begun to focus on the EU's regulatory role, emphasizing the ways in which the EU's role in social policy-making at EU level involves regulatory politics rather than redistributive politics (see, for example, Leibfried and Pierson 1994). As Majone (1996) argues, social regulation is related to correcting market failures and is distinct from both distribution and redistribution. Redistribution and distribution rely on the instruments of fiscal policy: government spending in order to achieve specific political goals or fund income maintenance and social service programs. In contrast, regulation is an exercise in what Lowi (1964) calls "limiting behavior." Regulation is aimed at constraining actor behavior in a specific area in order to ensure the smooth functioning of markets. Regulation does not only limit behavior, however, it can also encourage specific kinds of market behavior, like occupational pension provision. Government provision of tax breaks for occupational pension contributions is an obvious example of this.⁴

The welfare state literature has also begun to take the politics of social policy *regulation* seriously. Hacker's (2002) work on the regulatory politics of private social insurance in the United States draws on Pierson's "new politics of the welfare state" approach, as well as the insights of historical institutionalism, to argue that the politics of *private* social policy is different from the politics of *public* social policy. This is so because the institutional characteristics of private social policies generate different sets of actors and interests than do public social policies. In contrast to public social policies, private ones are characterized by low political visibility, few redistributive effects, an important role for "third parties" such as the non-government actors that administer and/or regulate private social policies, and a potentially low degree of compulsion. These characteristics generate a politics of policy development marked by low levels of political conflict, the more or less "easy expansion" of benefits once in place, and concentrated pockets of support for private social policies.

Despite Hacker's argument that the politics of private social policy is different from the politics of public social policy, his analysis confirms historical institutionalism's key claim that "policies create politics." It is precisely because the structure of private social policies differs so much from public social politics that the political processes generated by both types of policy are so different. Thus both public and private social policies are characterized by policy feedback effects and path dependence, but private social policies are less visible and less influenced by electoral politics than public social policies are.

The work of Myles and Pierson (2001) is also central to our understanding of the political processes surrounding private occupational pensions. Myles and Pierson identify two types of "pension politics" in mature welfare states: the "new politics" that characterizes reform processes in systems dominated by public provision, and a sort of "old politics" (although they do not use this label) in the countries with multipillar systems. In multipillar systems, public pension reform is likely to be difficult because of electoral risks, but change processes in private, but collectively organized occupational pensions are likely to be much different because "governments do not bear direct responsibility for meeting

future pension promises.” Moreover, the participation of unions in pension fund administration will influence how the burden of restructuring or even retrenchment in occupational pensions (when it occurs) is distributed. What this logic of change shares with Pierson’s depiction of the “old” politics of welfare is the importance of the power resources of Left parties and unions in shaping social policy development. Thus even private social policies can promote solidarity and considerable redistribution if organized labor plays a significant role in their construction.

Myles and Pierson’s central argument concerning the development of collectively organized occupational pensions is that government’s role is limited to regulation, relieving governments of the responsibility of meeting future pension promises. Instead, decentralized institutions that administer pensions are the actors “on the ground” charged with negotiating contribution rates, benefit levels, and eligibility – precisely the kinds of program details that legislatures negotiate for public pension schemes. These decentralized actors are also responsible for managing pension schemes’ adherence to the regulatory framework set up by the state, including funding requirements. The latter is especially important for funded schemes like those in the Netherlands, Switzerland and Denmark. And because organized labor is well-represented on the boards of pension schemes in many multipillar countries, labor’s preferences will be one of the factors shaping change processes in occupational pensions, including adjustment to financial market downturns.

To sum up, the welfare state literature suggests two ways of thinking about institutional change within multipillar pension systems. First, the historical institutionalist approach extrapolates from Pierson’s “new politics” approach to argue that policy feedbacks are every bit as consequential in private occupational pensions as they are in public pensions (e.g. Hacker). This approach takes as its point of departure Pierson’s key insight that “extensive policy arrangements are also fundamental institutional frameworks that create rules, constraints, and incentives for future political action.” Second pillar occupational pensions by definition are not publicly provided, but they are significantly shaped by public regulation, and there is ample reason to believe that policy feedbacks apply to private provisions much as they do for public provisions. The difference is the role of regulation rather than direct provision (Hacker; Myles and Pierson).

Drawing on Pierson’s emphasis on policy design as a source of institutional constraint, the key argument for the present purposes is that occupational pension schemes generate their own sources of support, shape interest group activity and produce adaptive expectations (just as public schemes do). They also produce sunk costs in the form of existing pension commitments. Following Myles and Pierson (2001), the scope and extent of pension commitments are a key variable driving institutional change. Although Myles and Pierson’s claim concerns public schemes, there is ample reason to believe that sunk costs are just as consequential for private social policy, but the key difference is that market processes, rather than electoral processes, channel change processes in private social policy. In short, we need to know the “scope of existing commitments” in order to understand the politics of occupational pension reform.

A second set of arguments is based more specifically on Hacker's recent work on the interplay of public and private welfare provisions in the United States. Rather than analyzing private social policy as a set of institutions with predictable feedback effects, the Hackerian approach (drawing on Rein and Rainwater (1986) and others) emphasizes the interplay of public and private social insurance development. Trampusch's (2007) work is a good example of this approach. She brings 'labour relations' back into the study of retrenchment, analyzing how the expansion of collectively bargained welfare facilitates public social policy retrenchment because public tasks can be offloaded onto collective agreements.⁵ A key focus of this type of research is the ways in which the timing and sequencing of public social policy adoption and expansion shapes private social policy development. Thus the expansion of private social policy should decrease demands for public social policies, and vice versa.

What does this brief review of the literature on private social policy suggest for the study of multipillar pension schemes confronted with financial market instability? First, the ways in which individual pension schemes adjust to financial downturns and investment losses is heavily conditioned by the interplay of their institutional characteristics and the structure of government regulation. Second, the process of occupational pension adjustment, even when it involves retrenchment, should be marked by low visibility, low levels of political conflict, and unclear accountability. Those who witness their pension rights shrink in the wake of financial market turbulence have no one to blame but the market.

A Brief Introduction to Occupational Pensions and their Regulation

Arguing that occupational pension design and regulation have feedback effects requires some discussion of the salient features of these schemes. Without getting into too much detail, I will discuss these features along three dimensions: benefits, administration, and funding requirements.

Benefits Broadly speaking there are two ways to design occupational pension benefits: defined contribution (DC) and defined benefit (DB). In its purest form, a DC scheme involves an individual account in which participants save for retirement. The contributions are often co-financed or fully financed by employers. The principal and income earned by the investments in the account are then converted to an annuity at retirement or simply withdrawn at regular intervals after retirement.⁶ There is no insurance or compensation for

bad financial decisions or market turmoil; returns are completely dependent on the level of contributions and investment performance.

