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Multipillarisation remodelled: the role of interest organizations in British and German pension reforms

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ABSTRACT
Recent reforms have responded to demographic ageing and fiscal challenges by shifting toward the multipillarisation of pensions to achieve financial sustainability. Reforms towards privatization and marketization of retirement income provision occurred in Britain and Germany with different pension system legacies. While public opinion supports largely the status quo, the stakeholders, in particular, organized capital and labour, have evolved in their positions towards pension reforms. The analysis seeks to draw out how organized interests have sought to influence mulitipillarisation but also adapted their strategies in the context of increasing financialisation in the two political economies. The position of trade unions, employers' associations, social advocacy groups and the finance sector has increasingly embraced multipillarisation, earlier and more so in Britain than in Germany. A reversal of pension financialisation seems no longer possible but the inequalities and uncertainties need to be addressed in order to make multipillarisation politically sustainable.

KEYWORDS Interest groups; financialisation; marketization; pension reform; privatization

Introduction

A large part of today's welfare state is tied to income support for the elderly; this poses a considerable challenge to public finance in the age of austerity. In particular, demographic ageing has become the dominant rationale for governments to scale back public old-age benefits and fostering prefunded pensions. Public policy has aimed to achieve long-term financial sustainability through a paradigmatic shift towards a multipillar architecture. Over the last three decades, pension reforms advanced the twin processes of privatization and marketization of old age income protection across Europe (Ebbinghaus 2015). While privatization led to a shift in responsibility from government to private actors (in particular, employers, unions, and individuals), marketization implied a stronger actuarial link of public pensions to contributions and increased dependency from private savings.

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This 'paradigm shift' (Hall 1993) toward multipillarisation has been partially driven by financial interests outside the pension policy community, while burgeoning pension fund capitalism further stimulated the role of finance. Financialisation (van der Zwan 2014), the penetration of financial interests within societies, can be seen as both an engine but also a beneficiary of multipillarisation. The recent financial market crash of 2008, however, has probed the viability of this funded strategy given low investment returns and high risks, leading to renewed criticism of financialisation (Ebbinghaus 2015). It is thus timely to ask: Why has there been a paradigm shift towards multipillarisation and which societal interests does it serve?

Comparing two case studies this article explores the role of organized interests in hampering or advancing marketization and privatization towards multipillarisation in two different pension systems: Britain and Germany. By adopting a most dissimilar country design which looks at the factors leading towards a similar outcome (financialisation), this study analyses Beveridgean basic security versus Bismarckian social insurance (Meyer 2013; Natali 2008; Palier and Bonoli 1995). Based on empirical studies (Ebbinghaus 2011; Leisering 2011) the subsequent analysis summarizes the paradigmatic changes in pension reforms towards marketization and privatization in both countries, connecting these to the interests of stakeholder groups in respect to financialisation.

Following Beveridge's post-war reforms, Britain adopted a basic pension that left ample space for private development. A multipillar architecture has been built early through 'opt-out' of employer-provided occupational pension funds and personal pensions. Despite a rather liberal strategy, the role of the state as a regulator of financialisation and promotor via tax exemptions remains important (Leisering 2011). Poverty problems, uneven access to supplementary pensions, and insecurities of funded pensions have led to major changes that increased public pensions and widened the coverage of funded pensions over the last decade (Meyer and Bridgen 2018; Whiteside 2017). Thus, this Liberal multipillar model became recently rebalanced to address social sustainability issues in respect to access and adequacy in order to maintain it.

In contrast, Germany's Bismarckian pension system has been lagging behind in multipillarism due to compulsory earnings-related public pensions. Only after financial pressure mounted following population ageing, early retirement waves, and unification costs (integrating East German pensions since 1990) did a paradigm shift towards privatization and marketization occur in the 2000s. While public benefits were cut back and retirement age increased, private prefunded pensions have been promoted as a voluntary strategy to fill the income gap left by reduced public pensions. In addition, occupational pensions have been renewed and social partners' role expanded, though these are not necessarily prefunded (Wiß 2018). Germany's

conservative welfare state thus embraced multipillarisation belatedly, quite in line with late financialisation (Röper 2018), while still maintaining some corporatist elements.

