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Social Security for All

The political economy of pension reforms in times of global crisis: State unilateralism or social dialogue?

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Global Campaign on Social Security and Coverage for All

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Foreword

This paper examines the political economy of pension reforms in times of economic crisis and its impact on social dialogue and tripartite institutions. It is the outcome of a research project carried out by the ILO/Industrial and Employment Relations Department and the Social Security Department and managed by Youcef Ghellab and John Woodall. It focuses on the issue of social dialogue and social security governance. Indeed, amongst all the topics addressed in the world of work, perhaps none reflect the principles of tripartism and social dialogue better than social security.

The sustainability of pension systems has long been a major worldwide concern, increasingly so during times of economic hardship. It is an ongoing preoccupation of governments and lawmakers that pension systems be capacitated to meet the challenges imposed by demographic changes, labour market transformations and tightening budgets. The current global financial and economic crisis has led to increases in public deficits and public debts in many countries, placing strains on the financial equilibrium of their pension systems. In response, governments have typically accelerated the pension reform process in order to restore the sustainability of these systems.

The paper analyses the process of pension reform and the role of social dialogue in ten countries, namely: China, France, Greece, Jordan, the Netherlands, Mauritius, Slovenia, Spain, Sweden and Uruguay. It also refers to other relevant country experiences, including those of Australia, Denmark, Finland, the United Kingdom and the United States. The authors examine the economic and political situation during the pre-crisis period and the subsequent measures, notably fiscal consolidation and explicit pension reforms, implemented in response to the crisis. The authors point out that some governments have come under pressure, directly or indirectly, by international institutions – such as the IMF, the World Bank and the European Union – to introduce significant pension reforms in order to minimize public expenditure and stabilize budget deficits. It seems that such pressure has at times led governments to introduce major reforms in a hasty manner. When sufficient time had not been allowed for effective consultation with the social partners and other stakeholders, the outcome has sometimes been, in effect, unilateral decision-making.

This study argues that where pension reform processes have been hasty and proper consultations with the social partners and other stakeholders have been deficient, significant questions arise as to the sustainability of the reforms. The authors note that, conversely, other governments have maintained open and consultative postures despite tight fiscal constraints. They assert the latter approach holds greater promise for sustainable pension reform than is achieved on the basis of unilateral action by the government. They document successful instances where bipartite and tripartite negotiations have played an active role in the reform process and social consensus was eventually reached. It is clear that such a negotiated process can result in an outcome where comprehensive measures – which should include such critical matters as protection for the most vulnerable – are agreed on and implemented.

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The views expressed are the responsibility of the authors and do not necessarily represent those of the ILO. We are grateful to Hedva Sarfati and Youcef Ghellab for drafting the study and commend it to all readers interested in the issue of social dialogue and social security governance.

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[1] See Appendix B, p. 56 (electronic version only – not available in the printed version).

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Main findings

- Pension reforms have been a major worldwide concern of policymakers for many years – and for decades in the case of developed and some emerging economies due to several factors. These factors consist of the major challenges posed by demographic changes (ageing of the population, declining fertility rates, increasing life expectancy) and the radical transformation of the labour market (high and persistent unemployment, a decline in the quantity and quality of stable jobs, an increase in the spread of the informal economy). The global financial and economic crisis, feeding a rapid increase in public deficits and debts, has added to strains on pension systems, prompting governments to accelerate the reform process in order to restore the sustainability of those systems (though not necessarily paying adequate attention to questions such as coverage and adequacy).

- Pressure is being exerted also by the international institutions the International Monetary Fund (IMF), World Bank (WB), European Union (EU) and Organisation for Economic Co-operation and Development (OECD) whose policy prescriptions are pushing governments, often in haste, to introduce significant reforms. Notably, these reforms concern pension systems, often focusing primarily on cost containment and less on mitigating their potential adverse social impact. This does not allow for effective consultation with the social partners and other stakeholders. These pressures sometimes result in unilateral decision-making by governments in relation to pensions, which they declare to be "non-negotiable".

- This minimalist approach to social dialogue has in recent years been observed even in countries which in the past demonstrated an ability to use social dialogue to regulate labour market and social policies, including pension reforms. This contrasts with the first reactions to the 2008 global financial and economic crisis, during which social dialogue played a significant role in devising effective crisis responses to mitigate its impact and accelerate recovery.

- Employers' organizations have, in general, tended to approve the process and substance of pension reform, on the grounds of the urgent need to rein in all sources of public deficits and debts and to restore competitiveness. The trade unions, for their part, have voiced strong criticisms of such measures and the haste with which they were decided.

- The haste with which the pension reform process has been undertaken in some countries also raises the question of the sustainability of the reforms, as it misses an inclusive discussion of the broad range of issues at stake, including the employment of the youth and older workers (recruitment and retention), and the problem of providing fair and adequate benefits to workers.

- The 10 countries studied in this paper have all been affected by the global financial and economic crisis though to different extents, as shown by the country briefs (cf. Appendix B). Most of them have undertaken important reforms of the main components of their pensions systems. The reforms included one or several of the following measures: a rise in the retirement age, change in the formula for calculating pensions, increase in the number of contribution years needed to access full pension rates and tightening of the rules of access to early retirement.

- With the exception of Sweden[2] (where the statutory retirement age was increased in 1998) and Uruguay, eight countries of our sample (China/Shanghai, France, Greece, Jordan, Mauritius, the Netherlands, Slovenia,[3] Spain) have postponed the statutory retirement age and six (France, Greece, Jordan, Mauritius, Slovenia and Spain) have increased the number of contribution years required to have full pension rates. Five countries (Jordan, Mauritius, Slovenia, Spain and Sweden) have changed the formula for calculating pensions, making it less favourable, and four countries (Greece, Jordan, Slovenia and Spain) have introduced measures tightening the conditions of access to early retirement.

- Greece, Slovenia and Spain and, to a lesser extent, France have introduced plans combining several measures. These include raising the statutory retirement age and increasing the number of contribution years needed to access full pension rates, a tightening of early retirement rules as well as incentives to encourage older workers to work longer in order to make the pension systems more sustainable.

- In some cases the introduction of tougher eligibility rules for full pension benefits and the increase in the retirement age have been accompanied by measures to improve the coverage and/or adequacy of pension benefits. This has been the case in France, Jordan and Spain.

- In some countries, such as China and Uruguay, the focus of reform was on expanding coverage and strengthening the social security system.

- Even when governments have initiated consultations on reform plans with stakeholders, including the social partners, the process of social dialogue suffered several limitations, notably:

  – little weight has been put on the social partners' views and alternative proposals. This risked a breakdown in the negotiations. Sometimes the social dialogue tended to be diluted in a broader attempt at national debate, which involved a wide range of stakeholders, resulting in an effective marginalization of the role of the social partners;

  – in some instances, the value of any social dialogue undertaken has been nullified when the final legislation enacted or submitted by government to parliament differed substantially from the text on which consultations had been based;

  – the minimalist approach to social dialogue suggests that some governments see tripartite consultations as little more than a mere pedagogic exercise, the purpose of which is simply to explain to and solicit the social partners' endorsement of the rationale behind the policies of economic adjustment. These policies in turn are eventually decided exclusively at the political level;

  – when governments do reach out to social partners and listen in a responsive way to their concerns, the outcome can lead to valuable support for the reforms from both the trade unions and employers' organizations. This happens in relation to issues such as the need to support vulnerable groups notably through measures to integrate the youth into the labour market, or the problem of inadequate pension coverage or benefits for those with low pay, precarious or discontinued

[2] In Sweden, the Government is investigating the possibility of raising the age up to which people have a right to work from 67 to 69.

[3] In Slovenia, the law on reform of pensions was defeated in the referendum of 5 June 2011.

careers which do not permit adequate accumulation of pension rights, or hazardous or arduous jobs.

- Where tripartite consultations with the government encounter difficulties the social partners continue to take their responsibilities, through bipartite negotiations, and play an active role in the governance of pension schemes as shown by the examples of France and the Netherlands. As the pension reform agenda is far from being completed, social dialogue is needed more than ever to ensure that these reforms are conducted in a participatory and inclusive way in order to achieve economically and socially balanced and sustainable solutions.

- Past experience, notably in Canada, Finland, Denmark and Sweden during the deep recession of the 1990s (including a serious banking crisis in the latter three countries), clearly demonstrates that negotiated reforms have always worked better, particularly in times of crisis. Indeed, social dialogue is an essential ingredient of the design of smart and innovative policies and, more importantly, their effective implementation. There is no credible and viable alternative to social dialogue as a tool for devising and delivering sustainable pension reforms.

Introduction

This report analyses the question of pension reform in times of economic crisis and the role of social dialogue. It aims at identifying cases in which governments used social dialogue to involve the social partners in the formulation of the reform of the pension system in the current environment of extreme fiscal constraints. It also discusses cases in which the reform of pension systems involved little, if any, tripartite consultations between governments and employers' and workers' organizations (i.e. the social partners), thus casting light on both successful and less successful outcomes of social dialogue in the pension reform process.

In June 2011, the International Labour Conference (ILC) had as sixth item of its agenda the recurrent discussion on social security for social justice and a fair globalization. The ILO report on this topic deals with all areas of social protection, including pensions. It underlines, inter alia, the crucial importance of balancing economic and social development, since disproportionate inequality in both income and assets may impede growth, while well-balanced redistributive policies are necessary to generate and enhance economic growth. It notes that, many governments, together with the social partners, are now reviewing and reconsidering the role of social security in national social development, a process which in many cases has been triggered by the financial and economic crisis that developed in 2008: "in middle- and low-income countries social security is increasingly perceived as an effective means to combat poverty and invest in people, and as a way to facilitate and safeguard long-term economic growth."

More and more middle- and low-income countries are developing non-traditional forms of social protection to eliminate the coverage gap in their formal social security systems of individuals who, often to differing degrees, have so far been excluded. They include older people who, although ostensibly covered, were unable to build up sufficient contributions to be entitled to pension benefits. Many of these people are women. There are successful examples of modest universal social benefits in Africa, Asia and Latin America (ILO 2011: 25). China, Jordan, Mauritius and Uruguay are among several countries – along with six European countries – with such innovative schemes; these schemes are analyzed in this paper.

Indeed, the 2008-2010 global financial and economic crisis has brought to the fore and exacerbated concerns over the gaps in social protection in general and over the risk to the sustainability of the existing pension arrangements worldwide in particular. Such concerns have led to an international debate on this issue and the recognition that universal social protection is a basic human right, as enshrined in the 1944 ILO Declaration of Philadelphia and the Universal Declaration of Human Rights.

The ILO launched, as early as 2003, a Global Campaign on Social Security and Coverage for All. Moreover, ILO's recent research findings have shown that basic social security is affordable for countries at virtually all stages of development. The recognition of the strategic importance and necessity of ensuring universal social protection as one of the major pillars of the response to the current crisis led the United Nations System Chief Executives Board to adopt, in April 2009, the Global Initiative for a Universal Social Protection Floor (SPF-I). The lead agencies in this Initiative are the ILO and World Health

Organization (WHO), with all United Nations specialized agencies cooperating in the effort.[4]

The ILC report points out that the ILO has always stressed the importance of social dialogue and the role of workers' and employers' organizations in the governance of social security schemes and in the wider national policy debate on social security strategies. However, the fundamental role of social dialogue in promoting sustainable and inclusive economic growth and ensuring social cohesion and consensus has never been more apparent than in the aftermath of the global financial and economic crisis. The situation highlighted and confirmed the need for a constructive and inclusive social dialogue in designing, implementing and monitoring economic and social policies in response to the crisis (ILO, 2011: 26; 2009c; 2010c).

The participants in the 2011 ILC Committee for the Recurrent Discussion on Social Protection stressed that the participation of social partners was needed in designing, implementing and monitoring social security policies as they were ultimately the contributors, taxpayers and beneficiaries of these policies. Effective social dialogue ensured national consensus on social security, for instance by identifying and implementing effective response mechanisms to the crisis.

Beyond the immediate response to the recent global crisis, longer-term progress in the extension of social security coverage can be observed in various world regions. Nevertheless, in others, stagnation and even contraction has occurred, reflecting the decline in stable and well-paying jobs in the formal sector, the concomitant rise in unemployment and in jobs in the informal sector, and the increasing numbers of people dropping out of the economically active population, resulting in reduced coverage. In this context, consultation by governments with the social partners plays an important role, on the one hand, in identifying the most vulnerable groups of the population that should be covered by non-contributory schemes to guarantee at least minimum universal social coverage and, on the other, in designing and implementing appropriate contributory schemes, including supplementary private forms of provision.

In sum, successful and sustainable social security systems are based on good governance and full accountability and participation of society in general, and workers' and employers' organizations in particular, in the decision-making process. While the ultimate responsibility for comprehensive and adequate social security coverage lies with the State, the involvement of employers' and workers' organizations in the design, supervision and governance of social security systems can make a major contribution to creating and maintaining sound systems with effective delivery. Boards of social insurance institutions are therefore an important arena for institutionalized social dialogue. In some countries, where other institutionalized forms of social dialogue do not exist, these boards constitute centres for social dialogue on specific issues. These basic characteristics reflect ILO's social security principles and standards (ILO, 2011: ibid).

This paper argues that the pension reforms have been a major worldwide concern of policy-makers for many years – and for decades in developed and some emerging economies. Factors in this are the major challenges posed by demographic changes and the radical transformation of the labour market. The global financial and economic crisis, feeding a ballooning increase in public deficits and debts, has added to strains on pension

[4] Cf. for instance: ILO (2008): "Can low-income countries afford basic social security?", Social Security Policy Briefing Paper 3 (Social Security Dept.), 24 pp.
ILO (2010): *Extending social security to all. A guide through challenges and options* (Social Security Dept.), 140 pp.
ILO/WHO (2010): Social protection floor initiative, Nov., 7 pp.

systems, prompting governments to accelerate the reform process in order to restore the sustainability of those systems (though not necessarily paying adequate attention to questions such as coverage and adequacy).

Governments are under multiple pressures to reduce public expenditures. Pressure is being exerted by financial markets (as measured by the widening of spreads in share prices, rising basic interest rates, growing sovereign deficits and debts, and heightened difficulty in accessing markets to obtain new loans). Pressure also comes from the international institutions (IMF, WB, EU and OECD), whose policy prescriptions are pushing governments to introduce significant reforms, notably of pension systems, and often to do so in haste, which does not allow for effective or adequate consultation with the social partners. These pressures sometimes result in unilateral decision-making by governments, which they declare to be “non-negotiable”.