A DB scheme, in contrast, is based on a promise by the pension scheme sponsor to pay an employee a specific benefit at retirement. These schemes may be pre-funded or paid out of current payroll costs, but the key difference with DC schemes is that the size of the pension benefit is fixed in advance, and contribution levels are adjusted as necessary to finance pension benefits. Typical DB occupational schemes pay some percentage (often 60 %) of average earnings or the final salary after 40 years of service. Obviously, the number of years required for a full pension, annual rate of pension accumulation, and the reference salary (final salary, average salary) used to calculate the pension level vary greatly across schemes.

These two “pure” types obscure the ways in which the DB-DC distinction is really a continuum rather than two mutually exclusive categories. As the discussions of the Danish and Swiss cases below will demonstrate, DC schemes may include elements associated with DB schemes, such as guaranteed rates of return and collective, rather than individual membership. When these parameters apply to DC schemes, the individual bears much less risk than in a pure DC scheme. Similarly, DB schemes often incorporate features more commonly associated with DC schemes, such as making a portion of the pension dependent on investment returns. The Dutch case is a good example of this.

Regulation

Whereas pension providers have some choice about how to design benefits, they are usually constrained by the regulatory framework in terms of the degree of compulsion, the structure of administration and funding requirements. Rules concerning these three dimensions of occupational pensions are typically set out in national legislation.

Compulsion One of the distinctive characteristics of occupational pensions in many European countries is the high degree of compulsion. Governments have three options: require employers to provide occupational pension coverage, delegate this issue to collective bargaining, or rely on voluntary provision. Switzerland is an example of the first strategy, Denmark and the Netherlands of the second, and the United Kingdom of the third.

Administration Occupational schemes vary enormously in terms of administrative structure. Broadly speaking, occupational pensions may be organized as company

schemes, sectoral (multi-employer) schemes, or professional schemes. This dimension determines the size and structure of the risk pool. The next key dimension is the composition of administrative boards: are employers solely responsible for pensions and entitled to make all relevant decisions, as in the UK? Or do corporatist boards with representatives of both unions and employers run things, as in Denmark, Switzerland and the Netherlands? Are pensioners represented on these boards? As Myles and Pierson (2001) argue, these administrative boards are key actors in occupational pension politics because they make the key decisions about benefit formulae, contribution rates, eligibility, and investment policy.

Funding The term “full funding” is deceptive because its meaning varies enormously across countries. The first key parameter that determines the definition of full funding is the distinction between group life insurance contracts and pension funds.⁷ Insurers are required to maintain a minimum capital base in addition to the assets dedicated to covering future liabilities,⁸ whereas pension funds are (generally speaking) only required to maintain assets sufficient to cover liabilities.⁹ In other words, capital requirements are higher for insurers than for pension funds. A second key parameter is the specific nature of funding requirements: the required level of funding (as percent of liabilities); the method for calculating the value of future liabilities; and the rules governing over- and underfunding, including the ownership of surpluses and liability for deficits. Given that life insurance is regulated by EU legislation and pension funds less so,¹⁰ national authorities have much leeway in tailoring pension fund legislation to national needs than they do for insurance-based occupational pension schemes.

There is a wide range of regulatory activity in the occupational pension world. At one extreme are the loosely regulated occupational pension sectors in the UK and USA, where tax breaks stimulate occupational pension provision, but employers enjoy considerable latitude in organizing schemes, and the rules governing the definition and level of funding as well as investment policy are less strict than in many other European countries. At the other end of the regulatory spectrum are the national occupational sectors where there are quantitative and other restrictions¹¹ on investment policy and tough requirements concerning capital coverage of liabilities, in addition to the tax breaks that encourage occupational pension provision.¹²

Regulatory requirements will shape the extent to which pension promises are backed by full funding (actually existing financial assets), how much time pension providers have to correct underfunding, and the ownership of surpluses and deficits. Regulatory frameworks typically also place constraints on investment policy – where (domestically or internationally) and how (stocks, bonds, real estate) managers invest assets. In addition, regulation may include rules concerning guaranteed interest rates in DC schemes and the legal status of accumulated pension rights in DB schemes.

To summarize, the most salient features of occupational pension structure and regulation are:

1. DB v DC benefit formulae
2. employer v. corporatist administration
3. the degree of compulsion
4. solvency rules
5. investment restrictions

These rules shape actor expectations about pension provision, empower certain actors over others, and shape the adjustment of pension providers to market fluctuations, particularly the distribution of financial market gains and losses.

Occupational Pension Structure and Regulation in the Netherlands, Switzerland and Denmark

This section discusses the key features of Swiss, Danish and Dutch occupational pensions in light of the general characteristics sketched above. I begin with the legal basis of occupational pension schemes. Occupational pension schemes are typically of two types: sectoral, professional and company pension funds or life insurance contracts.¹³ The Netherlands relies almost exclusively on pension funds, whereas life insurance contracts dominate occupational pension provision in Denmark. Switzerland uses both.¹⁴ Table 1 shows the distribution of occupational pension assets between pension funds and life insurers. In all three countries, occupational pension assets exceed GDP.

Besides the distinction between insurance and pension funds, there is considerable variation in the design of pre-funded, mandatory occupational pensions in Switzerland, Denmark and the Netherlands.¹⁵ First, only in Switzerland are occupational pensions mandatory. In Denmark and the Netherlands, pensions are quasi-mandatory in the sense that they are negotiated as part of collective agreements that cover more than 90 % of the labor force. Second, Danish and Swiss occupational pensions are mostly defined contribution (DC), which means that pension benefits depend on the level and length of contributions as well as the investment performance of pension assets. This also means that individuals bear much of the risk of investment performance unless there is a minimum rate of return, which is the case in Switzerland and often in Denmark. Dutch occupational pensions are mostly defined benefit (DB), although they are beginning to look more like defined contribution schemes in that benefits are in many ways contingent on investment returns (van Riel and Ponds 2007). Finally, there is variation in the extent of employee influence

Table 1: Second Pillar Pension Assets

Second Pillar Pension Assets 2005 and 2006					
Billions of euros					
	2005	2006	Pension funds	2006 Group insurance	Book reserves
Austria	21.92	23.32	12.56	1.30	9.46
Belgium	45.80	47.17	14.21	32.96	
Denmark	149.60	165.70	59.70	106.00	
Finland	9.91	10.33	5.53	4.80	
France	140.00	150.00			
Germany	401.50	413.55	93.32	46.76	273.47
Hungary	2.60	2.70	2.70		
Ireland	77.83	87.70	78.93	8.77	
Italy	50.05	51.48	43.29	3.64	4.55
Netherlands	722.38	780.00	690.00	90.00	
Portugal	7.78	8.69	8.69		
Spain	95.14	98.34	55.80	31.02	11.50
Sweden	155.80	160.47	12.46	133.08	14.94
United Kingdom	1496.00	1557.00	1423.00	134.00	
EU TOTAL	3376.32	3551.32	2500.19	592.33	313.90
Iceland	1.42	1.62	1.62		
Norway	93.19	98.00	23.00	75.00	
Switzerland	533.73	549.74	355.85	193.89	
Europe Total	4004.65	4200.68	2880.66	861.22	313.90

Source: European Foundation for Retirement Provision (2008)

on investment decisions. In all three countries, both employees and employers are represented on the boards of pension funds and life insurance schemes that make decisions about asset allocation, benefits and contributions. In the case of underfunding, these boards also decide how to restore financial balance, typically by increasing contributions, adjusting the benefit formula, adjusting the annual indexation of pension accrual and payments, or some combination of these measures.