This uneven convergence towards multipillarism needs further explanation: How have organized interests positioned themselves towards these reforms? My binary comparison focuses on the changing position of interest organizations in pension reforms in Britain and Germany. First, this article discusses the analytical approaches to study pension reforms and the agents of change. This is followed by describing the paradigm shift as the twin processes of marketization and privatization, their reinforcing relationship to financialisation, and the potential effect on risk individualization. The analysis then reviews the differences in interest organizations in overcoming the status quo. Based on a comparative project on popular opinion and the stakeholder interests in Britain and Germany (Ebbinghaus and Naumann 2018a, 2018b; Klitzke 2017, 2018), this article reviews the pension reform dynamics over the last three decades for both countries. In Britain, a rebalancing of the Beveridge multipillar model led to improved public minimum income and an expansion of supplementary pensions, but still fosters an individualization of risks. In Germany, a belated paradigm shift from Bismarckian public pensions aimed at status maintenance to remodel multipillarism occurred, combining voluntarist and collective elements. The conclusion highlights the converging trends toward multipillarisation as engine and result of financialisation. It highlights renewed diversity between the two pension systems but also stakeholder's positioning, discussing also potential implications for the future.

The political economy of multipillarisation

Pension reforms have been analysed from different disciplinary lenses. Economists have focused on demographic ageing as a rationale for an inevitable shift from pay-as-you-go (PAYG) to prefunded pensions in order to achieve long-term financial sustainability (Grech 2013; World Bank 1994). However, the slow actual progress was attributed by political economists and demographers to the status quo oriented ageing electorate (Boeri et al. 2002; Sanderson and Scherbov 2007). Political scientists claimed path dependent feedback (Pierson 1996, 2001) that made radical reforms difficult, not least due to 'blame avoidance' (Weaver 1986) by office-seeking politicians afraid of electoral backlash. Quantitative studies show indeed less severe reforms in pensions than other social policy areas across Europe (Zohlnhöfer et al. 2013). Social policy researchers studied social consequences such as the individualization of risks and raising old age inequalities (Meyer et al. 2007). Moreover, more critical voices pointed at the increasing trend toward financialisation (Berry 2016; Dixon and Ville-Pekka 2009), while increased privatization led

to calls for better governance and regulation (Ebbinghaus and Wiß 2011; Leisering 2011).

The paradigm shift toward multipillarisation seems to provide a puzzle given these claims of path dependency. While scholars initially focused on 'veto points' provided by political institutions (Bonoli 2000) to explain cross-national differences in reforms, newer research focused on the electoral competition between political parties (Immergut and Anderson 2007; Immergut and Abou-Chadi 2014). Although the initial path dependence thesis by Pierson (2001) assumed positive returns of past policies, more recently policy analysts pointed at 'negative feedbacks' that induce path departure (Weaver 2010). Actual policy changes show 'anomalies' of the blame avoidance assumption, while the image of 'responsible government capable of taking tough decisions when needed' speaks for 'credit claiming' (Bonoli 2012: 107). Changing public discourse towards a 'need' for a prefunded strategy in ageing societies has been advanced by political actors and economic interests (Leimgruber 2012). Nevertheless, public opinion remains more inclined to prefer the status quo, and is only slowly embracing the reform discourse, such as seeing the state to be less responsible for old age income provision (Ebbinghaus and Naumann 2018b).

In addition to the political factors already mentioned, organized interests have also attempted to influence public policy making as they have a material interest in reform outcomes. Nevertheless, the role of these stakeholders remains more contested between those claiming their importance and those that see them having lost in power (Grady 2013; Pierson 1996). From a power resource perspective (Korpi 1983) we would expect organized interests to advance antagonistic positions based on the capital-labour conflict, though this is dependent on their power and institutional resources. Pension reforms affect the interests of both capital and labour: the marketization shift from PAYG to prefunded pensions, the increase of retirement age, and the retrenchment of benefits have been of major concerns for organized interests. However, there are variations across time and countries in the position and power of unions, employers and other stakeholder interests worth exploring (Grødem et al. 2018; Wiß 2015b).

Organized labour, in particular, unions and also social advocacy groups for pensioners, are expected to defend the status quo of acquired social rights against any retrenchment (Korpi 1983). They should also be more critical about shifts towards private responsibilities without sufficient state regulation or power to negotiate collective solutions (Ebbinghaus and Wiß 2011). If trade unions have enough bargaining power they may pursue occupational pensions as 'second best' strategy (Mares 2003), seeing it as an opportunity to provide services to their waning membership (Keune 2018). For such unions, the 'collectivization of risks' (Johnston et al. 2012) would counter

the individualization risk typical of prefunded pensions, for instance, by pooling some risks within a collective scheme.