The pension reform debate[1]

The World Bank's reform paradigm focused on privately managed, fully funded pensions as the "second tier" of a multi-pillar pension scheme. The main message of Averting the old-age crisis: Policies to protect the old and promote growth was that this system would insulate pension schemes against the effects of ageing societies and also increase growth thanks to a rise in national savings.

Towards the end of the 1990s, the World Bank model (notably its focus on the forced savings component) drew criticism from within and outside the Bretton Woods institutions. Criticism centred on several key issues. It was demonstrated that it was by no means clear that national pre-funding of pension schemes actually made pensions less vulnerable to the effects of ageing, bad governance or economic shocks. The evidence of the impact on growth was also considered inconclusive. It was shown that both pay-as-you-go (PAYG) and funded systems require good governance and enduring economic output to ensure their viability. Privatization per se did not improve the quality of governance. Systemic reforms often camouflaged the fact that actual benefit levels were reduced over time. Many authors also pointed out that the financing of the transition from PAYG or partially funded to fully funded schemes caused transitional fiscal problems in most countries.

In 2000, the ILO presented its position on multi-tiered pension systems in Social security pensions: Development and reform. Being less prescriptive about its paradigm, the ILO stressed the importance of the adequacy of benefit levels (to provide income security in old age and thus give people the right to affordable retirement), the extension of coverage (with the ultimate objective of making it universal), and the role of good governance as sine qua non conditions for the proper functioning of all pension systems.

The bottom line of the ILO position was summed up in 2000 by an author from the OECD: "The ILO is fundamentally unwilling to accept systems which cannot guarantee insured persons with a full contributions record any more than benefits at the subsistence level." (Queisser (2000), p. 37) Since the minimum replacement rates required by the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) are close to many national relative poverty lines, the ILO has maintained its stance.

While the academic policy debate was raging within and outside the institutions, a variety of pension reforms were introduced in a number of countries during the 1990s and early 2000s. Following the Chilean reform, 11 more countries in Latin America included mandatory savings tiers in their pension systems. The first wave of such systemic paradigmatic reforms in Latin America was followed by reforms in 13 countries in Central and Eastern Europe and Central Asia: Bulgaria, Croatia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Poland, Romania, Russian Federation, Slovakia and Ukraine. These countries implemented multi-tier systems that were essentially scaled-down versions of the Latin American reforms.

The crisis of 2008 and beyond has led to new developments in the history of pension reform. Argentina and Bolivia have effectively reversed their reforms based on individual accounts. In some parts of Central and Eastern Europe, countries are debating the resizing of the private tier of their pension systems (Croatia, Hungary, Poland).

However, a substantial number of (often overlooked) European countries adopted so-called "parametric reforms" of their pension systems that did not radically change the paradigm of old-age income security. These countries included Germany and France. These reforms generally focused on the adjustment of some parameters, predominantly by increasing the pensionable age, modifying eligibility conditions, reducing benefit entitlements through changes in the pension formula or indexing rules, and adding a new tier to the pension system. Italy and Sweden introduced reforms which, although they kept the PAYG character of the main pension scheme, also introduced notional defined contribution (NDC) principles in determining future benefit levels. The ILO has advocated and been involved in a number of such reforms.

Sources: Based on A. Diop: "Pension reforms in Central and Eastern Europe in a global perspective: Lessons learned," address to the Wissenschaftliches Kolloquium "Internationale Entwicklungen in der Rentenpolitik", held in Berlin, 2 Apr. 2008; ILO: "Social security for all: Investing in global social and economic development. A consultation", Issues in Social Protection Discussion Paper No. 6 (Geneva, 2009); World Bank: *Averting the old-age crisis: Policies to protect the old and promote growth* (Oxford, Oxford University Press, 1994); C. Gillion, J.A. Turner, C. Bailey and D. Latulippe (eds): Social security pensions: Development and reform (Geneva, ILO, 2000). See also C. Gillion: "The development and reform of social security pensions: The approach of the International Labour Office", in *International Social Security Review*, Vol. 53 (2000), No. 1, pp. 35–63; and M. Queisser: "Pension reform and international organizations: From conflict to convergence", in *International Social Security Review*, Vol. 53 (2000), No. 2, pp. 31–45.

[1] Taken from ILO (2011): "Social security for social justice and a fair globalization", Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization, 2011, Report VI, Sixth item on the agenda, ILC.100/VI.

This minimalist approach to social dialogue has been observed in recent years even in countries which in the past demonstrated an ability to use social dialogue to regulate labour market policies, including pension reforms. Notable among these are the Nordic countries (i.e. Denmark, Finland, Norway and Sweden), Ireland, the Netherlands, Slovenia and Spain. This contrasts with the early reactions to the 2008 global financial and economic crisis, during which social dialogue played a significant role in devising crisis responses and stimulus packages to mitigate its impact and accelerate recovery.

Employers' organizations have generally tended to approve the process and substance of pension reform, on the grounds of the urgent need to rein in all sources of public deficits and debts and to restore competitiveness. The trade unions, for their part, have voiced strong criticisms of such measures and the haste with which they were decided, as well as of the fact that the reforms left unsettled major issues such as the low employment rates of certain categories of workers, especially the youth, older workers and women. They have expressed concern, too, about more specific aspects of pension reforms, including the unequal access of workers to supplementary pensions and the vital issues of the adequacy of income provided by pensions as a result of the change in the public-private pension mix, and the inadequate safeguards for the guaranteed rate of returns of the pension funds' investments, evidenced by the collapse of the financial markets.

The haste with which the pension reform process has been undertaken in some countries also raises the question of the sustainability of the reforms, as it prevented an inclusive discussion of the broad range of issues at stake. These include the employment (recruitment and retention) of the youth and older workers and the problem of providing fair and adequate benefits to workers who may have been exposed over long durations to arduous and/or hazardous work environments, or to workers who experienced career breaks, especially women with care responsibilities for children and elder dependants, and the like.

On the basis of lessons drawn from past experience, this paper argues that the challenge of pension reforms cannot be addressed by government alone, engaged in a unilateral (or quasi-unilateral) decision-making process. It calls for tripartite cooperation between public authorities and social partners in pursuit of sustainable and negotiated solutions. The social partners, as representatives of the main contributors to the financing of pensions, should be able to identify sustainable solutions to the pension challenges, not least in dealing with measures to increase employment rates. They should, as major taxpayers, also contribute to public debate on addressing public deficits and debts.

Examples exist in a number of countries where, through the use of collective bargaining, the trade unions have created and now run – by themselves or jointly with employers' organizations – occupational pension schemes covering a substantial part, or even the majority, of wage earners (notably in France, the Nordic countries, the Netherlands, Switzerland and the United Kingdom). In so doing, they have acquired invaluable technical expertise, which should be called on in national debates on pension reforms.

This paper presents examples of countries where social dialogue has delivered positive outcomes, notably Finland, Spain and Uruguay.

However, social dialogue cannot be taken for granted.

Certain basic conditions must be met if it is to be effective and deliver positive results. To this end, the ILO resolution concerning tripartism and social dialogue, adopted by the ILC

in 2002,[5] invites governments to ensure that the necessary preconditions are in place for social dialogue. Among these preconditions are respect for the fundamental principles of freedom of association and collective bargaining, a sound industrial relations environment and respect for the role of the social partners.

The ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) specifies in article 72 (1) that "Where the administration is not entrusted to an institution regulated by the public authorities or to a Government department responsible to a legislature, representatives of the persons protected shall participate in the management, or be associated therewith in a consultative capacity, under prescribed conditions; national laws or regulations may likewise decide as to the participation of representatives of employers and of the public authorities."

Strong and representative social partners, together with well-functioning social dialogue institutions are also important preconditions (for further discussion of the conditions for effective social dialogue, see Auer, 2000; Fashoyin, 2004; Ghellab and Vylitova, 2005; Ghellab, 2008; ILO, 1996).

The ILO's Global Jobs Pact,[6] adopted by the ILC in June 2009 in response to the expected prolonged social impact of the global crisis, stated that "social dialogue is a strong basis for building the commitment of employers and workers to the joint action with governments needed to overcome the crisis and for a sustainable recovery." In past crises, social dialogue has proved irreplaceable as a tool of balanced crisis management and a key governance instrument with regard to change.

Challenging times can offer governments and the social partners an opportunity to improve tripartite cooperation through social dialogue and to address openly all problems facing workers and employers, as well as society in general (Ghellab, 2009; Sarfati 2003, 2007).

As a contribution to the debate on the role of social dialogue in the governance of pension system reform, this report highlights some lessons from experience in which the outcomes of social dialogue practices have either succeeded or failed – in the latter case, particularly owing to the absence or inadequacy of the dialogue.

This paper consists of two parts. Part I describes the global context of pension reforms, considering successively: the demographic, labour market and socio-economic context; the concern for pension coverage and adequacy; and the impact of the global financial and economic crisis on pensions. Part II looks at the social dialogue process that has (or has not) taken place on pension reforms. It highlights the preconditions for an effective social dialogue to take place and how social dialogue has fared in pension reforms in the post crisis context in 10 countries selected from different world regions. It assesses the extent to which policymakers have involved the social partners in the process of the design and implementation of the pension reform, the outcomes of this involvement, or the obstacles to its achievement, and then draws some policy conclusions on the role of social dialogue in helping to achieve sustainable solutions.

[5] ILO: *Resolution concerning tripartism and social dialogue*, adopted by the ILC at its 90th Session, 18 June 2002. Available at www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/res.pdf

[6] ILO: *Recovering from the crisis: A Global Jobs Pact*, adopted by the International Labour Conference at its Ninety-eighth Session, Geneva, 19 June 2009, 22 pp. Available at: www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_115076.pdf
ILO *adopts "Global Jobs Pact" aimed at creating jobs, protecting workers and stimulating economic recovery*, ILO, 19 June 2009. Available at: www.ilo.org/global/about-the-ilo/press-and-media-centre/press-releases/WCMS_108482/lang--en/index.htm

1. The global context of pension reforms

The primary purpose of pension schemes is to provide some assurance of adequate, affordable and sustainable incomes in retirement that prevent old-age poverty among the population. This supposes the existence of pension schemes that are affordable for individuals and society and financially sound enough to be sustainable over the foreseeable future. This objective now appears to be shared by international institutions, including the ILO, United Nations, IMF, World Bank, OECD, European Commission and regional development banks. However, reconciling adequacy with affordability has become increasingly difficult in the wake of the major demographic, societal and labour market changes of the past three decades which led to a wave of pension reforms with diverse scope. The outcomes of these reforms, as well as economic and social stability worldwide, are now threatened by the massive ripple effects of the 2008 global economic and financial crisis.

1.1. The demographic, labour market and socio-economic context [7]

The radical changes that have taken place over the past three decades in the closely interlinked labour markets and social protection systems have tended to undermine the basic parameter that underpinned the post Second World War welfare state and the related pension systems that were set up in the advanced economies. It set the model for pension systems worldwide – namely stable and full-time employment (mainly of the male breadwinner) and the (traditional) family. Both have changed dramatically since 1945 as a result of societal, labour market and economic developments.

In a nutshell, these trends, in the more developed economies in particular, relate to the accelerating demographic ageing and a decline in fertility rates, which coincided with an unprecedented transformation of the labour markets. Among the features of this transformation are the low or declining labour market participation and employment rates; rapid growth of non-standard employment contracts (part-time, temporary, casual jobs, etc.) – associated with low-paid and low-skilled jobs (especially among the rising female workforce, young people, migrants, ethnic minorities and older people); the growing incidence of the working poor; high and persistent unemployment rates; and delayed labour market entry of young people and early exit of older people – among whom there is a growing incidence of single person households and poverty (particularly among women).

Taken together, these developments result in a shrinking working population on whose contributions the funding of the pension systems depends. Arguably, in many societies, the declining fertility rates mean that the younger dependent population may be declining to a relatively greater degree, worsening the old-age dependency ratio, while the total dependency ratio may not alter. But growing youth unemployment, which has been vastly aggravated in the wake of the recent global crisis, is reducing the number of wage earners contributing to the pension system, besides putting at risk their future wages and employment prospects in the long term.

These important facts highlight a major concern for intergenerational income distribution, which is rarely acknowledged in discussions about the redistribution of national wealth

[7] This section updates and relates essentially to: Sarfati, H. (2002): "Labour market and social protection policies: Linkages and interactions", in Sarfati, H. & Bonoli, G.: *Labour market and social protection reforms in international perspective: Parallel or converging tracks?* (Ashgate, Aldershot), pp. 11-57.

across generations. Social dialogue would be a good platform from which to recognize and discuss this issue and its broad policy implications. (Though, in many countries, the social partners may have a vested interest in the status quo of the institutional design of social security.)

These trends make labour market and welfare reforms urgent, because they add to the "traditional" social risks that already weigh heavily on public expenditures (sickness, unemployment, disability and death). They also create new social risks, linked to such factors as: the mismatch between available jobs and the qualifications and competencies of the workforce; the difficulty in reconciling family responsibilities and work and hence limited employability and career opportunities for women; job precariousness and an increasing incidence of poverty at work and in retirement as well as social exclusion. Reforms must therefore address the conditions that improve the self-financing capacity of programmes, notably employability and, above all, decent and well-paying jobs.

The conjunction of these risks weakens the financial sustainability and social pertinence of traditional social protection systems, which have difficulty in adjusting appropriately and at the required pace to address them satisfactorily. It also threatens economic growth and the living standards of the population – both young and old because of the expected doubling over the forthcoming decades of the dependency ratio of the older inactive population vis-à-vis a shrinking, but partly precarious, active population. This brings to the fore the need to focus more on the economic dependency ratio than on the old-age dependency ratio, that is, the ratio of the payroll of the active population to the amount of pensions paid. Indeed, it is the growing weight of the global payroll in this equation that enabled the development of the post-war welfare state. Hence the OECD, European Commission and International Social Security Association (ISSA) have given priority to increasing activity and employment rates across the gender and age groups of the population in any welfare reform policy (OECD 2006; European Commission 2006; Sigg 2002, 2005). Indeed, while in some countries the relative size of the "potential" active working population in comparison with the total population has never been so large, much of this potential is wasted because new technologies and global competition tend to displace jobs to emerging markets, while vacancies for valued jobs are sometimes not filled owing to the mismatch between the supply of, and demand for, skills. Moreover, the emphasis of the international institutions tends to be more on employment per se rather than on the quality of jobs, on which eventually pension sustainability also depends.