Denmark

In Denmark, occupational pensions (labor market pensions, or *arbejdsmarkedspensioner*) have been mandatory components of collective agreements since 1991. Prior to this, several groups were covered by occupational pensions, including civil servants, but most wage earners had to make do with the basic pension and the other public schemes (ATP and SP)¹⁶ because political stalemate prevented the expansion of public earnings-related scheme (see Green-Pedersen (2007), Due and Madsen (2003) and Anderson (2005) for details). The social partners stepped in where legislation failed, taking the first steps toward comprehensive second pillar coverage in 1989. Unions for unskilled public sector workers negotiated a separate pension deal as part of their wage agreement. Metalworkers took similar steps in 1991, setting a precedent for the rest of the private sector. The coverage rate of occupational pensions was 93 % in the early 2000s up from about 33 % in the late 1970s.

The substantial extension of occupational coverage is rooted in debates about economic democracy. The 1985 LO Congress adopted a proposal drawn up by experts within the Confederation of Manual Workers (LO) that aimed at providing pensions equal to two thirds of previous salary. The report came after several years of debate about economic democracy and how to increase union influence on investment and ownership. When these efforts failed, union leaders saw occupational pensions as an opportunity to expand union influence on investment. The defined-benefit approach to pension design dominated occupational provision at the time, but union leaders thought active union influence on investment was more compatible with a defined-contribution approach.¹⁷ Moreover, in the 1980s, nurses (all in the public sector) negotiated an occupational scheme organized along DC lines, and this later became the model for other blue collar schemes (interview LO February 2008). Thus Danish unions' agreement to DC schemes is largely a historical coincidence, and the DC/DB distinction is not much of an issue.

Both government and business leaders were sympathetic to LO's approach: the government wanted to close existing civil servant schemes because they were too expensive, and employers' main concern was to have certainty regarding contribution rates as well as a guarantee against union control over investment. The result was a compromise in which employers and employees each paid one half of contributions and unions choose the president of the pension fund. In 1991 *Pension Denmark* was created, and in 1992 *Industriens Pension*, two of the largest pension providers for unskilled workers. *Pension Denmark* has 540,000 members employed in 35,000 private and public enterprises and € 9.3 billion in assets. *Industriens Pension* has 350,000 members at 8,000 employers. Employers were satisfied with the new occupational pensions because they had a guarantee against economic democracy. Unions gained not only additional pension provision but also influence on investment decisions.

Occupational pensions schemes in Denmark are regulated as life insurance companies.¹⁸ Employers typically pay 2/3 of contributions and employees 1/3, ranging from approximately 10 to 17 percent of wages. All types of pension funds are governed by an administrative board with parity representation of employees and employers. Most schemes are defined contribution (DC), and the most common form of pension product is the traditional life insurance annuity with a guaranteed interest rate, although unit-linked pension products in which the individual bears all investment risk are becoming more common (IMF 2006). However, the two largest pension funds for manual workers, *PensionDenmark* and *Industripension*, do not provide a minimum guaranteed interest rate. A typical manual worker with 40 years of contributions will receive about 90 % of previous net income (including the basic pension and the other public scheme, ATP) when the labor market pension schemes are fully mature, starting in about 2020 (ØEM 2005: 11).¹⁹ The combined first and second pillar replacement rate is much higher for low income employees because the basic pension plays a larger role. Between 2000 and 2050, the share of the labor market pension scheme in a typical manual worker's retirement income package will rise from less than 5 % to more than 35 % (ØEM 2005: 17).

Contributions to labor market pension schemes have increased rapidly since 1970. In 1970 contributions were slightly more than 1 % of GDP and had risen to almost 3.5 % of GDP in 2005 (ØEM 2005: 7). This trend reflects the extension of labor market pensions to almost all groups on the labor market in 1991 as well as the gradual increase in contributions.

A crucial feature of many of these DC schemes is that they have a guaranteed minimum rate of return on assets. Investment returns above this rate are reserved for periods when investment returns are below the minimum rate, and for supplemented the guaranteed rate of return. These undistributed profits or "collective bonus potential" have fluctuated sharply with asset markets, dropping from about 10 % in 2000 to about 2 % in 2002 and back up to about 4 % in 2004 (ØEM 2005: 30).²⁰ Even the pension funds that do not use a minimum guarantee, chiefly *PensionDenmark* and *Industripension*, provide a "soft" guarantee in that they specify a target minimum rate of return. Many new entrants to the labor market participate in schemes with a soft interest rate guarantee. From 1982 to 1994, the guaranteed interest rate was 4.5 %. This was reduced to 2.5 % in 1994 and to 1.5 % in 1995 (Danmarks Nationalbank 2008, 30).

The Danish regulatory framework requires occupational pension schemes to be fully funded at all times. Pension funds organized according to life insurance principles must maintain a capital reserve in excess of the assets dedicated to pension liabilities. Pension funds must submit annual reports for the pensions regulator (Danish Financial Services Authority); in the case of underfunding, the pension fund must submit a recovery plan to the regulator. These tough requirements create incentives for pension schemes to pursue somewhat conservative investment policies. The regulatory framework limits pension funds' and life insurance plans' investments in shares to 50 % of assets, and administrative committees with representatives of employees and employers make investment allocation

decisions. In 2000, equities were 30 % of investments, but after the stock market downturn, the proportion dropped to 15 % in 2005. Bonds made up 51 % of investments in 2000 and 56 % in 2005 (IMF 2006).

Switzerland

Swiss occupational pensions (BVG/LPP) have been mandatory since 1985. Wages between CHF 22,575 (the maximum basic pension; see appendix) and CHF 77,440 are compulsorily insured, and coverage beyond this level is optional. Most schemes aim to provide a replacement rate of 60-70 % of previous income for employees with average earnings, including the basic pension. Each pension scheme is administered by a board including representatives of employers and employees.²¹ Second pillar pension assets are substantial: in 2005 there were CHF 545.3 billion stocked away in pension funds. Contributions to occupational schemes in 2005 were 1.5 times that of the public scheme, although expenditures were about equal.²² As in Denmark, investment policies are somewhat conservative, with substantial investment in bonds. In 2003, 31.5 % of assets were in Swiss bonds, 15 % in foreign bonds, 16 % in Swiss equities, and 21.7 % in foreign equities.