Today's organized labour, however, seems no longer as class-oriented as implied by power resource theory. Following particularistic strategies, unions might represent only 'insider' interests, while increased dualization, by protecting largely outsiders, reinforces these social inequalities (Naczyk and Seeleib-Kaiser 2015; Seeleib-Kaiser et al. 2012). Some unions representing white-collar or more skilled workers have cooperated with business in order to expand occupational pensions that maintain their status (Naczyk 2013; Wiß 2015a). Post-industrial analyses see unions no longer capable of class solidarity as they face heterogeneous social groups with divergent interests (Armingeon and Bonoli 2006; Häusermann 2010). This thesis would lead us to expect that unions might differ in respect to privatization and marketization of pension provision, some being more inclined to accept inequality and financial risks implied by financialisation than others.

Political economy approaches expect organized capital, both employer associations and the finance sector, to have a material stake in reducing state responsibility and public expenditure as first-order preference (Mares 2003). While employers might prefer their own occupational pensions to attract and retain skilled workers, the finance sector is keen to provide investment management services to occupational pensions or sell individualized saving plans (Naczyk 2013; Natali 2018). Occupational schemes provide an opportunity for outsourcing financial management to banks or investment agencies, while insurances are keen to sell individual or group contracts. Hence it depends on the power balance between organized capital and labour as well as their internal interest differentiation which path emerges. It thus is an empirical question: how do these stakeholders position themselves towards pension reforms?

Decomposing the paradigm shift

In order to assess the paradigm change in both countries, we need to define the main thrust of systemic ('third order') change (Hall 1993). In social policy research, the dependent variable problem is seen as the difficulty to specify welfare state restructuring (Clasen and Siegel 2007). This holds particularly for pension reforms that are rather complex policy changes with long-term impact. Following previous comparative studies (Ebbinghaus 2011; Leisering 2011) we can conclude that pension reforms have led to a paradigm shift toward multipillarisation much earlier in Britain than in Germany. The basic questions to answer here are: how are benefits financed and who is responsible for retirement income? I will argue that these reforms involve the twin processes, the *marketization* of retirement income and the *privatization* of pension responsibility: the 'retreat' of the state through cutting public

benefits should be compensated by increased private actor responsibility and prefunding for the future. Both reform thrusts facilitate but also are fostered by *financialisation* in these societies; together they imply also an augmented *individualization* of risks. These four concepts need to be distinguished, though they are partially connected.

Marketization fosters market-based incentives and mechanisms in public policy and beyond (Dixon and Hyde 2002). Increasing the link between pension benefits and paid contributions makes public schemes more commodified even if this may not entail prefunding. The shift from PAYG financing to prefunded pensions entails also marketization, it fosters financialisation through the direct or indirect investment of contributions for future benefits. The introduction of demographic factors or notional defined contributions in public pensions mimics actuarial mechanisms within PAYG systems. We would thus expect the finance sector to have a direct interest in introducing marketization to raise demand for financial services.

Privatization is often an engine in advancing marketization; it entails a shift toward the reallocation of responsibility from the public pillar to non-state actors, including employers and their organizations, unions or works councils as well as individuals (Ebbinghaus and Wiß 2011). Occupational pensions, known as the second pillar, are commonly run by (groups of) employers, while some are collectively negotiated between unions and employers. The third pillar subsumes personal pensions, such as individual savings or insurance contracts for retirement. Although privatization leads to a (partial) 'retreat' of the state from public spending, there might still be regulatory intervention and indirect tax expenditures (Leisering 2011). Moreover, there are important governance issues in respect to resolving the principal-agent conflict between the sponsor and investing agent in addition to the labour-capital conflict between the employer as (co)sponsor and the employee as beneficiary (Ebbinghaus and Wiß 2011). While we expect that employers together with financial services favour privatization, unions may adopt this as their second-best option when expecting opportunities to negotiate occupational pensions (Keune 2018).