To illustrate the magnitude and financial implications of the current and projected demographic ageing, on the one hand, and the labour market participation of the elderly and their life expectancy at age 65, on the other, the two tables below from the ILO *World Social Security Report 2010-11* (ILO 2010a) provide a useful framework, as do tables A.1, A.2, A.3 and A.4 in Appendix A on global and regional trends in ageing, life expectancy projections, dependency ratios and public social security expenditure as a percentage of GDP.

Table 1.1. Projected elderly population in 2010 and 2050 (percentages)

	Population 65+		Proportion of population 65+ in total population		Proportion of women among 65+	
	2010	2050	2010	2050	2010	2050
World	100	100	8	16	56	55
More developed regions	37	22	16	26	59	57
Less developed regions	63	78	6	15	54	55
Less developed regions (excluding China)	41	56	5	13	55	55
Africa	7	9	3	7	56	54
Asia	54	62	7	18	54	55
China	21	22	8	24	52	54
India	12	16	5	14	53	54
Europe	22	12	16	28	61	58
Latin America and the Caribbean	8	10	7	19	56	57
North America	9	6	13	21	57	56
Oceania	1	1	11	19	54	55

Table 1.2. Participation in the labour market of elderly (aged 65+), and life expectancy at age 65, 1980-2005 (percentages)

	Labour force participation at age 65+ as % of labour force participation at age 15+				Life expectancy at 65	
	Men		Women		Men	Women
	1980	2005	1980	2005	2000-5	2000-5
Middle Africa	84.4	85.0	55.1	56.5	10.96	12.38
Western Africa	81.4	82.3	58.7	56.3	11.36	12.50
Eastern Africa	82.7	81.5	62.5	59.1	11.31	13.00
South-Central Asia	68.5	60.2	39.3	43.8	13.36	14.58
South-Eastern Asia	62.2	57.9	38.4	32.7	13.36	15.33
Central America	73.6	56.6	53.4	34.0	16.24	18.16
South America	43.5	44.5	22.2	25.4	15.35	17.98
Northern Africa	59.9	42.9	61.5	22.3	12.8	14.58
Western Asia	46.2	42.7	35.7	40.5	13.16	15.14
Caribbean	47.3	38.2	29.1	17.0	15.30	17.67
Eastern Asia	38.3	33.5	10.8	16.9	14.81	17.53
Southern Africa	33.0	32.9	20.6	12.5	10.69	14.18
Australia and Oceania	19.1	19.9	10.4	9.9	16.49	19.86
Eastern Europe	20.2	15.4	8.7	10.7	11.56	15.27
Northern Europe	17.0	13.7	8.9	7.5	15.76	19.05
Southern Europe	20.3	12.8	15.7	9.7	16.12	19.75
Western Europe	10.1	5.7	7.3	3.2	16.06	20.01
World	40.6	38.2	18.4	21.5	14.39	16.95

Source: ILO 2010a Table 4.1 p. 49: (1) Labour force participation: ILO calculations based on the ILO database Economically Active Population Estimates and Projections, 1980–2020 (ILO, 2009g); (2) Life expectancy: United Nations, 2007. Country groupings according to UN World Population Prospects, Cf. esa.un.org/unpp/index.asp?panel=5

Improving the economic dependency ratio requires a dynamic labour market. Such a market provides conditions and incentives for entry and exit, mobility between jobs, employability, adequate opportunities for the acquisition and upgrading of skills and competencies, suitable conditions of work and decent pay for all individuals according to their needs and capacities, accessible and affordable caring services which facilitate

reconciling family and career, and the appropriate design of taxation, safety nets and family policies that encourage and facilitate employment rather than inactivity. This means that it is necessary to reconcile increased flexibility with security against fluctuating incomes and careers. However, this also requires major cultural and behavioural changes among all stakeholders (Bonoli and Sarfati, 2002; Schmid & and Gazier, 2002).

In addition to demographic, societal and labour market changes, two other socio-economic developments over the past three decades have important implications for effectively functioning labour markets and for the funding of social protection systems.

The first relates to the shift towards a service economy, where the majority of the population is now employed in most countries. This economy has a limited ability to contribute to social protection, given its restricted capacity to increase productivity and to raise wages of a stable workforce. Indeed, the manufacturing sector of the industrialized economies of the first three post Second World War decades, which employed the majority of the (male) workforce, was associated with rising wages and tax revenues resulting from the rapid productivity growth brought about by the mechanization, standardization and streamlining of production. This growth enabled governments to finance and expand the welfare state. Arguably, the scope for productivity growth is – with few exceptions - very limited in the services sector, where human contact and service quality count (notably in education, child care, health care and personal services). Moreover, low wages and precarious job status characterize substantial segments of services-sector occupations (cleaning, janitorial, domestic and handling services, etc.), limiting their potential to contribute towards decent pensions and health coverage in old age.

The second trend is the acceleration, since the mid-1980s, of economic globalization. This has been characterized by a growing integration of national financial and product markets, higher mobility of capital and production, and a growing incidence of massive job displacement to countries with lower labour costs, lower levels of social protection and a significant informal sector. This trend has reduced government's capacity in middle- and high-income countries to regulate employment and to raise tax revenues to the level necessary for financing enhanced social protection.

To address the concerns for pension adequacy and sustainability that result from these developments, governments in all world regions have been adopting since the mid-1990s policies to reform their pension systems. Though this coincided with a period of rapid economic growth, the policies often encountered opposition from the various stakeholders, particularly when they were not subject to adequate public debate or social dialogue. The recent global financial and economic crisis has had a dramatic impact on the sustainability of pension funding – through the huge losses incurred by pensions funds, the massive job losses and wage cuts or wage freezes, and, last but not least, the rapidly expanding public deficits and debts, which make it increasingly difficult for governments to maintain high and growing levels of social expenditures, notably on pensions and health care.[8]

[8] To illustrate this point, in the European Union, social benefits for old-age pensioners and survivors are by far the highest item in this expenditure, close to 46 per cent on average, and growing steadily since 2000 by 3.4 per cent per year. It is followed by sickness benefits and health care, close to 20 per cent on average. (EUROSTAT 2008a.)

Furthermore, the global crisis has raised the likelihood of sovereign debt defaults for a growing number of countries. [9]

The next section looks at pension coverage and adequacy concerns, while section 1.3 highlights the impact of the recent financial crisis on pension schemes and funds.

1.2. Concern for pension coverage and adequacy

Against this backdrop, the various societal and labour market trends described above are increasing concerns about the extent of pension coverage of the population, the adequacy of income replacement in retirement, and the financial sustainability of existing pension schemes in both advanced and emerging economies.

Indeed, the first ILO *World Social Security Report* clearly shows the relatively low pension coverage worldwide: a mere 40 per cent of the working age population is statutorily covered by contributory mandatory old-age pension schemes. Clearly, this average hides a widely diverse regional situation. In North America and Western Europe, statutory coverage is almost twice as high, though somewhat lower in Central and Eastern Europe (73 per cent, 70 per cent and 62 per cent respectively). More importantly, when considering the effective coverage of the mandatory old-age pension, the percentages slightly decline to 72 per cent in North America and 65 per cent in Western Europe, but to 48 per cent in Central and Eastern Europe. By comparison, the percentages of statutory versus real coverage drop from 58 per cent to 28 per cent in Latin America and the Caribbean, from 38 per cent to 18 per cent in the Middle East, from 28 per cent to 19 per cent in Asia and the Pacific, and from 14 per cent to just 4 per cent in sub-Saharan Africa (ILO, 2010a, pp. 49-50).

While the pension systems have been effective in reducing poverty in old age in high-income countries – the basic goal for creating such systems – a substantial number of non-protected people in atypical jobs or in the informal economy are not covered, particularly in developing countries, where two-thirds of the elderly receive no regular income, while 100 million individuals live on less than US$1 a day. Less than 20 per cent of the elderly in low-income countries receive pension benefits (the median for these countries is just over 7 per cent).

In Africa, with few exceptions, fewer than 10 per cent of those in the labour force or in employment contribute to a pension scheme, as the majority of the workforce is employed in the informal economy. As a result, only 10 per cent or less of the elderly have any pension entitlement. But there are few exceptions where high coverage has been achieved by adding, beyond the contributory pensions for workers in the formal sectors, universal pensions for the rest of the population, notably in Lesotho and Mauritius, or social assistance in South Africa. Coverage is also better in Algeria and Tunisia, which have a larger formal economy and a longer social security tradition.

In Asia and the Pacific and the Middle East some countries have relatively high coverage of the elderly. For a significant part of the population in Asia effective coverage varies

[9] The burden of sovereign debt and debt default risk has been growing in Greece, Ireland and Portugal, and the European situation is aggravated by rumoured difficulties in Spain and Italy, as well as in the United Kingdom and France.
Cf. EU: "Debt default by EU governments? Messy, but probably not the end of the euro area", by Zsolt Darvas BRUEGEL, 12 April 2011, 6 pp. To this list of countries one could add the United States, which had to raise its sovereign debt ceiling and whose credit rating was downgraded in August 2011.

between 20 per cent and 40 per cent. In South-East Asia it is lower, as a result of the high incidence of the informal sector.

Latin America and the Caribbean have a long history of social security, and coverage of workers in the formal economy varies between 30 per cent and 60 per cent. Higher coverage exists in some Caribbean islands where the formal economy is predominant, and in Brazil and Uruguay. Argentina and Chile are expected to follow soon as a result of their recent reforms (2006-2007 in the former and 2008-2009 in the latter) (ILO, ibid: 45-52).

It is important to note that the worldwide pattern of pension coverage in old age has a strong gender dimension, as has poverty in old age. In most countries women are less represented than men in the formal economy. When they work their earnings are relatively lower than men's, they are often employed in less skilled and less paid jobs, in part-time or temporary jobs (see comments below on other implications of part-time and atypical job patterns). They also tend to have shorter and discontinuous careers due to child rearing, providing care for the elderly and having incentives to leave work earlier. Their pension coverage therefore is inadequate and exposes many of them to poverty in old age (Sarfati 2004 & 2010 a,b).

On the coverage issue, the ILO *World Social Security Report* concludes that:

> Incomplete coverage is a widespread phenomenon; it is seen not only in developing countries but in industrialized countries too. Given the fact that a large proportion of pension schemes provide benefits on an earnings-related basis, some groups with incomplete past work records tend to fall behind. Notably hard-hit groups include women, low-skilled workers and ethnic minorities. (ILO 2010a: 53)

Arguably, the policy challenges are not new. The recent crisis has only exacerbated pre-existing trends and concerns. In particular, concerns about pension coverage and adequacy have pointed to the urgency of pension reforms and pushed the reform issue to the forefront of the political debate worldwide.

The debate over pension reforms, however, rarely touched the problem of coverage of the growing numbers of people with short or discontinuous careers. These are ill-defined categories of 'flexible', 'non-standard' or 'atypical' workers, for which limited labour market statistics are available nationally, and even less so internationally. They roughly include: (a) people on part-time work; (b) people on temporary work — which may include fixed-term contracts spanning several years or a few months, but also contracts through temporary employment agencies of diverse duration and extent of social and employment protection; (c) the self-employed, with either very high (e.g. for the liberal professions) or very low earnings (viz. the so-called 'mini jobs' or 'solo self-employment'); (d) people on seasonal and casual work; and (e) people working in the informal sector.

OECD and EU statistics do provide data on part-time employment generally, but without a breakdown of the extent of hours worked. Data on total hours worked, on the other hand, do not provide insights into distribution among non-standard workers. One study on social protection coverage of this category offers only a few general comments on coverage of persons in 'marginal employment' and 'solo self-employment' in six EU countries (Schulze Buschoff & Protsch 2008), while another international comparative study focuses on the informal sector and migrant workers (van Ginneken 2010).

The social protection rights of atypical workers raise concern because they may be significantly curtailed, notably as regards pension coverage (and even when they are covered, there is no guarantee for the adequacy of the income replacement of their pension benefits). This issue was raised as far back as 2003 in the EU Task Force on employment report which "called on EU Member States and social partners 'to examine the degree of security in non-standard contracts' to help prevent the emergence of a two-tier labour

market, where 'insiders' benefit from high levels of employment protection, while an increasing number of 'outsiders' are recruited under alternative forms of contracts with lower protection" (EU, 2003:7). This risk is present everywhere, particularly where the informal economy is a major source of employment.

In the post crisis context, there is a risk that progress achieved towards poverty reduction and extending guarantees to the informal sector workforce may go into reverse, notably in Latin America. Mesa-Lago notes that the latest crisis triggered a notable increase in unemployment in the region, adding three to four million on top of the pool of 16 million already unemployed in 2008, halting the decline in the informal economy (where the workforce is usually uninsured), and further relegating seven million workers to extreme poverty (see Mesa-Lago 2010).

Atypical work status is common among women in advanced economies, which explains the strong gender dimension of poverty in old age (Sarfati 2004 and 2010a,b). Atypical workers are usually not covered by unemployment insurance which in several advanced economies pays pension contributions (credits) during unemployment. This of course affects the limited level of income replacement where they have pension coverage. In high-income countries, nearly 70 per cent of the labour force is covered by law by some type of unemployment protection scheme, the percentage drops to 40 per cent in upper-middle-income countries and less than 20 per cent in lower-middle-income countries. However, as with pensions, the effective level of coverage is substantially lower, even in high-income countries, dropping to less than 40 per cent of all unemployed, though many among them may qualify for general social assistance (ILO, 2010a:70-71). Moreover, coverage of atypical workers varies widely even within this group of countries, with high coverage above or close to 80 per cent in Denmark, Finland, Luxembourg and Sweden, about 60 per cent in France, the Netherlands and Spain, but lower in other EU-15 countries (Leschke 2007 and 2009).