The 1985 reform extended and formalized an already extensive system of occupational pension coverage. In many ways, labelling Swiss occupational pensions “private” is a misnomer because of the high degree of compulsion and regulation concerning financing, benefits, and administration. Most occupational pensions in the private sector are organized as *notional defined contribution* (NDC) schemes. This means that participants have an individual notional account into which pension rights (a legally defined minimum percentage of annual salary) are credited.²³ Notional contributions are not the same as actual contributions, however; pension schemes can use a uniform contribution rate for all ages or stick to the age-related contribution schedule.²⁴ Credits to notional accounts range from age-related minimum levels of 7 % to 18 % of gross earnings.²⁵

Swiss federalism contributes to the fragmentation of occupational pension provision. At the end of 2006, there were 2,669 occupational pension providers. The overwhelming majority (2,512) of these pension schemes provide coverage to employees at workplaces with fewer than 1,000 employees; 77.5 % of employees are members of 157 pension schemes contracted by employers with more than 1,000 employees (BFS 2008: 13). Financial supervision is similarly fragmented: the Federal Social Insurance Office supervises pension providers operating nationwide and oversees the financial supervisory authorities in the 26 cantons. In other words, there is both national-level and canton-level supervision.

Like Denmark, there is a minimum rate of return on contributions, but unlike Denmark this applies to all occupational pensions. The minimum interest rate in 2008 is 2.75 %. The federal government sets the minimum interest rate, so the value of an individual's notional account depends on the length of contributions, the level of notional contributions and the minimum interest rate. 40 years of contributions are required for a full occupational pension (39 for women, increasing to 40 in a few years). At retirement, the capital in an individual's notional account is converted to an annuity using a government-mandated gender-neutral conversion rate, currently 7.1.²⁶ This means the notional capital in an individual's account is divided by 7.1 at retirement to determine the annual pension amount. This formula yields the legally-required minimum rate of pension compensation, but employers are free to pay more. Many schemes in the public sector are based on a defined benefit formula, but this is trending toward NDC.

Until a 2003 reform, oversight of pension funds was not very strict. The regulatory framework required parity (unions-employer) representation on pension fund boards, yearly audits and the vague requirement that pension funds be able to meet all obligations. There were no specific provisions for underfunding or the ownership of surpluses. As Bonoli and Häusermann (2007) report, this vagueness contributed to the deficits of many pension funds in the wake of the 2001-2002 stock market downturn. In the boom years before 2001, many private sector pension funds had distributed excess profits to shareholders despite the pension funds' non-profit status. And when investment returns went south, these same pension funds were among those most vociferously lobbying the government for a decrease in the minimum interest rate. The 2003 reform addresses this weakness by clarifying the rules concerning surpluses, underfunding, and the valuation of assets and liabilities.

Netherlands²⁷

The Dutch pension system has attracted much international attention because of its solidaristic structure of risk-pooling within sectors and firms (Clark 2003). More than 90 % of employees participate in the approximately 650 sectoral, company and professional pension schemes. Pension schemes are mostly defined benefit (DB), and until recently most schemes used a final salary benefit formula in which a benefit equal to 70 % of the final wage (including the state pension, the AOW; see appendix) could be accumulated over 35 (or more) years. More than 90 % of employees are still covered by DB schemes, but most plans combine features of DC with DB, because the extent to which the DB promise is met depends on the performance of the pension scheme's investments as well

as the ratio of active members (current employees who pay contributions) to retired members.

As in Denmark and Switzerland, there is strict supervision of pension fund solvency. In the past, the typical approach to maintaining 100 % coverage of liabilities was to adjust the contribution rate, but following the 2000-2001 stock market downturn, many pension funds actually reduced future benefits (see below). About 40 % of assets are invested in equities (33 percentage points of which are foreign) and 38 % in bonds. Bi-partite pension fund boards make investment allocation decisions.

Occupational Pension Retrenchment

One of the great virtues of Dutch, Swiss and Danish second pillar pensions is strict financial supervision. The relevant regulatory agency monitors pension funds and prescribes procedures for restoring balance to underfunded schemes. This encourages relatively prudent investment strategies – assets must be managed outside the firm or employer, and the asset mix should enable the plan sponsor to meet all liabilities. However, even the most prudently-run pension schemes are not immune to the vagaries of asset markets. Indeed, Swiss, Danish and Dutch second pillar pensions have experienced considerable retrenchment since the beginning of the 2000s.

The 2001-2002 stock market downturn had immediate repercussions in Switzerland, Denmark and the Netherlands because of the requirement that all liabilities be fully funded. The regulatory framework in each of the three countries specifies different methods for estimating the value of assets and liabilities and each uses a different definition of minimum full funding. Despite these differences, as well as differences in exposure to the stock market, falling share prices pulled the coverage ratio (the ratio of assets to liabilities) below the required level, and this prompted immediate measures in the Netherlands and Switzerland, both by governments and by pension fund boards. Denmark was less affected. For example, the Swiss government decreased the guaranteed minimum interest rate for DC schemes from 4 % to 3.25 % in 2002, and again in 2005 to 2.5 %. Despite these remedial measures, experts estimated that one in five Swiss pension schemes was underfunded in 2002, for a total deficit of €32 billion. Danish schemes avoided this fate partly because they had already decreased the guaranteed interest rate from 4.5 % to 2.5 % in 1994, and further to 1.5 % in 1999. Moreover, most Danish pension schemes could draw on undistributed profits from previous years to compensate for heavy losses. Another factor that limited

the damage in Denmark was the immaturity of many occupational pension schemes. The level of accumulated pension rights was simply not as high as it was in Switzerland and the Netherlands.

The 2008 financial crisis caused a new round pension fund retrenchment in Denmark and Switzerland. In Denmark there were few outright benefit cuts, but heavy financial losses prompted the Danish Ministry of Economic Affairs and the Danish Insurance Association to negotiate a temporary suspension of short-term solvency calculations in October order to prevent a massive sell-off of pension assets by pension funds trying to restore full funding. Because pension assets and liabilities are valued at market rates, short-term losses have an immediate effect on solvency ratios; the suspension of short-term solvency calculations gives pension funds flexibility in restoring solvency (Valentine 2008). Despite heavy losses, very few pension funds fell below legally required solvency levels; pension funds tapped into their considerable reserves to make up for investment losses as they did in 2001 and 2002.