Analytically, *financialisation* is a broad political economy concept reaching beyond pensions; it has been defined by van der Zwan's (2014: 101) as 'the web of interrelated processes – economic, political, social, technological, cultural, etc. – through which finance has extended its influence beyond the marketplace and into other realms of social life'. Finance-oriented principles thus encroach into non-market spheres, such as social protection for the elderly, while finance-related agents seek to influence pension policies to promote their products. Historically, it has been shown that the shift toward prefunded pensions makes these more dependent on financial interests (Leimgruber 2012). A study of the finance sector indicates also internal differences between banking, insurance, and investment interests in shaping policy

debates on British and German pension reforms (Pieper 2018). Whether and how employers' interests align with finance interests is thus an empirical question.

A social consequence of these reforms is the *individualization* of retirement income risks with societal implications in respect to poverty and inequality. Marketization increases the dependency of retirement income from previous labour market attachments and capability to contribute to public and private pensions, thereby reproducing market inequalities and increasing poverty in old age (Hinrichs and Jessoula 2012). Moreover, privatization limits the possibilities for pooling and compensating social risks (for instance, for years of unemployment or unpaid child caring). Some negotiated occupational schemes between employers and unions might redistribute collectively, while this cannot be the case in personal pensions except through public subsidies (Ebbinghaus and Wiß 2011). Financialisation, particularly when pensions are funded via *defined contribution* (DC) schemes entail an individualization of financial risks (Casey 2012). Given these social implications, unions and social advocacy groups should be most concerned about the likely negative impact of financialisation, marketization and privatization on society, whereas employers and finance interests are more likely to favour financialisation over social concerns.

Overcoming the status quo

Following the path dependency thesis (Pierson 2000), we expect that the institutional settings of the pension systems shape public opinion. In particular, the basic differences between Beveridgean and Bismarckian systems remains strongly institutionalized: two thirds of British respondents (European Social Survey, ESS 2008cit. in Ebbinghaus and Naumann 2018a) are in favour of their public basic flat-rate system by agreeing to the statement that low earners should get the same (or higher) pension than top earners, while two thirds of German respondents endorse the equivalence principle of pension benefits reflecting past income differences enshrined in the social insurance logic (Ebbinghaus and Naumann 2018a, 116). Given that older people (aged 60 and older) tend to vote more frequently in elections than non-elderly voters (1.4 times more in Britain and 1.1 in Germany), the elderly are a pivotal voting bloc in Britain (42%) and Germany (35% of votes actually cast according to ESS 2012; see Ebbinghaus 2017: 214). In light of this 'grey clout' the scope for radical reforms seems rather limited, though pension reforms occurred in both countries despite status quo oriented public opinion. Therefore it is important to investigate whether it is the changing power of organized interests and their evolved strategies in influencing pension policy that matters. Based on interviews (Klitzke 2017, 2018) with agents from the key stakeholders, including unions,

social advocacy groups but also employer and finance interests, the following overall patterns of interest constellations can be derived.[1]

Organized labour has faced considerable challenges in both countries, following membership decline and organizational concentration (Ebbinghaus 2017). Around 6 million British employees are today union members or less than a quarter of all employees, but still more than every second public sector worker. British unions are largely organized within the Trades Union Congress (TUC), though membership dropped by half from its peak of 13 million in 1979 when the anti-union Thatcher government came into office. It is a rather fragmented movement in which general and multisector unions coexist with small occupational ones across all sectors. In Germany, the German counterpart (*Deutscher Gewerkschaftsbund*, DGB) has also about 6 million members, having lost more than 3 million since German unification in 1990. Only every fifth employee is organized, though some key industries and the public sector are better organized, while collective bargaining is relatively well institutionalized. The German unions are more neatly organized along sectoral lines, though in the public sector the large united service union (*Vereinte Dienstleistungsgewerkschaft*, ver.di) within DGB competes with the rival civil servant federation (*Deutscher Beamtenbund*, dbb).

As *social advocacy* groups, Britain's National Pensioners' Convention (NPC) or several German welfare organizations with different political or religious background should be noted, though fragmentation among these German social advocacy groups limits finding a common voice for pensioners' interests. In addition, public pension administration such as the National Employment Savings Trust (NEST), set up in 2008 in Britain and the tripartite German social pension insurance (*Deutsche Rentenversicherung*, DRV) in which employees and pensioners vote for representatives in social elections, provide more neutral and informed positions within the pension policy network (Klitzke 2017).