Indeed, where the level and duration of cash benefits payments are linked to the length of past employment records, the amount of contributions paid and previous earnings, atypical workers may be at significant disadvantage compared to 'standard' full-time, full-career workers. Even in the few countries where universal basic public pension schemes exist for all residents, the qualifying period of residence is rather long (40 years in Denmark, 50 years in the Netherlands), or the level of benefits is below poverty line, for example in the United Kingdom (cf. Ginn 2002). Moreover, where remuneration is low (sometimes reflecting part-time employment), it may disqualify many atypical workers from access to supplementary pension schemes to improve their retirement income (e.g. in the United Kingdom and, until recently, Switzerland).

It is important to stress here that, while population ageing will have a substantial impact on pension expenditures, the sustainability of pension schemes largely depends in addition to adequate returns on investment by pension funds and public pension reserve funds on dynamic labour markets, which depend in turn, first and foremost, on high employment rates of all age cohorts. Regrettably, employment rates are low in several countries, particularly among the young, women and older workers, and they fell further during the recent crisis as a result of mass dismissals, long-term unemployment and increasing labour market exit due to the lack of employment opportunities. Arguably, social protection has provided 'automatic stabilizers' in several European countries that helped maintain job security with State subsidies for short-time working, and pay 'flexibility'.

Other characteristics of an efficient labour market include: employment that ensures a decent lifelong career; fair remuneration; opportunities for job and skill upgrading; and adequate social protection coverage.

So how did the financial crisis affect the pension schemes' sustainability and adequacy? This is the focus of the next section.

1.3. The impact on pensions of the global financial crisis

The aforementioned generalized trend in pension reforms in many countries to shift an increasing part of the responsibility for pension benefits to the private sector – notably to employers, private pension funds, insurance companies and, above all, individual employees has generated a further risk of poverty in old age. This risk is due either to exclusion of a substantial part of the workforce from such coverage or to inadequate benefit levels resulting from shortfalls in employer contributions, unwise investment choices and financial market fluctuations or market failures. Among these failures are the financial crises in the Russian Federation, Asia and Latin America in the 1990s, the technology and real-estate bubbles in the early 2000s, and the mortgage and financial market collapse that started in 2007 and resulted in the recent recession.

It may be recalled that, "unlike most social security systems, private pension systems tend to rely fully on accumulated funds to meet accrued pension benefits. Hence, the short-term impact of the financial crisis is of greater concern for these systems, especially where investment losses are directly translated into lower benefits. This may be the case in defined contribution (DC) systems [and]... in defined benefit (DB) arrangements where benefits, or their indexation, are adjusted with the financial health of the pension fund" (Pino & Yermo 2010: 17). [10]

The OECD assesses that since the financial crisis hit the news in late 2007, private pension funds with around half their investments in the property market and corporate bonds and deposits lost a sizeable 23 per cent of their investment value in 2008 (or some US$5.4 trillion for the OECD area), leading to a loss of confidence in pension funds. In 2009 stock markets further lost much ground, which they somewhat recovered by midyear. But recession hit all advanced economies, with output declining (in some countries, dramatically, notably in Ireland, Spain and the United Kingdom), returning to very minimal growth by year end. Wage growth slowed or even declined, and unemployment shot up in most countries to unprecedented levels with few encouraging signs from an anaemic jobless growth.

While the rebound in equity prices that started in March 2009 enabled pension funds in some OECD countries to recover a substantial proportion of their 2008 losses, their asset values were still below nine per cent of the December 2007 levels on average. At the end of 2009, the gap between pension fund assets and liabilities was 26 per cent, compared with only 13 per cent in 2007 before the crisis. Over the same period, the decline in bond yields in some countries, which are used to calculate pension fund liabilities, has offset investment recovery. At the same time, public pension reserve funds in some countries, which were set in place to guarantee default of occupational pensions, recovered strongly from their heavy losses by end 2009. The OECD concluded that:

> Most (private) pension funds were wealthy enough to survive the crisis and wait for things to improve. However, some people paying into them were hit twice, losing their savings because of the financial crash, then losing their job as the crisis in financial markets started to take its toll on the rest of the economy. This is particularly serious for older workers, who have less time to build up savings again, and have more trouble finding a new job. (OECD 2010b: 73).

But public pension schemes are affected too, and again they could be hit twice. First, because their investments may be worth less. Second, unemployment and lower earnings mean less money is flowing into the system, but unless the rules are changed, it still has to

[10] In defined contribution (DC) plans, each person saves for retirement in an individual account and the value of pension benefits is determined by investment performance. In defined benefit (DB) plans, pensions should be paid whatever the fund's performance. However, the stock market crash means that the assets that fund the payouts are worth less, and many plans are now in deficit.

pay out just as much as before. However, despite the recovery, the implications are particularly hard for older workers who may not recoup the investment losses in the private pension funds' pension reserves and other savings. The OECD concedes that "Even postponing their retirement may allow them to offset only part of their loss. Declines in account balances in private pensions in the US were largest for the 45-54 year-old age group, ranging from a loss of around 18 per cent for people with short tenures to 25 per cent for longer periods of coverage." (ibid).

The extent of crisis-induced loss among current pensioners depends on the composition of their retirement income. Indeed, income replacement by public pensions (first pillar PAYG) is usually protected by automatic indexation. In some countries, the amount paid out by public schemes depends on the resources of the beneficiary and the value of private pensions, so the public payout adjusts to rises and falls in private pensions, shielding the old-age retirement income of some or most retirees from the full impact of the financial crisis (notably in Australia and Denmark). By contrast, other countries have set up mechanisms that automatically adjust benefits level to guarantee the solvency of the public pension schemes, implying lower pension benefits (e.g. in Canada, Germany and Sweden) (ibid: 76).

The impact of the fall of equity and property prices on private pension schemes was arguably greatest in countries where these schemes play a predominant role in providing old-age incomes. These countries, listed in declining order of impact, include Iceland, Mexico, Denmark, the Netherlands, Slovak Republic, the United Kingdom, Australia, Poland (where private pension schemes provide 50 per cent or more of retirement income), the United States, Sweden, Ireland, Canada, Hungary, Switzerland, Belgium, Germany, New Zealand, Norway and the Czech Republic (between 45 per cent and 17 per cent). Both defined benefits (DB) and defined contribution (DC) plans suffered from the crisis, the former probably less than the latter. It should be noted that far more people with private pensions are now covered by DC as DB schemes are closed to new entrants and sometimes even to existing members. The OECD warns that no country and no pension system whether public or private is immune from the crisis (OECD 2009).

Public pension schemes suffer from dwindling contribution revenues and growing benefit expenditures as a result of lower earnings and rising unemployment. In addition, their reserves have undergone from investment losses and were used in some countries to mitigate the impact of the crisis, notably for recapitalizing failing banks or financing public works programme in Ireland and Norway, taking over private pension funds in Argentina (2008), and more recently in Hungary (2010) and Poland (2011). In mid- June 2011, the Hungarian Government approved using the country's pension fund assets to cut public debt from 81 per cent to 77 per cent of GDP. This followed the transfer, in early June, of €18.2 billion worth of second pillar assets to the State pension plan. Commenting on this transfer, the IMF said "pension sustainability needs to be reassessed" and expressed concern about the use of some returned pension assets for current spending. [11] This concern

[11] See, "Argentina makes pension fund takeover official", Associated Press, 8 Dec. 2008; « Congela griesa otros US$1000 millones - Por pedido de bonistas en default », *La Nación*, 3 Nov. 2008. Available at: www.lanacion.com.ar/nota.asp?nota_id=1065465;
"Hungarian parliament OKs take-over of second-pillar pensions", *IPE*, 15 Dec. 2010. Available at: www.ipe.com/news/hungarian-parliament-oks-take-over-of-second-pillar-pensions_38411.php?s=Hungarian parliament OKs take-over of second-pillar pensions;
"Hungarian government OKs use of pension fund assets to cut debt", IPE, 22 June 2011. Available at: www.ipe.com/news/hungarian-government-oks-use-of-pension-fund-assets-to-cut-debt_41090.php;
"Poland raids private pensions to keep state scheme solvent", IPE, 9 March 2011. Available at: www.ipe.com/news/poland-raids-private-pensions-to-keep-state-scheme-solvent_39678.php?s=Poland raids private pensions to keep state scheme solvent

clearly highlights the interdependency of social, economic and fiscal policies as much as the need for a comprehensive and long-term policy approach to solving the public deficits and debts problem, while keeping in mind the social dimension of the measures and the implications for the sustainability and adequacy of pensions.

Indeed, many people lost much of their retirement savings either in pension plans or in other assets (notably housing); these savings are expected to contribute on average a quarter of retirees' income in OECD countries, but reach more than 50 per cent in seven of them. This impact is particularly acute for older workers who are more likely to become unemployed and have little chance of landing a new job with the same pay level; in addition they have only a short period at work before retirement in which to reconstitute their savings or pension entitlement. Those already retired may be less exposed, particularly if they purchased an annuity payment for their pension assets, locking in earlier investment gains and benefiting from a lifelong pension payment. But those who did not buy an annuity or deferred such a purchase may have suffered large losses, while younger workers who tend to save less at this life stage and are supposed to have more time to recoup the losses during their career may limit the losses. However, they are no less exposed to old-age poverty (OECD 2009).

The ILO notes that in fully funded defined contribution pension schemes, pension entitlements in some cases might be lost completely. If the crisis turns into a long-term downward adjustment of asset prices, the outcome in DC schemes will inevitably be lower benefits paid at retirement. The size of the long-term effect will depend on the depth and the duration of the downturn of asset prices. If the present price reductions turn into permanent adjustments then old-age income will be reduced; if the downturn is short-lived, the effect will be transitional. Nonetheless, the main lesson of the recent crisis is the urgency of a fundamental review of pension systems and the related reforms undertaken during the last two decades.

The crisis has demonstrated the high vulnerability of future pension levels to the performance of capital markets and other economic fluctuations. This must be corrected to protect the pension levels of those who are close to retirement by creating strong minimum pension guarantees to ensure that they have decent living standards when they retire. Some countries have already introduced such guarantees. Others have included in their stimulus packages one-off payments to older people as a temporary relief (Australia, Greece, United Kingdom and United States). Still others have decided to strengthen and expand minimum guarantees in their pension systems; they include Belgium, Finland, France and the United Kingdom, as well as countries with higher-than-average poverty incidence among the elderly, such as Australia, Republic of Korea and Spain.

Beyond these immediate steps, it is necessary to: (a) rebuild trust in public DB schemes, which proved more secure in the crisis; (b) rebalance mixes of pension systems (public PAYG and funded systems, DB vs. DC) to avoid poverty in old age; (c) reconsider pension reforms in a broader context that take account of changing demographic variables, other social protection inputs (unemployment insurance, disability insurance, social assistance) and policies conducive to a more dynamic labour market; (d) ensuring funding levels of DB public pension schemes that optimize the economic role of pension schemes in the short run to address economic fluctuations and in the long run to cope with ageing (ILO 2010a: 118-19).

This comprehensive approach is certainly necessary at a time of sluggish and jobless recovery in high-income countries. In these countries, less resources will be available for the necessary reforms, as GDP growth is expected to remain low in most of them (below 1.5 per cent in the EU) and without or with very limited job growth.

However, given the prospect of a shrinking labour force, the immediate policy emphasis, particularly among international organizations such as the OECD, EU Commission, IMF

and World Bank seems to be on increasing the employment of older workers, and – in response to the looming sovereign debt crisis on fiscal consolidation. The costs of this consolidation, according to the labour movement, is likely to be borne mainly by workers and their families as they imply cuts in public services and in social protection, regressive taxation and downward wage flexibility (TUAC 2011a & b).

On the whole, the OECD notes that there exists in high-income countries a substantial scope for promoting the employment of older workers. Arguably, the situation varies from country to country, but in 2004, an average of less than 60 per cent of the population aged 50-64 in these countries had a job, compared with 76 per cent for the age group 24 49. The figure ranges from less than 50 per cent in certain countries to more than 70 per cent in others. There are numerous work disincentives and employment barriers facing older workers, including age discrimination and poor working conditions, which often result in early exit from the labour market (ILO 2010d). So, despite sustained increases in longevity in these countries, the effective age at which workers retire has tended to follow a downward trend in virtually all of them, at least until recently. Thus, the number of years that workers can expect to spend in retirement has risen considerably – for men, from less than 11 years on average across the OECD in 1970 to just under 18 years in 2004 and, for women, from less than 14 years to just under 23 years (OECD 2006).

While the motto "live longer – work longer" to address the demographic ageing promoted by the OECD (2006), in the context of rapid economic growth in the mid-2000s has been widely accepted among the international financial institutions and the EU Commission, it has met resistance among trade unions and employers. The unions object to it because the implications of raising the retirement age reverse what came to be considered an acquired right and because it fails to consider the long careers of low-skilled and low-paid workers in arduous jobs who tend to have shorter than average life expectancy. For employers, faced with growing competition in a globalized economy, the main concern is the increased cost of employing older workers and the assumption of their lower productivity or declining skills.

After the crisis, the prospects for the OECD option appear slim, given the persistent high levels of unemployment and the jobless growth prospects in the immediate future at least. So the focus of policymakers leans back towards pension reform. This reform needs to be considered in the global economic context, including rising public deficits and debts, the growing exposure of governments to the risk of sovereign debt defaults, the potential of the labour market to attract and retain more people and of the social safety net to facilitate labour market transitions between different social statuses in and out of the labour market (employment, unemployment, education, continued training, sick leave, disability, care and work, retirement and work).

In all these areas, which imply different and changing aspirations, expectations and outcomes for different categories of the population, there are concerns about equity, fairness and solidarity, on the one hand, and enterprise sustainability, on the other. It is thus paramount to give a voice to the stakeholders, particularly the social partners – employers' organizations and trade unions – in policy formulation and in monitoring implementation.

The next section will therefore look at the role of 'social dialogue' as a generic term for various modalities of participation in public debate, consultation or negotiation on pension reforms, in particular in the post-crisis context.

2. Pension reforms and social dialogue

2.1. The context of social dialogue on pension reforms

The preceding sections clearly show the interdependence between macroeconomic and financial developments and social protection systems, in particular pensions, and highlight the related concerns of the major stakeholders, namely governments, employers, workers, retirees and the organizations that represent them.

Governments have to ensure pension funding sustainability not only in relation to the liabilities of public pension schemes, but also as guarantor of last resort in case of employer default. They must also introduce regulations that ensure the sustainability and adequacy of pensions schemes and their cost-effective administration, as well as regulate the relationship between the funds and financial markets.