Swiss occupational pension funds have also absorbed heavy losses in 2008. In 2006, Swiss funds were still in the process of recovering from the heavy losses of the 2001-2002 downturn. At the end of 2006, the combined deficit in occupational pension funds was CHF 17.8 billion, or 7.4 % (BFS 2008: 8). The 2008 financial crisis reversed this positive trend. The experience of the Pictet BVG Index (composed of 75 % bonds and 25 % equities), widely used by pension funds, illustrates this trend: the Pictet BVG Index lost 9.62 % in the first ten months of 2008. In October 2008, the government negotiated a decrease in the minimum interest rate from 2.75 % to 2.0 %, to take effect in 2009 (Ottawa 2008). This decrease must also be viewed in the context of a scheduled decreased in the annuity conversion rate from 7.1 % to 6.8 % starting in 2014.²⁸ The Swiss parliament is currently considering additional reductions in the conversion rate.

Dutch Retrenchment

The Dutch case differs in several ways from Denmark and Switzerland because occupational pension coverage is dominated by defined benefit plans. This section provides more detail about occupational restructuring in the Netherlands in order to highlight the interaction of institutional design and regulatory rules and practices in shaping the restructuring process.

The 2000-2002 stock market downturn prompted substantial cuts in pension benefits, sharp premium increases, and led to a tense renegotiation about the regulations governing the coverage rate of occupational pensions. Since the early 1990s, most Dutch pension

funds had been investing significantly in equities (30-40 % of assets), so when stock prices fell, the pension funds sustained heavy losses. The reserves of many pension funds fell below the required 105 % coverage rate for the first time in 2002. The drastic deterioration of the financial position of many funds prompted the pensions regulator, PVK, to introduce tougher rules governing pension fund solvency. For most funds, restoring solvency meant increasing premiums, suspending pension indexation, or both.

The investment losses sustained by occupational pension schemes are surprising considering that only a few years ago, many funds had such large surpluses that employers and workers enjoyed premium rebates or so-called “premium holidays,” periods during which no contributions were paid. For example, Unilever Corporation enjoyed contribution holidays for 8 years in the 1990s. Pension fund surpluses were sometimes so large that employers could withdraw funds from them. Unilever received more than € 1 billion in rebates between 1991 and 2001 (Van het Kar 2004). The Shell Corporation also enjoyed several years of premium holidays. The premium holiday seems to have been more common among company pension funds, but sectoral pensions funds also profited from buoyant stock market returns in the 1990s. Pension funds used some of the excess profits to lower contributions or finance the restructuring of costly early retirement schemes.

Large pension fund surpluses attracted the attention of pensioners who were not about to stand idly by as pension funds “spent” investment gains on items other than pension payouts. Pensioners claimed that the money (or some of it) belonged to them. Indeed, the Dutch Association of Pensioners’ Organizations (NVOG) announced it would legally challenge Shell and Unilever about their use of pension surpluses, claiming that pensioners should have a share of the profits. Estimates are that about NLG 1.5 billion was returned to firms in 1999 (van het Kaar, 2001). Pension fund surpluses also sparked an upsurge in pensioner organizing: 12 firm-specific pensioner organizations were formed between 1998 and 2000.²⁹

The profit-driven premium holidays came to an abrupt halt in 2001. In 2001, pension funds lost an average of -2.8 % after averaging gains of 10 % per year for a decade. In 2002 in the wake of substantial stock market losses, the social partners and pension funds joined to pressure government to relax rules about the coverage ratio (the ratio between assets and liabilities). The average coverage ratio was 118 % at the end of 2001, down from 139 % in 1999 (table 2).

Two factors exacerbated the effects of the stock market downturn. First, the method for calculating pension fund liabilities (until 2002) yielded optimistic estimates of the coverage ratio. In the 1990s, pension funds were probably also underfunded, but the method for calculating liabilities was based on a discount rate (4 %) that underestimated liabilities. In the context of good investment returns, this meant that funds could lower premiums or even cancel them altogether, and the social partners could use the extra capital to finance benefit improvements. In other words, pension funds underestimated their liabilities at a time when stock markets were booming. This created the illusion of overfunding. A CPB report estimated that the underfunding rate was about 30 % in the early 2000s (Westerhout

Table 2: Average coverage ratios for occupational pension funds 1996-2004, in percent

1996	1997	1998	1999	2000	2001	2002	2003
	126	133	139	132	118	101	104

Source: DNB.

et al., 2004: 14). When interest rates began to fall in the late 1990s, the 4 % discount rate for estimating liabilities was out of line with the market. Since 2002 (see below) the discount rate of return has been replaced by a fair market rate. Moreover, funds had increased their investments in shares to about 50 % so when share prices fell, pension funds were much more exposed to investment risks than in the past.

In September 2002, the pensions regulator (PVK) issued stricter rules for pension fund solvency for the first time ever. The new rules required funds at risk of falling below the 100 % coverage requirement to notify the PVK and draw up a recovery plan for restoring balance within one year. The PVK also raised the coverage requirement to 105 %. At the same time, however, the social partners were pushing in the opposite direction. Instead of tougher solvency rules, unions, employers and pension funds pressed the government for more flexibility for pension funds to restore solvency. In 2002, about one third of funds were in the danger zone. The Association of Company Pension Funds (Opf) and the Association of Industry-wide Pension Funds (VB) immediately criticized the PVK's move, saying that the new requirements were too strict and would have negative macroeconomic effects because pension funds would have to increase contributions, suspend indexing, or both. Employers and unions joined in these objections, but the PVK maintained its strict position. The planned reform of the regulatory framework governing occupational pension funds (Pensioen- en spaarfondsenwet, PSW) provided an opportunity for the pension fund organizations and the social partners to press their case (see below).

The heavy stock market losses in 2001 and 2002 also sparked collective bargaining conflict in 2003 as employers tried to introduce changes into pension schemes to reduce costs and restore solvency. Most schemes adopted a mix of measures to restore solvency: suspended benefit indexation; non-indexation of accrual; contribution increases; and switching to average earnings benefit formulas. At the end of 2002, 60 % of company funds were in danger of underfunding. Unions indicated their willingness to compromise, as long as de-indexation was temporary (Grünell 2003). The experience of the Netherlands' largest pension fund, ABP (for civil servants)³⁰ illustrates the dilemmas faced by most pension funds: the value of assets fell by 7.2 % to € 135.5 billion at the end of 2002. To restore adequate coverage, the bi-partite board of the ABP raised premiums substantially and announced a switch from final salary benefit formula to average career earnings formula starting in 2004.³¹ Pension premiums for the ABP increased from 11.6 % of qualifying income (above the basic pension level) to a peak in 1996 21.4 % in 2005 before falling to 19.2 % in 2007 (table 3; ABP various years).