On the side of *organized capital*, the peak employer associations and business clubs in Britain (Confederation of British Industry, CBI, and the Institute of Directors) and German employers (*Bundesverband der deutschen Arbeitgeber*, BDA), industrialists, and handicraft and commerce chambers are important counterparts to unions (Klitzke 2018). In Britain, the employers played already an important role in shaping the reforms of the 1980s given their material interests in occupational pensions, thus they prevented an abolishment of earnings-related state pensions as initially planned by Thatcher (Bonoli 2000). Notably in Germany, the industrialists' club (*Bundesverband Deutscher Industrie*, BDI) has become more critical of public spending since the 1990s, while the employer association (BDA) remained more conciliatory on pension reforms. Britain's Pensions and Lifetime Savings Association (PSLA) and German occupational pension association (*Arbeitsgemeinschaft für betriebliche Altersversorgung*, Aba) organize the interests of employers as sponsors

of these schemes, providing expertise but also lobbying within the policy network. For the finance sector, the Association of British Insurers (ABI) and its German counterpart (*Gesamtverband der Deutschen Versicherungswirtschaft*, GDV) are not necessarily always aligned with those of investment firms ('the City') or German general banks and investment interests (*Bundesverband Investment & Asset Management*, BVI), nor do these finance interests always concur with employer and producers' interests (Naczyk 2013; Wiß 2011). Occupational pensions are significant to employers given their human resource strategy of attracting and retaining skilled workers, whereas the finance sector has a commercial interest in promoting prefunded schemes.

One common threat of marketization in response to demographic ageing has been the increase in retirement age in both countries (Hering 2012). The policy positions of organized interests are relatively similar (Klitzke 2018: 37): British and German employers' associations embrace increasing retirement age as their key demand (finance also favours it but sees it as less salient), whereas British and German unions and advocacy groups largely oppose it. There are some differences across unions: British TUC and German DGB take a more stringent policy position than some of its more moderate affiliates (British Unite, German chemical workers union), however, German union representatives identify the issue as more salient than their British counterparts (Klitzke 2018: 38). While in respect to retirement age, the alignment of positions follows our *a priori* expectations, the patterns are more complex in respect to other reform aspects.

The scope and impact of private pensions still differ across both countries. Coverage of occupational pensions among older workers (50 and older) has been around two-thirds in Britain and one third in Germany (Pavolini and Seeleib-Kaiser 2018: 481), and twice as many British retirees rely on private pensions for about double as large a share of their overall pension income compared to Germany (Ebbinghaus 2011: 412/415). Britain has a more advanced pension fund capitalism compared to Germany's reliance on occupational pensions often financed by book reserves (Jackson and Vitols 2001). British organized interests embraced these liberal reforms earlier and more widely than their German counterparts, particularly given the opposition of unions and advocacy groups (Klitzke 2018). As to organized capital, British and German employers both favour advancing occupational pensions. Yet German employers are more eager to limit public pensions given their social contributions taxing labour costs, while British employers are more inclined to protect the basic pension as a minimum floor while limiting their own liabilities (Meyer and Bridgen 2018). As to the finance sector, British pension fund capitalism has provided more opportunities, whereas German banking and insurance interests turned to prefunded pensions only after financial liberalization reforms (Pieper 2018). The analysis of stakeholders

thus indicates substantial differences in interests but also cross-national variations in timing and scope that will be explored next.

Rebalancing multipillarism in Britain

The British post-war development of occupational pensions was aided by the opt-out of the second state pension since 1978 and a similar provision for personal funded pensions since 1986. The latter reform occurred when British unions were under considerable attack and lost membership, whereas employers accepted an opt-out for personal DC pensions since their occupational funds were unaffected (Bonoli 2000). After an initial rise in DC contracts, covering every fourth adult, numbers declined after the first decade. Occupational pensions still covered about every second employee (about 40% in private), while assets grew to two-thirds of GDP by the 1990s. Following the Maxwell scandal, pension funds were sterner regulated by the Conservatives in 1995, this was largely accepted by business since it provided an equal playing field. Changes in accounting standards (including European Union regulation in 2005) and equity markets put increased pressure on British firms to limit their pension liabilities. Eventually, this led to a shift from *defined benefits* (DB) toward *defined contribution* (DC) schemes, entailing an individualization of risks (Bridgen and Meyer 2005; Whiteside 2017).