Employers are stakeholders as well as investors, since they are both contributors to the pension funds and guarantors of their pension liabilities to their employees (at the least in defined benefits schemes). As the management of occupational pension funds is often outsourced to the pension insurance companies who run professional pension funds, employers need to have a say in the management of, and strategies for, their funds. But pension obligations are also subject to policy changes (i.e. changes in retirement age, in indexing formulas or in the eligibility rules in the public PAYG first pillar, all of which influence occupational pension funds). The institutional channel for this 'voice' is a representative body for employers or business. In many countries employers are involved in the management of various social funds including pensions, unemployment funds and wage guarantee funds.

Workers and retirees are direct stakeholders, the former as investors, by virtue of their pension contributions, which are in fact deferred wages, and the latter as beneficiaries of pension payouts. Changes in government regulations on taxation, capital market, remuneration (minimum pay), unemployment, social assistance, labour market and employment policies and pensions are bound to affect their job status and their employment and pension rights. Economic fluctuations and the volatility of financial markets impact on their pay, employment and pensions. They therefore need to have a voice in the formulation of macroeconomic policies and labour market and social protection reforms, in particular those that have an effect on pensions.

Trade unions have traditionally been the institutional channel for this voice, though other professional organizations (for example, nurses' or pilots' associations, some of which may also be affiliated to, or associated with, trade unions) or non-governmental organizations (NGOs) like pensioners' associations have recently been involved. Trade unions also have a historic record of participating in the development of modern welfare States and in shaping and administering mutual complementary pension schemes, unemployment insurance and sick funds. While increasingly many of these protective functions have been taken over and regulated by the State in a number of European countries, unions retained a role in the administration of unemployment insurance, occupational pensions and sometimes also the labour market through tripartite or bipartite bodies.

As already noted, one of the elements essential to sustaining pensions is increasing activity rates across age cohorts and genders. This requires adjustment in the conditions of work and remuneration, career prospects, skill upgrading, incentives to enter the labour market and to stay in employment, and addressing the problems of age and gender discrimination.

Policies and practices in these areas clearly involve all three stakeholders, while social dialogue can facilitate consensus among diverging interests and possible trade-offs.

In the past two decades, demographic ageing and its impact on the sustainability of pensions had become the focus of heated political debate across the European Union as Governments tried to reform their pension systems to respond to increasing concerns about their ability to guarantee a decent income to retirees in the near future. In most instances, reform proposals met with public resentment and a vocal opposition from the social partners – employers' organizations and trade unions – because they tended to increase the obligations of enterprises and employees, involving higher costs to the former and reduced levels of benefits or longer qualifying periods for the latter, also perceived as a reversal of acquired rights. Certain proposals were blocked because of the short-term horizons of politicians. These were reluctant to introduce unpopular reforms for fear of an electoral backlash, postponing reforms indefinitely or introducing them piecemeal with disappointing results.

Across Europe, in countries where comprehensive reform projects were publicly debated and social partners closely involved in reform formulation and implementation, reforms were successfully adopted and implemented, notably in the Nordic countries and the Netherlands. By contrast, in countries where the governments tried to impose reforms unilaterally, the projects invariably failed (or only partially addressed the major issues at stake). In the mid-1990s, opposition to pension reforms brought down governments in no less than three countries Austria, Germany and Italy. In France it prompted the Government to partially renounce its reform plans. In Italy, just one year after a reform proposal had been rejected, the "Dini reform" of the public pension system, introduced by law in 1995, was based on an agreement between the Government and the three trade union confederations, though it was not signed by the employers (Baccaro, 2002).

On the whole, parliamentary debates on labour market and welfare reforms have been stormy and lengthy, rarely leading to successful reforms. So it may be timely to turn to another existing channel for such stakeholder involvement because it proved successful in a number of countries with different industrial relations characteristics and traditions namely social dialogue and collective bargaining (Sarfati, 2003, 2006, 2007).

In the wake of the 2008-09 crisis, governments adopted stimulus packages to stem the recession and to minimize its adverse social impact on workers and enterprises by extending unemployment insurance and coverage, providing subsidies for training and job preserving schemes (mainly via reduced working time), extending social assistance to the unemployed as well as helping enterprises to adapt. In this process, in many countries, governments tended to consult the social partners. Bipartite or tripartite negotiations at national and sectoral levels led to trade-offs to preserve jobs and skills with proportional pay reduction, partly compensated by the State.

2.2. From stimulus packages to austerity and fiscal consolidation: Adjustment through social security without social dialogue?

As soon as the first recovery signs appeared and public deficits rose, and with the pressure from international financial institutions to accelerate the termination of stimulus packages and adopt austerity measures to reduce public debt, governments increasingly sought to introduce measures to reduce the rising cost of pensions. They did this by trying to raise the retirement age and modify eligibility conditions (such as the duration of pension contributions to qualify for full pensions), often with little consultation with the social partners.

In the United States, for example, several States and local authorities are faced with growing public deficits, especially in the wake of the real-estate-cum-financial crisis. They have seen their tax revenue decline as a result of high unemployment, while the potential returns on their pension fund-backed bonds are rather low. They are thus running short of cash and are unable to meet the considerable and rising liabilities of their large unfunded pension schemes, whose assets have been depleted by the falls in equities and other risky assets. As these pensions plans constitute a high proportion of their expenditure and nearly all have funding problems, these cash-strapped States and local authorities are now under the threat of downgrading by the rating agencies.

The situation led the State of Wisconsin, soon followed by others, to adopt, in March 2011, an unprecedented and highly controversial law to restrict the collective bargaining rights of many public sector workers on pay and pensions. It argued that this measure was necessary to limit what it considered the too generous retirement benefits negotiated in a period of economic growth. The Wisconsin Republican Governor claimed the measure was necessary to balance the State budget, and the legislation was adopted despite the concessions on pay and benefit limits that the unions agreed to. Critics of the law claim that the Republicans used the deficits as an excuse to push for another agenda that has more to do with power politics than with economics (Financial Times, 17 & 25 Feb., 10 March 2011). The spread of such legislation bodes ill for building a social consensus on necessary pension reform plans, which could certainly be achieved by a variety of other means. [12]

As the heated debate on public deficits and debts is now also taking place at the federal level, politicians from both the Democratic and Republican parties seek target cuts, and tend to focus on entitlement programmes such as Social Security (the public PAYG). And yet, Social Security has not contributed to the deficit in the past (it is statutorily financed by payroll taxes, so it cannot spend money it does not have). Moreover, it is not the key fiscal problem facing the nation, as the retirement benefits it pays now amount to only five per cent of GDP and they are projected to rise to only about six per cent by 2050, much lower than in most advanced economies (see Appendix A, table A.4), and much lower than health care costs which are expected to increase sixfold. [13]

Arguably, at present, even without reform, Social Security could still pay its full benefit commitments for the next 25 years and between 75 per cent and 80 per cent for several more decades. But warning signals are already present now, as this year Social Security will pay out more in benefits than it receives in payroll taxes, a threshold that was not expected to be bypassed before 2016 (*New York Times* 24 March 2011).

Restoring the balance to Social Security would reassure citizens, whose trust in the system has dramatically declined, as more than eight in 10 citizens believe it is heading for a crisis, according to the latest opinion poll in March 2011 (*Washington Post*, 17 March 2011). It would also reassure investors and the bond markets on the nation's fiscal health and its creditworthiness.

However, while reform is necessary to ensure the PAYG pension system's long-term sustainability, cutting benefits to reduce the public budget deficit would be dangerous since retirement income is already at risk. The recession and anxiety about the system's future

[12] "To cut the deficit, look to social security", by Alicia Munnell (member of the Council of Economic Advisers under President Clinton, currently director of the Center for Retirement Research at Boston College), *New York Times*, 5 April 2011.

[13] Peter Orszag (Director of the White House Office of Management and Budget from 2009 to 2010), "Safer Social Security", New York Times, 14 Nov. 2010.

capacity to pay encouraged people to claim benefits early (at age 62 instead of 66) with a 25 per cent cut, so their pension savings may be insufficient when they have exhausted their other sources of income. Moreover, the need for retirement income increases with longer life expectancy, and the existing employer-sponsored retirement plans (the 401K plans) have low returns as most consist of defined contributions rather than defined benefits. As a result, some 51 per cent of households are at risk of declining living standards.

Against this backdrop, developing a programme that would restore the longer term balance of the Social Security accounts, which would necessarily include benefit cuts, tax increases, indexing full retirement age to improvements in longevity, among others, would suppose a broad consensus among the stakeholders, notably the social partners. Withdrawing collective bargaining rights does not seem conducive to such an outcome.

In the United Kingdom, [14] reform of the public service pension schemes has been in the works for some time. When, in 2005, the former Labour Government tried to reduce its cost, it had to attenuate its plans following strike threats. This left the possibility for almost all existing staff to retire at age 60 or earlier, even though the women's State pension age was already set to rise to 65 and the State pension age was planned to increase for all to 68.

The reform proposals of the current Conservative-Liberal government coalition met with a similar threat of forthcoming strikes in June 2011, as soon as the government-commissioned report on the pension reform was published on 10 March 2011. On 30 June 2011 public sector unions organized a 24-hour strike, the biggest public sector strike for years, in which some 750,000 public servants participated, awakening memories of the industrial strife in the mining and steel industries of the 1980s, which brought Margaret Thatcher to power. As more threats of industrial action were voiced by public service unions for October should negotiations fail, some in the Conservative party and the employers' organization, CBI, called on the Government to toughen anti-strike legislation.

On the eve of the strike, David Cameron, the Prime Minister, who resisted such calls, told Parliament that there was no case for strikes while negotiations continued, and that he would pursue negotiations during July in an effort to find a settlement. He warned, however, that reform was unavoidable because increased longevity threatened the pensions' sustainability.

To illustrate the extent of the emergency, he noted that civil servants who retire at 60 (the current pensionable age for most) would now claim a pension for 30 years, up from 20 years in 1970 – an increase of about 50 per cent. In 2009, total payments to public service pensioners and their dependants amounted to almost £ 32 billion, up by one-third, on top of inflation, compared to 1999.

The gap between contributions and paid out pensions in the public service now stands at £4 billion and this deficit is forecast to reach £ 10 billion by 2014 in the absence of reform. Moreover, public service pensions are subsidized by the taxpayers who contribute over two-thirds of the cost, amounting to £1,000 per household, of maintaining public sector pensions, and this amount is expected to rise continuously.

[14] This comment is based on extensive coverage of the public sector pension reform, including the Hutton report and the latest strike. See: *Financial Times* (6 April, 12 Oct., 22 Nov. 2010, 3, 6, 9, 10 & 11 March 2011, 29 & 30 June, 2-3 July 2011); *The Guardian* (10 March & 30 June 2011); The Telegraph (28 June 2011); IPE (10, 11 & 17 March 2011); and the Hutton report itself, entitled *Independent Public Service Pension Commission: Final Report*, March 2011, 19 pp.

This is considered unfair as private sector pensions have sharply deteriorated, with employers closing many defined benefit (DB) schemes that were linked to final salaries in favour of defined contributions (DC) which depend on investment returns and transfer the related risks to private sector employees. At present more than 80 per cent of public employees are members of a DB occupational pensions scheme, compared to only about 35 per cent of the private sector employees covered by any employer-sponsored pension scheme. In addition, fewer than 10 per cent of those in the private sector are now members of a DB scheme as against about 35 per cent in 1997.

In 2008-09 most of the five million public sector employees were in DB, much higher than the less than two million in the private sector. The Institute of Fiscal Studies estimates that the value of public pension accrual was equal in 2005 to 25 per cent of earnings as against only eight per cent in the private sector. Mr Cameron, however, rejected the argument made by several critics, that public sector pensions were "ridiculously generous", noting that, in fact, around half of public service pensioners received less than £6,000 per year.

The main reform measures that the Government plans to carry out on the basis of the recommendations of the Hutton report are: (a) replacing the existing final salary public service pension scheme by new career-average defined benefit schemes – which Lord Hutton deems fairer to the majority of members that do not have the high salary growth rewarded in final salary schemes; (b) raising the retirement age of the five million public sector workers (currently 60 for most employees) to 66 in 2018, with Lord Hutton recommending that Government should link most schemes' pension age to the State pension age; (c) increasing employee contributions by an average 3.2 percentage points across the public sector, phased in over three years as of 2012, which is expected to raise £ 2.8 billion. For many public sector employees this average may push contributions up by half and by more than double for some, though the lowest paid may be exempt.

In addition to these measures, the Government included in its June 2010 Emergency Budget a switch in the measure of inflation for the annual indexing of public sector pensions (as well as for the State second pension and various other social benefits) from the retail price index (RPI) to the consumer price index (CPI). This move to CPI is expected to produce the Budget's biggest saving, rising from about £ 1.2 billion in 2012 to £ 5.8 billion by 2014-15. For current public sector employees and pensioners it may result in having retirement benefits cut by one-third, according to an official assessment by the Department for Work and Pension carried out in February 2011.

The workers were already carrying the main burden of the 2010 austerity plan, in which a two-year pay freeze and the planned retrenchment of 400,000 public sector staff by 2015-16 were included. They were highly critical of these pension reform measures, resenting the expected decline in pension benefits as a result of the shift to CPI index. They also contested the Government's assessment of the future pension deficit.

Lord Hutton warned the Government that the necessary lasting change in public pensions can be achieved only through effective dialogue between public service employers, employees and their representatives. Both the Government and the unions are aware that a settlement is necessary and that they both stand to lose if they do not reach agreement. So the coming weeks or months would hopefully show the way for a fair and acceptable solution.

Australia presents the peculiarity of having escaped recession in the wake of the global economic downturn, thanks to the strong demand for its raw materials from emerging economies, notably China and India. It has also enjoyed a massive job growth.

Its pension system consists of two tiers, of which the first is the basic Age Pension, the universal State pension scheme for men aged 65+ and women aged 61, funded from general taxation with flat rate benefits. It is supplemented by private contributory pensions

known as 'Superannuation' funds, which were set up in 1985 within the wage awards system. The funds were negotiated by the Australian Council of Trade Unions as part of its national wages claim before the Conciliation and Arbitration Commission (AIRC). The Council sought a three per cent employer superannuation contribution to be paid into industry funds; these funds were mostly managed by joint union-employer organization boards. The Federal Government supported the claim and the Commission accepted the submission in principle.