Table 3: ABP contribution rate 1996-2007

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Contribution rate (employers and employees)	11.6	12.6	13.4	13.4	13.6	11.8	13.6	15.6	19.0	21.4	19.4	19.2

Note: the contribution rate is different from the cost of occupational pension contributions as percent of payroll since the contribution is only paid on the salary above the AOW franchise. Rates exclude early retirement schemes.
Source: ABP, various years.

The measures taken by ABP illustrate a broader trend among pension schemes: the massive shift from final benefit schemes to average salary schemes. Only 10 % of active participants are in final salary plans in 2004, down from 50 % in 2003 and 66 % in 1998. About 75 % now participate in average salary schemes and indexation is overwhelmingly conditional on fund solvency (DNB 2005). As Ponds and van Riel (2007: 6) document, occupational pension premiums (for all pension funds, not just ABP) have increased by 83 % in the period 2000-2005.

To sum up, the stock market downturn of 2001-2002 forced rapid changes in occupational pensions. Pension funds increased premiums drastically, suspended or reduced the indexation of accrued pension rights, and froze or partially indexed pension payouts. Most pension funds followed a strategy of spreading the pain across current workers and current retirees, but it is clear that for many groups of current workers, the shift to average salary schemes is a substantial deterioration in pension provision. This adjustment pattern breaks with previous practice. In the past, pension funds adjusted the contribution rate to fluctuations in liabilities, so current pensioners were largely spared from cost-cutting measures. The 2001-2002 stock market downturn was the first time that pensioners had to share some of the costs of adjustment.

Revision of the PSW

Even before the 2001-2002 stock market downturn, revision of the regulatory framework (PSW) had been lingering for several years on the political back burner. The stock market downturn exposed the weakness of the existing regulatory framework and pushed PSW to the top of the political agenda. Policy-makers focused on two issues: updating rules for calculating the coverage ratio and clarifying the “ownership” of both pension fund deficits and surpluses. The boom years of the 1990s led to conflict about which groups were entitled to pension fund surpluses, and the stock market downturn of 2001/2002 led to conflict about which groups should bear the burden of correcting investment losses. The PSW gave the PVK considerable latitude to determine the rules for solvency, and the PVK quickly made use of this by issuing tough rules for restoring full funding (see previous section). At the same time, reform of the PSW was considered incomplete, and with the change of government in 2002, the initiative rested with the center-right coalition led by the Christian Democrats. What the social partners and pension fund organizations could not get from the pensions regulator (more flexibility for restoring the coverage rate), they now tried to achieve within the reform of the PSW.

The legislative process has been time-consuming. The Social-Economic Council (SER) issued its opinion in May 2001 (SER 2001), and the Christian Democratic-led government introduced the bill to the Second Chamber in March 2002. In November 2004, a draft of the bill was sent to interested parties for comment. Predictably, the pension funds, backed by the social partners, pleaded for more flexible rules governing solvency, but the cabinet (backed by the pensions regulator) stood firm. The pension funds argued that the rule that 105 % coverage be restored within one year was too tough. Coverage rates dropped substantially in 2002 and 2003, and pension funds were still dealing with the negative effects of this. In 1997 the coverage rate was 126 % of liabilities and in 2003 it had fallen to 104 % (DNB 2005).

The new legislation took effect in 2007 and has three goals: to increase transparency; clarify the roles of the social partners, pension fund/insurance company, and pensioners; and to modernize the rules governing pension fund solvency. Pension funds will be required to inform participants about their pension accrual, and issues like what to do in cases of under or overfunding will be clarified. The law also changes how the present value of pension liabilities are calculated. Rather than discounting the liabilities at a fixed rate of 4 %, funds will use a market rate. If interest rates go up, the present value of liabilities decreases.³² The proposal also introduces a ‘minimum test’ and a solvency test in order to get pension funds to increase their buffer funds. The minimum is essentially the coverage rate (the ratio of assets to liabilities plus a minimum capital requirement; 105 %) while the solvency test is a complicated buffer arrangement.³³ These two provisions mean that

pension funds should aim for a funding level of 125 %. If the coverage ratio drops below 125 % (the solvency level), pension funds have 15 years to restore balance; if the coverage ratio drops below 105 %, pension funds have three years to restore balance.

Before the 2001-2002 stock market downturn, the regulatory framework set out in the PSW was somewhat vague on the issue of pension fund solvency. The supervision of the pension funds was not very strict, either (Ponds and van Riel, 2007). To be sure, the PSW required that pension liabilities be funded, but it was silent on the issue of how exactly to calculate assets and liabilities. Pension funds operated using a rule of thumb: liabilities should be calculated using a fixed discount rate of 4 % and 100 % of liabilities should be covered. If the coverage rate was in danger of falling below 100 %, pension funds would raise contributions. This method worked for the postwar period, but the liberalization of financial markets and falling interest rates changed things. Pension funds started to invest more in equities, and interest rates fell below 4 %. When the stock market dropped, pension funds were more exposed to this risk at the same time that their liabilities were underestimated. The new pension law deals with these realities by introducing a fair market valuation of liabilities and requiring pension funds to clarify what their indexation policy is.

The 2008 financial crisis provided the first tough test of the new supervisory framework. By the end of October, the average coverage ratio for pension funds had fallen to 109 %, prompting most pension funds to announce that they would probably have to suspend or decrease the indexation of pension rights and pension pay-outs. ABP, the largest Dutch pension fund, saw its assets decrease by 9.8 % in value between January and September 2008, pulling its coverage rate down from 140 % to 118 % (Henderson 2008). The pensions regulator, the Dutch Central Bank, extended the deadline for pension funds to submit both short-term and long-term recovery plans by six months in order to wait for markets to calm and to give pension funds more flexibility in meeting funding requirements (DNB 2008).

Measuring the Damage

Anyone who studies pension systems and welfare retrenchment knows how difficult it is to measure “retrenchment” in pension generosity. It is similarly difficult to determine the extent to which retrenchment has occurred in occupational pension schemes. As a first cut, I draw on standard definitions of public pension retrenchment to get some idea of which aspects of occupational pension coverage have deteriorated. This is easier to do for a defined benefit scheme than it is for a defined contribution scheme, because in the latter the individual bears more risk anyway. Table 4 summarizes the ways in which occupational

Table 4: Retrenchment in Second Pillar Pensions

	NETHERLANDS	DENMARK	SWITZERLAND
Nominal benefit levels	<ul style="list-style-type: none"> • major shift from final salary DB to average salary DB • shift from DB to DC 	<ul style="list-style-type: none"> • probable decrease in payouts from "collective bonus potential" 	<ul style="list-style-type: none"> • interest rate for individual DC accounts falls from 4% in 2002 to 3.25%; then to 2.5% in 2005. • Increase in mandatory interest rate to 2.75% in 2008. • Decrease in mandatory interest rate to 2.0% in 2009. • Decrease in annuity conversion rate from 7.1% to 6.8% in 2014. • shift from DB to DC
Indexation of pension accrual and pension payouts	<ul style="list-style-type: none"> • now dependent on fund solvency 	<ul style="list-style-type: none"> • not applicable 	see above
Level of contributions	<ul style="list-style-type: none"> • 81% increase in pension contributions 2000-2007 	<ul style="list-style-type: none"> • no change 	<ul style="list-style-type: none"> • data not available

pension coverage has deteriorated in Switzerland, Denmark and the Netherlands. The table does this by examining aspects of benefit generosity and the structure of financing.