As the private pension pillars have been advanced early in Britain, unions had to adopt their strategies, while employers and finance interests played a dominant role in pension reforms. British unions faced neoliberal reforms not only under Conservatives in the 1980s but also subsequently under New Labour (Grady 2013). Pension fund capitalism became an important feature of pension provision, yet also a risk for current and future retirees. Already after the 2000 downturn, the 2004 Pension Act established a Pension Protection Fund (PPF) and increased regulation but lowered the nominal inflation rate for occupational pensions as compensation. Nevertheless, organized capital (CBI, PLSA, and investment interests) remained critical but they were unable to muster enough power, while the Labour government facing public protest of those affected by bankruptcy set up a compensation fund (Piper 2018: 127). With the financial market crash of 2008, PPF premiums increased rapidly as some DB pension funds defaulted on their liabilities.

Despite its early multipillarisation, only every second British employee was covered by occupational pensions due to declining or low rates in manufacturing and private services by the 2008 financial market crash (Bridgen and Meyer 2011: 274–5). In addition to a decline in occupational pension access, more and more companies shifted from DB to DC pensions by closing old schemes for new entrants due to concerns over increasing liabilities and PPF premiums (Bridgen and Meyer 2005; Whiteside 2017). Public sectors such as administration, health, and education still have high coverage rates

(84% in 2007), remaining the last bastions of DB plans defended by strong unions. For example, most recently (in spring 2018), the British university employees went on strike against the abolition of DB plans by the university supplementary scheme thought to be running considerable liabilities.

As a third pillar, the personal pension introduced with the 1986 'big bang' liberalization of the financial market under Thatcher boosted financialisation. From initially 4 million contracts it became very popular until it reached its peak around 17 million in 1992 (Pieper 2018: 42). After misselling scandals personal pensions stagnated, declining from over 9 million before 2007 by 4 million after the crash within five years (Pieper 2018: A1.1). Together with the problems of coverage among small firms, these developments threatened to leave many British employees with nothing but a meagre basic pension. The Turner commission (led by the former CBI leader) proposed in its reports (2004/5) to increase the basic pension (in lieu of the means-tested supplement), phasing out the second state pension and abolishing contracting out and extending workplace pensions.

Under New Labour, following a 'nudging' strategy advanced by behavioural economics (Thaler and Sunstein 2009), the Pension Act 2008 introduced auto-enrolment for contributions (minimum 8%) by rolling it out from larger to smaller firms by 2016. Thus employees not covered by occupational pensions would be automatically enrolled into a DC plan at their workplace (every three years unless individuals decide otherwise). Auto-enrolment indeed reversed the trend: coverage increased by 5 million largely due to new members in the private sector. By 2016, the majority of 15 million working people have DC occupational plans (51%), a minority still profits from DB pensions (16%) and around a third are auto-enrolled in DC workplace plans (Pensions Regulator 2016). However, the abolishment of a life annuity requirement upon retirement by the Conservative-Liberal coalition in 2015 intensified the individualization of financial market hazards and longevity risks for the sake of 'freedom and choice' in line with financialisation (Natali 2018: 458).

At the same time, New Labour also enacted a striking proposal to improve the basic state pension, which both the subsequent Coalition and Conservative governments maintained (Meyer and Bridgen 2018; Whiteside 2017). Unions and social advocacy groups were largely supportive of more state intervention in line with their members and public attitudes at large. The more striking fact was that British employers and finance organizations were in favour of an improved state basic pension quite in contrast to a priori expectations. Apparently, British employers and pension providers saw the flat-rate public pension as insufficient; indeed a higher minimum would help supplementary pensions topping up to more adequate retirement income.

Fostering belated multipillarism in Germany

The paradigm shift occurred much later in Germany, given the legacy of Bismarckian social insurance aiming at maintaining living standards. Piecemeal changes to contributions and benefits maintained the public PAYG pensions until a consensual reform gradually phased out early retirement was passed in late 1989. After unification, the Bismarckian pension system became extended to the East thanks again to PAYG financing, but the financing via social contributions added to the labour cost problems. The finance sector and economic experts called for a paradigm shift towards private prefunded pensions, breaking away from past inter-party and bipartite consensus. However, some occupational pensions had already existed in many medium- to large-sized firms as a fringe benefit, particularly in manufacturing and finance (Jackson and Vitols 2001). Additionally, a negotiated occupational scheme for public employees (Wiß 2011) mirrored partly the generous final salary granted to tenured civil servants (*Beamte*).