In 1992, the Federal Government introduced the Super Guarantee Scheme [15] in order to provide superannuation coverage for employees outside the awards system. The scheme required that, in order to avoid paying a taxation levy, an employer must make minimum contributions in respect of all employees, except those in an exemption category. After it was made compulsory, superannuation continued to be dealt with through awards and agreements, and AIRC adopted principles to deal with applications for award superannuation provisions. AIRC's task was to ensure that any award that was made did not contain requirements that would result in an employer failing to meet its obligations under the Super Guarantee legislation. [16]

In March 2006, the legislative amendments made by the Howard Government removed superannuation as an allowable award matter. That meant that AIRC could not arbitrate in relation to superannuation, which continued to be dealt with in agreements. In 2009 the Federal Government established the Super System Review, [17] which resulted in 177 recommendations being presented in June 2010. The review found that superannuation fees were too high, the choice between funds had not delivered a competitive market that reduced costs, and there were too frequent adjustments of the superannuation mechanism. The Federal Government has stated that it will establish a consultative group before implementing reforms. Incremental increases had raised the minimum level of contributions to nine per cent by 2002-2003. In May 2010, the Federal Government announced a staged increase in contributions to begin in 2013 from nine per cent to reach 12 per cent by 30 June 2020. [18]

The challenge to the Australian pension reform is the country's ageing population. Indeed, the Australian Bureau of Statistics (ABS) projects that by 2051 about 25 per cent of the population will be aged 65 or above (cf. Harbridge, 2002: 190). Hence, as Michael Rafferty [19] points out, the Government convened no less than four policy reviews around pension reform, i.e. reviews of the tax system, the age pension, superannuation and financial planning. On the basis of these reviews, the Government has already announced a phased increase in the retirement age, a proposal to raise mandatory superannuation contributions (from nine per cent to 12 per cent of income), and tightening of eligibility for access to the age pension (means and asset testing).

Rafferty believes that these decisions were not being arrived at through social dialogue, either explicitly or implicitly. But he concedes that it would be fair to say that the earlier settlement between organized labour and the Labour Government was based on a

[15] Superannuation Guarantee (Administration) Act 1992, no. 111.

[16] 1994 Superannuation Test Case: judgment.

[17] www.supersystemreview.gov.au/

[18] Information provided by Commissioner Greg Smith, Fair Work Australia, 7 March 2011.

[19] Information provided by Michael Rafferty, Senior Research Analyst University of Sydney Business School, Australia, April 2011 and 30June 2011.

renegotiation of the reviews. He believes, however, that the real issue for all the reviews is whether the Australian system moves toward greater privatization (as in Chile), or remains formally, at least, a system in which superannuation tops up the age pension. In other words, does superannuation still consist of deferred wages on top of the age pension, or is it replacing the age pension in whole or part?

Ireland, unlike Australia, has been badly hit by the global crisis and was still in recession in 2011, with a looming sovereign debt default. Irish-funded occupational pension schemes are in deep trouble as a result of investment losses and increasing liabilities. While there has been much consultation between the Government and the social partners on the crisis, there has perhaps been insufficient action to date to save the pension schemes. Many schemes have been reorganized, with benefit reductions mostly impacting on active and deferred scheme members, while pensions in payment have been, for the most part, protected from reductions. However, many schemes which provided for periodic increases have dropped that provision and the value of a pension may erode over time. The Government, EU Commission and IMF, as part of their so-called 'bailout' deal, have agreed that the age at which the public pension becomes payable will in a short period of time rise from 65 to 68, in effect unilaterally denying workers three years of the pension they paid for through the national social insurance system. There has been no dialogue with the social partners on this question.[20] This clearly is a serious departure from over two decades of social partnership and pacts on social and economic policies (on the latter, see Pochet, Keune & Natali 2010:191-221).

In the context of the bailout of three failing Irish banks and the subsequent growing public deficits, the Government decided on 4 February 2009 to achieve €2.1 billion in spending cuts, of which about €1.4 billion were to be provided by a pension levy on public sector workers, averaging 7.5 per cent of their pay.[21] This is believed to have caused the breakdown of negotiations between the Government and the unions. Though Impact – the largest public service union – said its members had accepted the need for a significant contribution to help the country address its economic problems, they objected to being the main contributors, while neither the business community nor wealthy individuals had been asked to contribute (Investments & Pensions Europe (IPE), 4 Feb. 2009).

Despite the introduction of the pension levy in March 2009, by November the OECD considered that public service pay and pensions should have a further role in producing the savings necessary for balancing Ireland's public deficits. The savings required totalled around €5 billion in both 2010 and 2011 (equivalent to about three per cent of GDP). The OECD suggested that this could be achieved by combining a major reform of the public sector pension scheme (rather than a modification of the existing defined benefit plans) with a State guarantee of certain minimum investment returns.

By May 2010, the Irish Association of Pension Funds (IAPF), which was highly critical of the pension levy, conceded that while the money generated needed to be found somewhere,

[20] Information provided by Fergus Whelan, expert on pensions, Irish Congress of Trade Unions (ICTU), Ireland, March 2011.

[21] Under this plan, the levy was to apply to all public servants, but not to those already receiving a pension. It was graduated to affect people at lower income levels somewhat less and people at higher income levels somewhat more (i.e. a levy of up to three per cent on the first €15,000 of annual pay, 6 per cent on the next €5,000 and 10 per cent on the next €5,000.

the levy "was not the way to do it".[22] It complained that the Government had not responded to its criticism nor listened to its alternative proposals. Its director of policy, Jerry Moriarty, described the levy as a stealth tax, which would cream €2 billion off pension funds over the next four years, noting that it applied to private sector but not to public sector schemes – an omission criticized as unfair by pension providers.[23]

Another policy measure of concern is the use of the National Pension Reserve Fund (NPRF) for reducing public gross debt. Indeed, the fund was set up to pay some of the projected increase in the cost of State and public service pensions after 2025. The OECD acknowledged that, in coping with public deficits, it might be necessary temporarily to suspend payments into NPRF. However, this fund should be maintained to increase government savings for the future, despite the poor returns in 2008, because the underlying long-term ageing problem remained and was even more problematic as a result of the overall increase in public debt (IPE, 5 Nov 2009).[24]

Despite this concern, by February 2011, the Irish Association of Pension Funds (IAPF) warned that NPRF had been largely exhausted on recapitalizing the banks. Of the €25 billion that had been saved, there would only be about €7 billion left following the agreement with EU/IMF. The liabilities of public sector pension schemes alone had increased to €116 billion, exceeding the November 2010 EU/IMF bailout of €85 billion. With defined benefit schemes mostly in deficit, members were now faced with the prospect of reduced benefits and higher contributions. While the new Fine Gael Government announced a National Pension Framework (NPF) in March 2011, the bailout plan raised doubts about when and how it could be implemented (IPE, 14 Feb 2011).[25] Indeed, by late June 2011, the Pensions Board acknowledged that the number of active Irish pension schemes had fallen by almost 10 per cent in 2010, while three-quarters of the defined benefit schemes were in deficit. The Board's chair Jane Williams sounded the alarm about the impact of the recession, specifically highlighting the shrinking workforce and the resulting drop in the numbers participating in occupational pension schemes, which could have lasting consequences.[26]

In France, too, the reform of pensions introduced in 2010 has been one of the main means of adjusting to the global economic downturn with little social dialogue (see infra).

These developments clearly show the difficulties not only of maintaining a broad social dialogue on crucial social and economic issues that affect the well-being of the population, but also the external pressure exerted on governments to elaborate and implement recovery

[22] "Irish Government confirms 'damaging' levy on pension funds", in *IPE*, 11 May 2011. Available at: www.ipe.com/news/irish-government-confirms-damaging-levy-on-pension-funds_40492.php?s=Irish government confirms 'damaging' levy on pension funds

[23] "Irish pension funds attack government's levy proposal", in *IPE*, 6 May 2011. Available at: www.ipe.com/news/irish-pension-funds-attack-governments-levy-proposal_40454.php

[24] The value of NPRF assets fell by 10.5 per cent in 2008 and again by 6.7 per cent in the first quarter of 2009, corresponding to a drop over the year to end March 2009 of almost €4 billion from €19.4 billion to €15.5 billion. Almost a quarter of the fund's assets are now invested under the direction of the Minister of Finance as part of the bank recapitalization scheme (IPE, 9 Apr. 2009).

[25] "Pension policy in the wake of the Irish recovery plan", in IPE, 14 Feb. 2011. Available at: www.ipe.com/news/pension-policy-in-the-wake-of-the-irish-recovery-plan_39194.php?s=Pension policy in the wake of the Irish recovery plan

[26] "Number of active Irish pension schemes slumps by 10%", in IPE, 21 June 201. Available at: www.ipe.com/news/number-of-active-irish-pension-schemes-slumps-by-10_41075.php

plans that take account of the social dimension and their long-term adverse impact, notably on pensions.

In Denmark, before the global economic crisis, a change was introduced to the pension system in 2006. To become effective in 2019, it provides for postponing withdrawal from the labour market and a gradual increase in pension age and the age for eligibility for voluntary early retirement pay (VERP), linking retirement age to life expectancy at 60.[27] Professor Madsen[28] points out that this 2006 agreement, entitled "Prosperity and Welfare for the Future", was presented as a reform that would lay the foundation for a stable long-term development of the economy, employment and public finances by making Denmark better prepared for the challenges of globalization. It involved the coalition Government (the Liberal Party and the Conservatives) and the opposition parties (the Social Democrats, the Danish People's Party and the Social Liberals or Radikale Venstre). The social partners did not participate in the negotiations, but it can be assumed that some informal consultations took place between the Social Democrats and the trade unions.

In January 2011, the Government announced plans for a new retirement reform, including abolishing early retirement altogether for unskilled workers, increasing the retirement age to 70 for birth cohort 1970. In the first two years of early retirement (as it is now), people will receive only 91 per cent of their pension benefit and deductions will be made for all occupational pensions. Thereafter, deductions are to be applied (55 per cent) only for occupational pensions (as has been the case since 1998), but as occupational pensions mature, this means that early retirement will be more or less phased out for people with above-average incomes.

On 13 May 2011, a new political agreement was reached between the two parties in Government and two opposition parties (the Danish People's Party and the Social Liberals) concerning retirement reform. It brings forward by five years parts of the 2006 Welfare Agreement, thereby gradually increasing the age for the voluntary early retirement pay (VERP) by half a year per year from 2014 to 2017, while raising pensionable age by half a year per year from 2019 to 2022. The duration of VERP is shortened progressively from five to three years from 2018 to 2023. The deduction made for private pension assets will be larger, thus de facto reserving VERP for persons with small private pensions.

Another important element is the introduction of an opt-out option for those who have already contributed to the scheme, who can now withdraw the money paid into the scheme without paying taxes, in spite of the fact that the contributions have been tax-deductible. The linkage between retirement age and life expectancy is maintained. Moreover, a new early retirement scheme, labelled "senior disability pension", is introduced for persons who are less than five years from retirement age. The scheme is in most respects similar to the present disability pension, but the procedure for applying will be simpler and there will be no requirement to undergo work testing. The scheme will be open to all workforce participants, i.e. not limited to those who have contributed to VERP. Finally, the agreement includes incentives for recipients of old-age pension to have part-time work.

This new reform has not been discussed with the social partners and is fiercely opposed by the blue-collar trade unions (see infra). However, it will become effective only if the

[27] Information provided by Professor Jorgen Goul Andersen of the Department of Political Science, University of Aarhus, Denmark, Mar. 2011. Andersen contributed a fascinating history and analysis of the Danish pension system "Denmark: The Silent Revolution towards a Multipillar Pension System", in Ebbinghaus (2011): Ch. 7.

[28] Prof. Per Kongshoej Madsen, Centre for Labour Market Research (CARMA), Dept. of Political Science, Aalborg University, Aalborg, Denmark, 4 March and 22 May 2011.

current coalition parties behind it win a majority in Parliament at the next election, due no later than November 2011.

Turning to the trade union reaction, Mia Rasmussen,[29] from LO, the Danish Confederation of Trade Unions, points out that the reform proposal introduced in January 2011 conflicts with the Danish statutory early retirement scheme. It implies that five years before the official retirement age (which will increase in the coming years due to the 2006 reform), people are able to retire on a government-subsidized pensions scheme as long as they fulfill certain requirements, notably membership in an unemployment insurance fund, having paid pension contributions for 30 years and being available for the labour market at the time of obtaining the right (currently at age 60). She notes that the Government's proposal met strong objections mainly from the trade unions for manual workers; the unions representing professional and managerial staff supported it. However, strong public criticisms and the campaigns to point out the consequences of repealing the existing retirement scheme have turned the general public against the proposal. One of these consequences would be that the earliest retirement age (for non-health reasons) would be 71½ years for a person who in 2010 was 20 years old. She notes that the Government had called for negotiation on the proposal in the late spring of 2011, but that in March 2011 there did not seem to be majority support in Parliament for the proposal in its current form. Moreover, there had been no official dialogue between the Government and the social partners on the subject.

To conclude this description with a more global and long-term view of social dialogue on pensions in Denmark, it should be recalled, as Professor Andersen points out, that the social partners introduced occupational pensions for (nearly) everybody in 1989, 1991 and 1993. Taken together, these constitute a huge pension reform, which took place without legislation. By contrast, the 1998 and 2006 reforms, as well as the 2011 reform proposal, were not discussed with the social partners.

Re-emerging social dialogue

Across Europe and beyond (Chile, Japan, Republic of Korea, Nigeria and South Africa, to mention a few countries), there was a strong consensus among the social partners to support government stimulus packages. In several countries joint or tripartite agreements were concluded to preserve jobs by reducing working time, with governments topping up the lost pay. However, consensus became increasingly elusive between the social partners and the government and among the social partners themselves as the pressure for competitiveness increased with the early signs of recovery, with employers looking for more flexibility in job status and pay. Unions were increasingly resisting government plans to raise the mandatory pension age and years of contributions; they also did not welcome pressures from employers on jobs and pay, noting that the impact of the crisis and the austerity measures were borne mainly by the workforce. So consensus has been disrupted, even in countries where social dialogue had been prevalent for generations, notably the Nordic countries, Ireland, the Netherlands and Spain. However, there are instances, as in the Netherlands and Spain, where such dialogue is re-emerging, probably as a result of a growing awareness that the harsh economic and demographic context leaves little leeway for policy adjustment, and that mere opposition without alternative viable proposals leads down a blind alley.