The extent of retrenchment in pre-funded second pillar pensions depicted in table 6 is in some ways greater than the cuts enacted in many Western European public pension schemes in the 1990s and 2000s. It is hard to find a public pension reform equivalent to the massive cuts in the Dutch civil servants pension scheme, for example. And it is difficult to think of a public pension reform that cuts future benefits by about 25 % as the recent changes in the Swiss minimum interest rate do.

These very serious and very rapid deteriorations in occupational pension coverage occurred without much public debate in the Netherlands, because the bi-partite pension fund boards that administer pension schemes made decisions about how to restore solvency, and they used the levers they had at their disposal: raising contributions, decreasing future benefits and temporarily suspending indexation. Decreases in the minimum interest rate in Switzerland, in contrast, were the topic of public debate, because

the Federal Council sets the rate.³⁴ The key to understanding the speed and depth of retrenchment, however, is the constraints created by regulatory framework. In both Switzerland and the Netherlands, the supervisory framework left little room for temporary periods of underfunding, so pension funds in the Netherlands and the Federal Council in Switzerland adopted difficult measures to restore solvency quickly.

Discussion and Conclusion

The literature on welfare state retrenchment in general and pension reform in particular has focused almost overwhelmingly on the distributional politics associated with reforming public systems of social provision (Pierson 1994). This paper takes a different approach by analyzing the regulatory politics of occupational pension retrenchment (cf. Trampusch 2006). The central argument advanced here is that the institutional structure of occupational pensions (the regulatory framework and benefit design) shapes the responses of occupational pension providers to financial market fluctuations, especially the distribution of gains and losses from market performance. Several conclusions merit discussion.

First, there has been considerable retrenchment in occupational pension provision in Switzerland and the Netherlands, but not in Denmark. These differences are not solely attributable to the immaturity of the Danish system compared to the Swiss and Dutch systems. Regulatory uncertainty about the ownership of surpluses in Switzerland and the Netherlands in the 1990s created incentives for some pension plan sponsors (employers in the Netherlands and life insurers in Switzerland) to pocket excess investment returns rather than re-invest them. This option was simply not available in Denmark. Thus Danish pension providers had larger financial reserves with which to respond to both the 2000-2001 and 2008 downturns than Swiss and Dutch pension providers did.

Second, the process of adjustment in all three countries has been a fairly high visibility process. To be sure, occupational pensions negotiated as part of collective wage agreements have fewer direct spillovers into electoral politics than public pensions, but they are by no means a matter of apolitical regulation. The issues at stake are different, many of the actors are different, but the decision-making process is still marked by high levels of political conflict. This conclusion is at odds with Hacker's claim that the politics of private social policy is a low visibility, low conflict process. The Swiss parliament, for example, was prompted into legislative action repeatedly in the 2000s in order to decrease the guaranteed interest rate for Swiss occupational pensions. The stock market losses of Dutch pension funds also led to legislative action by helping to speed up a reform process already under

way: the reform of the regulatory framework for occupational pensions. This process was marked by bitter conflict between the pensions regulator, social partners and the pension funds.

Third, the analysis presented here supports the claim that the logic of change in private social policy is different from that of public social policies because the institutional arena is different (Hacker 2002; Anderson 2002). Whereas public pensions are negotiated in the parliamentary and electoral arena, occupational pensions are negotiated in labour market institutions. Rather than voters blaming politicians for pension losses, conflict is played out in the pension fund boards administered by unions and employers, and between the pension funds and the pensions regulator. The regulatory framework governing occupational pensions structures this conflict because it determines which actors are empowered to make decisions about the level of benefits and contributions; the rules concerning the investment of pension assets; the definition of “full funding”; and the rules governing how public and private pensions are integrated.

The ways in which policy-makers resolve the dilemmas associated with regulating occupational pensions has important implications for the quality of pension provision and the performance of the macroeconomy. As governments across Western Europe expand occupational pensions as a way out of the public pensions “crisis”, these regulatory dilemmas will grow in importance. The Dutch case especially, and to a lesser extent the Swiss case, suggest that even the much-praised multipillar model is prone to predictable weaknesses, and these weaknesses are directly linked to core features of Dutch and Swiss occupational pension system. Multipillar systems can take many different forms, and the specific Dutch and Swiss variants proved to be vulnerable to stock market swings. The recent round of regulatory reform in the Netherlands appears to have largely addressed these problems. However, the most far-reaching changes in the structure of Dutch occupational pension provision, the massive switch from final salary to average earnings benefit formulas and substantial increases in contributions, took place without much public debate. This is a direct consequence of the regulatory framework, and the recent reform of the PSW does not change this. In contrast, some aspects of the deteriorations in the level of Swiss occupational pensions were publicly debated and decided in Parliament, largely because there is a legislated guaranteed interest rate.

Danish occupational pensions seem to have weathered the stock market storm with little damage. The structure of occupational provision in Denmark (facilitated by the regulatory framework) provides a level of flexibility in responding to financial market turbulence that the Dutch and Swiss systems did not offer. The modified DC construction of Danish pensions means pension schemes build up a financial buffer that can be used to award bonuses to members or to help weather financial turbulence. To put it another way, Danish schemes make few promises about future benefits but their collective structure takes much of the individual risk out of DC pensions. In contrast, the DB structure of Dutch pensions and the incentives created by the regulatory framework were a recipe for pro-cyclical effects. In an upswing, pension funds made higher profits and rewarded contributors with

lower contributions, contributing to overheating of the economy. In a downturn, falling financial returns sometimes forced drastic increases in contributions (see table 3 again) and benefit deteriorations.

The analysis presented in this paper suggests two implications for further research concerning occupational welfare. First, this paper has only touched on a few of the many potential ways that the structure of occupational pension provision produces political processes and outcomes distinct from those generated by public social policy programs. Perhaps the most important feature of institutional design in the three countries analyzed here is the *collective* nature of occupational provision. Hacker's study of the United States is probably the most thorough analysis to date of the political dynamics of "private welfare" but the US is in many ways an exception (compared to Europe) because private social policy is much less collectively organized than in Europe. The collective v. individual nature of private provision will no doubt have consequences for the types of political outcomes and processes associated with private social policy. Second, scholars of the welfare state need to heed Hacker's second major claim: public and private social policies interact. This insight has deep intellectual roots, but the retrenchment literature – largely because of its focus on electoral politics – has pushed mainly in the public direction, to the neglect of private social policy. Given recent innovations in the study of long-term processes of institutional change (Streeck and Thelen 2005, for example) studying the interplay of public and private social policies should take on new theoretical importance.