German unions have traditionally defended the public PAYG pensions against any retrenchment, while employers have embraced reforms towards sustainability given demographic ageing and unification costs. A paradigm change occurred also in respect to reversing once popular early retirement policies, though unions, by and large representing more older and retired workers than younger ones, have been particularly opposed to increases in retirement age. During the 1990s, the pension debate shifted toward the sustainability of public pensions and the need for prefunded pensions. However, first steps by the Conservative-Liberal Kohl government were abolished by the incoming red-green Schröder government in 1998 but eventually led to even more advanced reforms as it promoted financialisation soon afterwards.

While German public pension reforms had tinkered with gradual adjustments to the fiscal and demographic pressures before, the paradigm shift towards multipillarisation was advanced by the red-green government in early 2000s. The so-called Riester pension, named after former deputy metal workers' union leader and then Social Democratic labour minister, introduced a voluntary funded personal pension to compensate for the gap caused by cutbacks in public benefits. This multipillar turn was more in line with employers and finance interests but also the moderate chemical sector union, while all other unions and social advocacy groups contested the non-compulsory DC pension (Klitzke 2017: 141).

The final law passed in May 2001, using state subsidies to promote voluntary contributions (up to 4% of salary) of low-income earners and parents with children. Initially, the insurers (represented by GDV) expected two-thirds of all employees to sign up voluntarily (Willert 2013: 301), but take up was slow and,

only after further improvements, 12 million contracts had been signed by 2008. A decade later 17 million plans or every second employee had signed up, though some stopped paying contributions for lack of resources but also due to low returns since the 2008 crash. The imposed capital guarantee favoured the interests of insurances, which sold two-thirds of all contracts (Pieper 2018: 46), partly compensating for having lost favourable tax-status of life insurances. Indeed, finance was heavily involved in the reform, and the red-green government used the pension reform to advance its broader policy-shift towards financialisation (Röper 2018).

In addition, employers and unions had lobbied for changes fostering occupational pensions traditionally provided by larger German companies and the negotiated scheme for public employees. Voluntary deduction from salary (*Entgeltumwandlung*) for occupational pensions was made possible under collective agreements. In the chemical, construction and metal manufacturing sectors, the unions negotiated pension schemes with employers (Wiß 2011). The negotiated non-tenured public employee scheme was changed toward DC, while over one million civil servants (*Beamte*) still profit from a favourable (non-funded) final-salary retirement pay. Today 17 million people live in households with access to occupational pensions (about 20 million members). Nevertheless a coverage gap still exists for those with low education (1.6 times higher coverage among tertiary educated), for migrants (1.3 more natives) and gender (1.4 more men than women), whereas there is an overrepresentation (1.8 times) in the public sector (Pavolini and Seeleib-Kaiser 2018: 484–6).

The paradigm shift entailed also parallel reforms which reduced future public pension benefits due to demographic adjustments and retirement age extension. The unions had lost much of their influence in parliament by then (Trampusch 2005). They were divided between the metal and public service unions that defended the status quo of public pensions and the moderate chemical workers unions that favoured negotiating occupational pensions (Wiß 2011). Even a decade later, these differences still matter in the positioning of German unions towards funded occupational and personal pensions (Klitzke 2016: 154–6). Although the social associations are the most critical reform opponents, DGB launched a campaign before the 2017 elections to push for a reinforcement of the public pension. The second Grand Coalition (2013–2018) under Merkel found a compromise to improve former mothers' pension credits ('Mütterrente') favoured by the Conservatives and exemptions from retirement age increases for workers with long contribution records ('Rente mit 63') demanded by Social Democrats (and DGB unions). The subsequent Grand Coalition (2018–) has been more cautious in giving in to union demands and postponed decisions until the report of a new pension commission.

Discussion

Financialisation has increased with the shift towards further privatization and marketization in Britain and Germany, shifting the balance of interests towards employers and financial services. The binary comparison of rather dissimilar pension systems showed that both have been exposed to similar demographic sustainability concerns and financialisation tendency, though with distinct timing and to varying degrees. Public opinion support for status maintenance in German social insurance contrasts to anti-poverty orientation of the British basic pension tradition. Despite the popularity of the status quo, path departure was possible when organized interests, particular employers, finance interests and moderate unions embraced such reforms. Multipillarisation happened earlier in Britain than in Germany.