In Spain, for instance, following the request of the Catalan centre right party (CiU), the Congress Working Committee agreed in late June 2011 to introduce new conditions to

[29] Information provided by Mia Rasmussen, Economist at LO, the Danish Confederation of Trade Unions, Denmark, March 2011.

soften the pension reform plan launched by the Government earlier in the year (Appendix B). One of the new conditions allowed all Spanish workers to take into account paid training undertaken over a period of two years in the calculation of pension benefits. In the plan introduced in January 2011, only workers who had received training over a period of four years before the introduction of the pension reform were allowed to include those years in their pension calculations. The Congress Working Committee also agreed to revise the statutory retirement age for workers with disabilities, with those having a total impairment of more than 45 per cent being allowed to retire at 56, instead of the current 58 (IPE, 23 June 2011).

The International Monetary Fund, while recognizing that the various reforms introduced by the Government have improved the economy, considers their impact insufficient. It has called on the Spanish Government to adopt much deeper reforms to stabilize the economy, including reforms in the labour market and the pensions system (*Financial Times*, 22 June 2011).

In the **Netherlands**, meanwhile, the tripartite agreement reached on a radical pension reform on 10 June 2011 (Appendix B) was strongly opposed by the two largest trade unions affiliated to the FNV Confederation, namely FNV Bondgenoten and Abvako FNV. They opposed the raising of pensionable age by two years from 65 to 67 by 2025, and called for a referendum against it. They believed the pension deal offered insufficient guarantees to low-wage earners and let employers off the hook in times of crisis.

During a referendum among members, both Bondgenoten and Abvako rejected the pension agreement. In subsequent negotiations, FNV demanded compromise measures. These included a guarantee that workers who were currently participating in the 'tax-friendly life course' (levensloop) scheme would be able to continue saving for early retirement and that low-wage workers would also be allowed to save enough to avoid an income gap when they retired at age 65. [30]

These compromises were granted. In September 2011, the Social Affairs Minister, Henk Kamp, made concessions to enable employees to continue saving for early retirement through the 'tax-friendly life course' scheme. Low-income workers who worked after reaching 62 years of age would receive €9,000 instead of €5,000 in tax benefits. This would allow them to retire at age 65 in 2020 when the retirement age was due to increase to 66 years. [31] Having gone through lengthy negotiations and having obtained government concessions, the FNV endorsed the Pensions Agreement on 20 September 2011.

The aforementioned developments show that there is need for an open-minded and flexible or resilient approach from all stakeholders to address the complex issues involved in pension reforms. When there is disagreement, the stakeholders should not simply give up, but maintain contact and strive to restore confidence in order to bridge their differences and move the dialogue forward.

So what are the preconditions for social dialogue in different national contexts? What have been the diverse approaches in selected countries that can be conducive to a consensus under current constraints? And what has been the experience with – or without – social

[30] Preesman, Leen and André de Vos. "Dutch Pensions Agreement at risk as unions fail to find common ground," in *IPE*, 13 Sep. 2011. Available at: http://ipe.com/news/dutch-pensions-agreement-at-risk-as-unions-fail-to-find-common-ground_42012.php?s=netherlands

[31] Preesman, Leen. "Final deal on Dutch Pensions Agreement in sight after government concessions", in *IPE*, 14 Sep. 2011. Available at: http://ipe.com/news/final-deal-on-dutch-pensions-agreement-in-sight-after-government-concessions_42027.php?s=netherlands

dialogue in the most recent pension reforms in 10 countries from different world regions on which data has been collected? These questions will be dealt with in the sections that follow and in the 10 country briefs presented in Appendix B.

2.3. Preconditions for social dialogue

As a preliminary comment, it is worth recalling that ***social dialogue*** is an essential element of ILO structure and policies and an integral part of the European industrial relations systems. ILO Recommendation No. 113 on consultation at industrial and national levels, adopted by the ILC as far back as 1960, calls on member States to take measures appropriate to national conditions to promote such effective consultation and cooperation at these levels between the public authorities and employers' and workers' organizations, as well as among these organizations. While the nature of consultation procedures is left to member States, the Recommendation states that it "should aim, in particular, at joint consideration of matters of mutual concern with a view to arriving, to the fullest possible extent, at agreed solutions", and that it must cover a broad range of issues including "… the preparation of laws and regulations … and the elaboration and implementation of plans of economic and social development." [32]

Arguably, social dialogue has different meanings and scope in different national contexts, but it has a commonly acknowledged feature of involving the social partners, in many cases also governments, in consultations, negotiations and even collective bargaining. In the EU over the past decades, governments in various countries tried to involve trade unions and employers organizations in tripartite ***social pacts***, defined as tripartite bargains or "publicly announced formal policy contracts between government and social partners over income, labour market or welfare policies that identify policy issues and targets, means to achieve them and tasks and responsibilities of the signatories" (Avdagic, Rhodes and Visser, 2011). They can have different contents, forms, scopes and durations. Social pacts were concluded in the past two decades, with successful completion of negotiations in two-thirds of cases, though in the past decade their number was halved (reaching 44) in comparison to the 1990s (Pochet, Keune and Natali 2010). Among the most recent social pacts the main issue was wage setting and the use of inflation targets, followed, in declining order of priority, by social security (in particular, unemployment insurance), vocational training, active labour market policies, employment protection and pension reform (EU, 2011).

Despite arguments by several analysts that socio-economic trends like globalization, European integration, technological change and the employers' quest for flexibility, on the one hand, and the decline in trade union membership and in centralized bargaining, on the other, have rendered social dialogue obsolete, it seems to have survived. Social pacts have had a renaissance in Europe over the past decade, and social dialogue has developed in South Africa, the Republic of Korea (Papadakis, 2006; Baccaro and Lim, 2007) and Uruguay (see Appendix B).

The ILO has traditionally promoted social dialogue, notably in response to crisis situations, considering it more effective in stimulating demand, and more equitable because it protects the vulnerable groups of society as has been shown by the Global Jobs Pact. In many countries the combination of public policy measures and tripartite consultation has helped to mitigate the consequences of the economic crisis and to accelerate recovery. However, not all countries have resorted to social dialogue in shaping their response to the crisis. In

[32] ILO: Consultation (Industrial and National Levels) Recommendation, 1960 (No. 113).

some countries, attempts to reach consensus have failed, while in others governments chose to act unilaterally.

Arguably, social dialogue, takes place in an institutional context that varies widely among countries, even among those that have long-standing traditions in this area. In some countries, where social dialogue has existed for decades, it has gradually evolved from dealing primarily with traditional workplace or sectoral industrial relations matters to encompass broader cross-sectoral or macroeconomic policy issues, notably in Europe.

In the United States, the President's Commission on Fiscal Reform (the so-called Simpson/Bowles Commission), which reported its recommendations in December 2010, was appointed by the President with a firm reporting date and representation from all quarters, including employers' organizations and unions. Social security/pension reform was an important chapter of the Commission's recommendations and it covered a wide variety of measures to ensure the future solvency of the system (e.g. changes in indexation, the retirement age and the benefit formula; increase in the tax ceiling, introduction of a new minimum benefit).[33] The Commission's recommendations, however, were not well received and most Republicans and Democrats have shied away from endorsing it in its entirety, though parts were supported by both parties.

These differing approaches raise the question of whether particular circumstances or institutional arrangements are conducive to social dialogue or characterize its absence. Two recent papers look into this question and their conclusions are briefly summarized below. A brief reference is also made to Latin America.

In their research work, Baccaro and Heeb first tried to establish whether or not there was a social dialogue in response to the financial crisis between 2008 and 2010, and whether there was a national-level agreement among government, unions and employers' associations. They also sought to find out whether, in the absence of such tripartite agreements, employers and unions play an important role in adjustment programmes through sectoral collective agreements. Basing themselves on parameters identified by previous research, they retain four factors that may explain the presence or absence of social dialogue as a response to the crisis, namely:

- a *legacy of tripartite policymaking*, i.e. whether in the given country a social pact has been signed in the past 10 years or, in its absence, whether there is an institutional system in which public policy is discussed and/or negotiated with the social partners as a routine matter;

- a *serious economic crisis* that fundamentally threatens the country's economic and financial viability with negative GDP growth in one or more years between 2008 and 2010;

- *trade union strength*, as measured by union membership density equal to or greater than 20 per cent; and

- *Freedom of association*, i.e. independently of the unions' organizational strength, whether or not they are allowed to organize freely.

The *analysis of these four parameters* in 44 countries is based mainly on information collected by ILO through the *Crisis Policy Inventory Questionnaire* filled by country or regional experts (ILO 2010 b).

[33] United States (2010): The National Commission on fiscal Responsibility and Reform: The Moment of Truth, The White House, Washington, D.C., December.

Baccaro and Heeb show how modalities and outcomes for social dialogue vary with differing institutional arrangements and degrees of severity of the crisis in several countries around the world. They include Brazil, Germany, Hungary, Republic of Korea, South Africa and Switzerland.

The general conclusion of Baccaro and Heeb is that, while social dialogue may not be used or may fail where trade union rights are guaranteed, freedom of association is a prerequisite. Therefore, if national and international policymakers believe that social dialogue is an efficient and equitable response to economic emergency, they should operate to strengthen freedom of association in contexts in which it is not currently guaranteed (Baccaro & Heeb, 2011). This is in line with the earlier-mentioned stipulations of the ILO Resolution concerning tripartism and social dialogue, which identify freedom of association and collective bargaining as preconditions for effective social dialogue.

The second paper, by Freyssinet, analyses the conditions which can be associated with the existence or absence of social dialogue in response to the recent crisis. Freyssinet uses three sets of circumstances in six European countries France, Germany, Ireland, the Netherlands, Spain and the United Kingdom in the institutional context surrounding the formulation of industrial relations regulation. Freyssinet concludes, among others, that:

- There is no "one best way" that would qualify any type of development of employment and social regulation as more effective in responding to the impact of the crisis on labour relations.

- The behaviour of the actors is guided, but not predetermined, by existing institutions, because the actors can retain their capacity to change their strategies (as shown by the German and Irish response to the crisis).

- The existence of tripartite agreements does not predict the quality of their contents (e.g. the social pacts of the 1990s had balanced trade-offs, but there are instances where such agreements impose on unions important concessions just to be able to remain acknowledged actors in the social regulation area).

- While the early stimulus plans exhibiting a political will to attenuate the social cost of the crisis secured a broad consensus, the bouncing back of the imperatives of a return to international competitiveness, balancing public deficits and even securing the monetary and financial credibility of governments are bound to change the order of priorities to varying extents in different countries. Thus the crisis can constitute a window of opportunity to impose on unions reforms in pay and employment status flexibility that have figured on the policy agenda of employers and certain governments well before the recent crisis. (Freyssinet 2011a; see also Freyssinet's case study of France in Appendix B, as well as the studies of Spain and the Netherlands in the same Appendix.)

Turning to Latin America, an ISSA report notes that, while active inclusion of all social partners and stakeholders in the process of social dialogue to reach national consensus on social security reform is often considered the exception rather than the rule, recent experience in this region shows that there has been a visible trend to resort to public consultations and debate with regard to pension system reform proposals in particular. In the region this has been considered as "a mechanism to extend and improve social governance and help legitimize not only government policy but also social security systems."

The main purpose has been to reduce the gaps between active (essentially, formal-sector) contributors and the total number of affiliates in countries operating defined contribution pension schemes, which ranged between approximately 36 per cent and 69 per cent. The combination of such high levels of unpaid contributions and the fluctuating investment

returns put at risk the levels of future pension benefits in the countries concerned. To deal with this issue, a participatory process was put in place to shape the reforms. As a result, the reform focus shifted from economic factors to coverage extension, adequacy and scope of benefits, and the impact on public finance (the economic factors were still taken into consideration but were no longer the main objectives of the reforms). Countries such as Argentina, Barbados, Brazil, Chile, Costa Rica, Nicaragua, Panama, Peru and Uruguay have established a national dialogue on pension reform. These diverse country experiences on social dialogue led ISSA to draw five important policy implications for pension reform processes:

- The fundamentals of social security outcomes have regained priority. Pension reforms must simultaneously address issues of coverage, adequacy of benefits and the capacity of public finance to integrate contributory and tax-financed approaches.
- Reform should be envisaged as a participatory and socially consensual process.
- The highest level of political leadership is vital.
- Interaction between actuaries, economists, empirical research, lawyers, policymakers and the policy-implementing administrative agencies is necessary.
- Education about social security to inform public understanding about how society manages social risk is necessary (ISSA 2010a: 21-24).

The range of policies discussed above clearly directly affect workers, employers, local authorities and citizens. In democratic societies, it is therefore only natural that these stakeholders be involved in the formulation of policies that impact not only on their daily lives at work and beyond, but also on intra- and inter-generational solidarities.

The conclusions of the Baccaro and Freyssinet studies, and the Spanish and Latin American experience, need all to be kept in mind when trying to assess the potential for social dialogue in the post-crisis debate on pension reforms.

The next section looks at the extent to which social dialogue has taken place in the recent pension reform measures in selected 10 countries.

2.4. Social dialogue on pension reforms in the post-crisis context

This section draws essentially on the experiences of 10 countries from different world regions on which nine short case studies were carried out on the subject of pension reforms by national experts for the ILO Industrial and Employment Relations and Social Security Departments. The countries concerned are China, France, Greece, Jordan, Mauritius, the Netherlands, Slovenia, Sweden and Uruguay. A summary on Spain was added, for which information was received direct from national sources on the negotiation of the social pact approved in February 2011, which contains an important component on pension reform. A more detailed presentation of these 10 studies is given in Appendix B to this report.

This paper has highlighted the complex factors surrounding efforts to ensure the viability, adequacy and broad coverage of pension schemes to prevent old-age poverty in the context of rapid demographic ageing, the global financial markets and economic slump or slow growth. It has tried to show the difficulty of finding adequate solutions to this equation, which involves tough negotiations and difficult decisions, often resulting in a sharing of the burden among economic sectors and social groups which is unequal, or is at least perceived to be so. It is apparent that there is growing public discontent and protest against austerity measures, rising unemployment and exclusion, a discontent which is also directed to policies leading to smaller pension benefits, higher pension contributions and an

obligation to work longer. In this light, the obvious implication is that social dialogue offers the route to reaching a broad consensus amongst the main stakeholders and governments.