Notes

- ¹ Swiss occupational pensions are compulsory for all workers whereas collective bargaining institutions in the Netherlands and Denmark ensure that occupational coverage is about 90 % in both countries.
- ² The term is Hacker's (2002).
- ³ See the seminal work of Lowi (1964) and Wilson (1973).
- ⁴ Tax expenditures display features of both regulatory and distributive policy. Certainly tax breaks for occupational pension provision have redistributive effects, but their chief purpose is to encourage private actors to engage in specific behaviors, thus they are important elements in regulatory policies.
- ⁵ See also Anderson (2007).
- ⁶ See Davis (1995) for a detailed discussion.
- ⁷ Autonomous pension funds are those which hold assets outside the firm. Non-autonomous pension funds hold assets within the firm, usually as book reserves. The latter is common in Germany. See Davis (n.d.) for a discussion of the technical issues.
- ⁸ In the EU, a series of life insurance directives apply.
- ⁹ There are two ways to underwrite pension benefits: the sponsor (employer) may do it or a pension fund (separate from the employer) may do it. In the EU, pension funds (those not underwritten by the employer) providing cover for biometric risks and/or that guarantee minimum investment returns or benefits must hold additional assets to cover these promises. See the Occupational Pension Fund Directive, Directive 2003/41 EC from 3 June 2003.
- ¹⁰ The Occupational Pension Fund Directive adopted by the EU in 2003 gives pension funds (IORPs, Institutions for Occupational Retirement Provision) the freedom to operate cross-border, something that other financial institutions already could do. The directive includes regulations concerning investment mix, financial oversight, and the minimum definition of full funding. Book reserve schemes were excluded from the directive.
- ¹¹ For example the requirement that pension assets be held outside the firm.
- ¹² See Clark (2003) for an excellent discussion of pension regulation.
- ¹³ Obviously there are variations within each broad category.
- ¹⁴ In 1997 about 20 % of pension assets were managed by life insurance companies. See Queisser and Vittas (2000: 9).
- ¹⁵ See the country chapters in Immergut, Anderson and Schulze, eds. (2007) for more detail.
- ¹⁶ The ATP is a public scheme introduced in 1964 that provides a flat rate benefit based on previous hours worked rather than income. Only wage earners pay contributions; despite the small size of this program, accumulated assets equal more than 19 % of GDP.
- ¹⁷ Union leaders' reasoning seems to have been based on the fact that defined benefit schemes require investment strategies geared toward steady and reliable income. In a collectively organized defined contribution scheme, the absence of a specific pension promise means that investment strategy is less constrained, and investment strategy need not be driven solely by the obligation to generate steady income.
- ¹⁸ Company pension schemes fall under different regulations, but these are similar to those that apply to life insurance companies.
- ¹⁹ Based on the example of a manual worker in the LO-DA wage agreements with a pension contribution of 10.8 % of wages. The calculation takes taxes and benefits into account as well as lower commuting costs.
- ²⁰ This surplus legally belongs to pension scheme members and must be distributed to them.
- ²¹ See Bonoli (2007) for more details.
- ²² All data is from www.bsv.admin.ch.
- ²³ A notional account is a bookkeeping device used to calculate pension rights. Employers and employees pay actual contributions into occupational pension schemes, but this stream of actual contributions does not determine pension rights; notional contributions do. Swiss law determines the minimum level of notional contributions; pension schemes are free to exceed these levels.
- ²⁴ Bonoli and Häusermann (2008: 18, fn 10) report that in 1996 36 % of contributors were subject to uniform contributions and 58 % to age-related contributions.

- ²⁵ The law requires age-related minimum credits to notional accounts (from 7-18 %, increasing with age), but pension schemes have considerable flexibility in setting actual contributions. Schemes may charge a uniform contribution, for example. See Bonoli (2007: 221).
- ²⁶ The original conversion rate in 1985 was 7.2.
- ²⁷ This section is based on Haverland (2003); van Riel et al. (2003) and Anderson (2007).
- ²⁸ The legislation was passed in 2003.
- ²⁹ As noted, only unions and employers are represented on pension fund boards, although nothing prevents a retired worker from occupying one of the union slots. Pensioners had long pushed for representation on the boards of the pension schemes, backed by D66, the Social Liberal Party. The social partners agreed to increase pension representation on the boards, but there has been little progress.
- ³⁰ The ABP is one of the largest pension funds in the world with € 215 billion in assets in mid 2007 (www.abp.nl).
- ³¹ The switch is not retroactive. Pension rights accumulated under the old regime retain their value.
- ³² The solvency test and minimum funding test are part of the “Financial Assessment Framework” (Financiële Toetsingkader, FTK) that is embedded in the new pension legislation.
- ³³ The solvency test is a way of assessing whether pension funds can withstand financial shocks and remain at 105 % coverage after one year of market movements. There should be more than 97.5 % probability that a fund can meet all its obligations in one year (using a standard risk model).
- ³⁴ The BVG Commission advises the government. The BVG is composed of representatives from unions, employers and pension funds.

Appendix

Table 1: Characteristics of Basic Pension Schemes in the Netherlands, Switzerland and Denmark

	Gross benefit per month (2007)	Pension in relation to average wages	Basic pension financing (2007)	Residence requirement	Extent of funding
Netherlands <i>(Algemene ouderdomswet, AOW)</i>	<ul style="list-style-type: none"> • single: €1,010 • couple: €1,384 	31% of average gross wages	<ul style="list-style-type: none"> • employee contributions 17.9% of earnings between €13,160 and €29,543 • government subsidy if necessary 	50 years of residence between age 15 and 65; 2% benefit reduction for each missing year	AOW savings fund €31 billion (end 2007)
Switzerland <i>(AHV/AVS)</i>	CHF 1105 (€670) – CHF 2210 (€1340) per month in 2007	20-40% of average gross wages	<ul style="list-style-type: none"> • 4.2% employer • 4.2% employee • flat rate contributions for those not employed • no ceiling • government subsidy 20% 	contributions every year from age 21; proportional reduction for missing years	reserve fund equal to one year of benefit payments
Denmark <i>(folkepension)</i>	<ul style="list-style-type: none"> • basic amount: DKK 4952* (€664) • supplement: DKK4985** (€670) for singles, DKK 2328 (€312) each for couples 	35% of average gross wages	general revenues	40 years of residence between 15 and 65	none

* Reduced if non-pension income above DKK 252,400 (€33,889).

** Reduced if income more than DKK 55,700 (€7,478) ; no basic pension for those with incomes over DKK 450,400 (€60,473).

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