Governments of all colours had been engaged in advancing pension reforms towards financialisation in both countries, though this would not have been possible without the keen support of organized capital and the weakness of labour in defending the status quo. The two systems, however, saw contradictory changes towards a multipillar architecture. Most recently, Britain improved the minimum income function of the basic pension (abolishing the earnings-related supplement), bringing it more in line with Beveridge's initial intention, public opinion, and union demands. Interestingly, this was only achieved once British business and finance eventually supported this 'rebalancing' over the last decade. Quite in contrast, German employers called for public pension cutbacks due to ageing since the 1990s. Indeed, the demographic challenge, early retirement and unification costs have led to a paradigm shift away from intergenerational solidarity to a multipillar architecture. This happened against public opinion and the status defence of unions, as the red-green government engaged in a double strategy of cutting public pensions while extending private voluntary options to fill the retirement income gap. Paradoxically, it was Germany that advanced the marketization of pensions for demographic sustainability reasons since 2000s, while Britain has recently been more concerned about minimum income protection underneath the supplementary pensions that also were extended.

In terms of financialisation, Britain had built up a multipillar architecture earlier, assisted by opt-outs for pre-exiting occupational pension funds and for personal DC pensions. While occupational pensions had been traditionally DB schemes, employers were under marketization pressure to minimize their liabilities and move toward DC plans, entailing individualized risks similar to personal pensions. The financial market crash provided further urgency as DB schemes were underfunded and any bankruptcy raised premiums. British unions were able to moderate the erosion of DB rights in the better organized public sectors but failed to do so in the remaining economy for lack of bargaining power. Consequentially, the main problem is the low

coverage of private supplementary pensions, particularly for those in low grades and smaller firms. It was less the unions but the coalition of employers and finance services that aligned with reforms pursued by governments of both partisan colours: improving public pension, abolish earnings-related state pension, and promoting private supplementary pensions through auto-enrolment. In Britain, the dual transformation was an upgrading of the public minimum and a widening of privately funded pensions, though unions were unable to stem the erosion of DB rights, particularly outside the public sector.

Quite in contrast, Germany's pension policy long ignored the co-existing occupational pension pillar that was largely unfunded fringe benefit and the generous DB arrangements in the public sector. The dual transformation of the 2000s, however, brought not only cutbacks in public pensions but also expanded occupational pensions and introduced partly subsidized voluntary DC pensions. These reforms were pushed through by a left-green government against considerable reservations by unions, while employers and finance interests had propagated such a paradigm shift since the 1990s. Subsequently, German unions have gained a more active role in negotiating occupational pensions, though DGB and its members still lobby for a roll back of pension cuts and are against retirement age increases. During the last two Grand Coalitions of Chancellor Merkel some partial concessions to unions and advocacy groups occurred, though the multipillar architecture remains reaffirmed. The debate about improving minimum income in old age to prevent poverty has gained momentum recently, while closing the gaps in coverage of supplementary pension remains also a challenge. Germany could learn from Britain to tackle both problems by fostering minimum pension provision and using automatic enrolment to boost supplementary pension coverage.

Outlook

The financial market crash of 2008 has had a considerable impact on current funded schemes as well as on the ongoing pension reform discourse. The financial market crash and subsequent European debt crisis has led to a major drop in pension fund assets and lowered the long-term prospects of funded pensions. In Britain, the Brexit referendum and subsequent decision to leave the European Union on 29 March 2019 has led to additional uncertainties about the British financial market and its long-term regulatory regime. Whether unions will be able to defend remaining DB schemes under more difficult circumstances remains to be seen; the pension fund protection has become ever more expensive and this might get worse if bankruptcies increase due to a post-Brexit downturn.

In the case of occupational DC plans or personal pensions (such as Riester), the lower returns and uncertain prospects have led to dissatisfaction with such savings, particularly for those close to retirement. Thus the future of funded pensions is not as secure as it seemed when financialisation had its heydays before 2008. The British move towards providing better minimum income protection in old age seems also to be necessary in Germany in order to prevent a growth in old age poverty. Even if in both countries the coverage gap of supplementary pensions can be closed, the very nature of funded pensions will lead to reproduction of income inequality in old age. To what degree this is acceptable to both societies or whether public opinion subsequently turns against financialisation remains a question to be addressed in the future.

Note

1. In addition to the secondary analyses, the description of position is based on semi-open interviews which were conducted with representatives from interest organizations in Britain (12 in 2011) and Germany (15 in 2012), see Klitzke (2017) for details.

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