As regards the financial markets, this approach seemed widely shared in the early response to the global crisis. However, the bouncing back of the markets since the end of 2010 and the first quarter of 2011 seems to have signalled a return to 'business as usual', and there are even early warnings of a new Internet bubble that echoes the 1990s dot-com euphoria (cf. "LinkedIn euphoria sparks fears of bubble", Financial Times, 20 May 2011). Meanwhile, recent efforts to regulate these markets at national, regional and international levels have become increasingly difficult as the unified approach pledged by the G20 in the wake of the global crisis threatens to unravel (cf. "A shield asunder", Op.Ed. Analysis, *Financial Times*, 20 May 2011).

Against this background, it is worrying to see a decline in social dialogue even in countries with long traditions of social consensus on macroeconomic issues and on pension reforms in particular. However, this paper has shown that, even in severe economic conditions, it is possible through social dialogue for the social partners, the employers and workers, together with governments, to avert the higher social and economic costs to all concerned which would result from the failure to reach consensus, notwithstanding the toughness of the negotiations.

Indeed, the difficulties encountered, which are certainly shared by many countries in different latitudes, include fragmentation among the social partners, the tendency of governments who may be under pressure to cut short national debates to act unilaterally, and growing public deficits and sovereign debts. The demands to act swiftly on austerity and reform measures are reflected in pressures from the international financial institutions, often, it may seem, with little or limited apparent concern for their social impact. While the concluding remarks that follow seek to draw pertinent lessons for countries across world regions, it should be appreciated that they are derived specifically from the 10 country studies covered by this paper.

Changes in the pension system

The 10 countries under review have all been affected by the global financial and economic crisis though to different extents, as shown by the country briefs (cf. Appendix B). Most of them have undertaken reforms of various components of their pension systems, which included one or several of the measures listed in table 2.1.

Table 2.1. Checklist summary of pension reforms

Country	Age	Contributions (years or %)	Formula calculation	Early retirement changes	Coverage	Adequacy	Work incentives	Other
China	X				X			X
France	X	X			X	X	X	X
Greece	X	X		X		X	X	X
Jordan		X	X	X	X			
Mauritius	X	X	X					
Netherlands	X							X
Slovenia	X	X	X	X			X	X
Spain	X	X	X	X		X	X	
Sweden			X			X		X
Uruguay		X					X	

Source: Based on the information provided in the 10 country case studies unless otherwise indicated.

With the exception of Sweden (where the statutory retirement age was increased in 1998) and Uruguay, seven countries (China/Shanghai; France, Greece, Mauritius, Netherlands, Slovenia, Spain) have postponed the statutory retirement age and six (France, Greece, Jordan, Mauritius, Slovenia and Spain) have increased the number of contribution years required to have full pension rates. Five countries (Jordan, Mauritius, Slovenia, Spain and Sweden) have changed the formula for calculating pensions, making it less favourable. Four (Greece, Jordan, Slovenia and Spain) have introduced measures tightening the conditions of access to early retirement.

Greece, Slovenia and Spain and, to a lesser extent, France have introduced plans combining several measures. These include an increase in the statutory retirement age and of the contribution years required to access full pension rates, a tightening of early retirement rules, and incentives to encourage older workers to work longer in order to make the pension systems more sustainable.

In some instances the introduction of tougher rules for access to full pension rates and the increase in the retirement age have been accompanied by measures meant to improve coverage or adequacy (or both) of pension benefits. This has been the case in countries such as France and Spain as shown by table 2.1. Jordan has extended social security coverage to a wide range of categories of workers such as agricultural workers, fishermen, housewives and self-employed persons. This was paralleled by an increase in the minimum number of contribution years required to access to old-age pension benefits and a tightening of the rules governing access to early retirement.

China and Uruguay are rather special cases. In China the focus of reform has been on strengthening and expanding the coverage of the social security system, though the major city of Shanghai did raise the statutory retirement age from 60 to 65 years for men and from 55 to 60 for female enterprise workers. Uruguay, on the other hand, has maintained the statutory retirement age while relaxing the rules for access to a retirement pension by decreasing the number of years of activity required (from 35 to 30) and granting women who have had breaks in their careers to raise children additional entitlements. (Women will be credited with one additional year of work per child, whether their own or adopted, up to a maximum of five. This benefit can be used to supplement insufficient working years or to increase the amount of the pension.)

... accelerated by the financial/economic crisis and pressure from financial markets and international institutions

While pension reform has been a major concern to policymakers in the 10 countries and worldwide for many years, and even decades, the impact of the global financial and economic crisis has added further urgency to the need to meet the demographic and structural challenges facing pension systems. The stress has been compounded by rising public deficits and debts (with the exception, amongst the countries studied here, of Uruguay).

In Jordan, for instance, the decision to embark on an ambitious reform of the social security law, including the reform of the pension system, was made before the outbreak of the financial and economic crisis in 2007. By late 2008, the financial crisis further encouraged the promoters of the reform to go ahead; various forums were used to convince the Jordanians of the relevance and the urgency of the reform. While, at an early stage, it appeared that the opposition to the reforms was fairly united, this approach may have disrupted that unity (bringing about a change of mind among the engineering professional unions, for instance).

In Mauritius, the discussion on pension reform started in 2001 with a conference organized by the World Bank and the Ministry of Social Security on the problem of an ageing population and the related need for pension reform. One outcome was that the Government put forward proposals which would have resulted in making the Basic Retirement Pension (BRP), originally conceived as universal and non-contributory, contributory and dependent on means testing. The trade unions boycotted the conference, and organized strong popular opposition to this measure, compelling the Government to restore the non-contributory, universal basis for the scheme. Subsequently, however, and following consultations with stakeholders in the public sector, the Ministry of Finance announced two major reforms in the 2006-2007 Budget. These were an increase in the retirement age and making the BRP contributory in the public sector as of July 2008, requiring public employees to contribute six per cent of their pay and their employers 12 per cent. The economic crisis, which hit the country in 2008, accelerated the adoption of this reform.

In Sweden, the large fall of stock market values in autumn 2008 led to a considerable deterioration in the financial position of the pensions system. This moved the multiparty Parliamentary Pension Group[34] to consider whether a key parameter underlying the calculation formula for the pension benefit (the so-called "balance figure") produced an "optimally true picture" of the financial position of the pension system. The balance figure represents the ratio of total assets (i.e. total pension contributions plus asset value of the public buffer funds) to the liabilities of the pay-as-you-go pension system. It became clear that, as a result of the global financial crisis, the modification of this parameter, pending since the 1994 pension reform, had become urgent.

In France, the Government has drawn attention repeatedly to the potentially long-lasting impact of the crisis and the urgent need to rein in public deficits and debt. It pressed for the urgent completion of the 2010 pension reform, leaving very little time for consultations with the social partners. At the conclusion of the reform process in October 2010, an amendment was filed to organize a national debate on the possible introduction of systemic pension reform, currently planned for 2013. However, French experts have recently said that this debate is unlikely to go ahead, as several political and economic issues remain. Though they acknowledge that the idea of systemic reform is probably the best option, as the current pension system does not fit the economic and demographic situation, they consider that the French are not ready for it. They expect that the Government to be elected in 2012 will probably amend the reforms introduced in 2003 and 2010. Indeed, these

[34] Consisting of five parties in the Swedish Parliament, including the Social Democratic Party, Moderate Conservative Party, Liberal Party, Center Party and Christian Democratic Party.

reforms, which aim to extend contributions and push back the statutory retirement age from 60 to 62 years, are seen as a temporary means of tackling the deficit. Many pension experts in the country argue that those reforms will be insufficient to absorb the deficit and that systemic reform would cut costs as a result of a better understanding of the demographics. Like many other European countries, the French pension system is facing a sizeable deficit due mainly to an ageing population and a low birth rate. [35]

Arguing likewise in the aftermath of the crisis, international institutions such as the International Monetary Fund, OECD and the European Union have also exerted strong pressures on governments to accelerate the reform of pension systems. This has clearly been the case in countries such as Greece, Slovenia and Spain (and, as already noted, Ireland).

In Greece, the 2010 Memorandum of Agreement with the EU and IMF on the emergency package includes specific requirements for social insurance and pension reform that aim at ensuring the pension system's long-term sustainability.

In Slovenia, the stability programme introduced by the Government in January 2010 may be seen as a response to both the EU Commission Excessive Debt procedure (launched in 2009 under the EU Stability and Growth Pact) and the repeated representations made to the Government by the OECD. There had been a dramatic increase in the Slovenian budget deficits and public debt in the wake of the global economic crisis.

In Spain, the IMF issued blunt warnings to the Government in May 2010, urging it to implement harsh cuts and transform the country's labour market and pensions system, while also stressing the need for consolidating the domestic banking sector. The groundbreaking, tripartite Social and Economic Agreement for Growth, Employment and Pensions guarantee was reached between the social partners in February 2011, albeit after long and difficult negotiations. Nevertheless, the Agreement has not assuaged public indignation at the unprecedented and persistent high level of unemployment, particularly among youth (45 per cent among the 16 to 29 year-olds according to the National Statistics Institute, high even at the figure of 35 per cent preferred by the Government), or the distrust among unemployed graduates and the disillusionment with the existing bipartisan political system. The unrest resulted in a protracted wave of public protest in May 2011 ("Pain in Spain drives young people's protest", *Financial Times* 20 May 2011), which was still continuing in June.

In many cases, the social partners, especially the trade unions, have specifically criticized the pressure exerted by the international financial institutions and rejected their prescriptions for urgent reforms. The highly vocal protests in Greece, Slovenia, France and Spain were provoked by this dissension.

In Slovenia, the IMF found fault with pension reform proposals as being insufficient, because they did not go far enough to address the growing pressures on the State Treasury which will see pension expenditure rise to one of the highest levels in the European Union by 2050. The reform proposals were passed by the Slovenian Parliament in December 2010 (Appendix B). The reform package was challenged in the courts by the unions, resulting in a binding referendum that dismissed the package on 5 June 2011 by an overwhelming majority of 70 per cent. The referendum rejected the increase of the statutory retirement age to 65, the lowering of the pension's income replacement rate and the changes in the conditions of access to second pillar retirement savings. It is noteworthy that the Prime Minister himself admitted just before the referendum that Slovenians were

[35] "French experts skeptical of systemic pensions reform," in *IPE*, 15 June 2011. Available at: www.ipe.com/news/french-experts-sceptical-of-systemic-pensions-reform_40989.php?s=france

unlikely to approve the changes and conceded that the reforms had not been introduced properly. [36]

Trade unions, including the International Trade Union Confederation (ITUC), argue that international institutions failed to take into account the need for genuine and effective consultations between public authorities and stakeholders, and particularly the social partners, in order to build national consensus on the reform objectives and implementation strategies. Furthermore, they failed to take into consideration the impact of labour market conditions, especially age discrimination, on the choices of older workers. [37]

Even when an agreement has been reached between the government and social partners to increase the retirement age within a defined time frame, pressure has been maintained on them to accelerate the pace of retirement age increase as shown by the Dutch case. The Dutch Parliament has endorsed the government's proposal to increase the retirement age for the state pension AOW to 66 in 2020 and subsequently to 67 in 2025. During the discussion in Parliament, social affairs Minister Henk Kamp again rejected a proposal – tabled by the liberal democrat party (D66) and the green party (GroenLinks) – to start increasing the AOW age incrementally next year. "We must stick to the Pensions Agreement with employers and workers, to avoid new uncertainty and new negotiations, so we can implement the necessary measures as soon as possible," he said. "If we opt for a premature review of the Pensions Agreement, the whole deal might collapse."

... involving little social dialogue and limited outcomes

Acting in haste, often under pressure from financial markets and international institutions, to finalize pension reforms, many governments have left little room for effective consultation with the social partners and other stakeholders. In France, for example, after the Government published a draft bill, the social partners had just three days to make suggestions. The trade unions considered the period unreasonably short for preparing their observations on the text of the draft law. Furthermore, the Government held meetings on the pension reform plans with each social partner separately instead of organizing collective tripartite consultations during which all parties would have exchanged views and arguments. The trade unions described the consultations initiated by the Government as a "farce" (Freyssinet, 2011).

In Greece the dialogue on social insurance reform started in early 2006, well before the financial crisis, and was pursued in stages in 2008 and 2009. The latest phase of the pension reform was conducted within the framework of the IMF/EU Memorandum of Understanding on the emergency package in 2010. It was to be concluded within a time frame of four months which, in view of the need to undertake actuarial studies, left hardly any time for further discussions.

In Sweden, the government consultation before the draft legislation was submitted to Parliament was curtailed in the light of the perceived need to enact new legislation within the year 2010. The unions were not consulted at all on this occasion.

[36] IMF deems Slovenia pension reforms 'insufficient'", in *IPE*, 1 June 2011. Available at: www.ipe.com/news/imf-deems-slovenia-pension-reforms-insufficient_40793.php?s=slovenia; "Slovenian government defeated in pension reform referendum", IPE, 6 June 2010 www.ipe.com/news/slovenian-government-defeated-in-pension-reform-referendum_40856.php?s=slovenia

[37] Pension reforms and ageing populations in developed countries in "World Parliament of Labour Turns 100", in *World of Work*, No. 71. Apr. 2011,pp. 28-29.

Even when governments have initiated consultations on reform plans with stakeholders, including the social partners, the process of social dialogue suffered several limitations.

Firstly, it has often been the case that relatively little weight has been put on the social partners' views and alternative proposals, risking a breakdown in the negotiations as has happened in Slovenia.

Secondly, there has been a tendency for the social dialogue to be diluted or subsumed into a broader attempt at national debate involving a wide range of stakeholders. This results in an effective marginalization of the role of the social partners, as has been the case in Jordan.

Thirdly, the value of any social dialogue actually undertaken can be nullified if the final legislation enacted or submitted by government to parliament differs substantially from the text on which consultations (by way of social dialogue or in other forums) have been based; this appears to have been the case in Greece. In Sweden, as already noted, before submitting new draft legislation to Parliament, the Government consulted various entities within its own structure, together with selected civil society organizations, including pensioners, but not the trade unions. This may be seen to be a hardly satisfactory form of social dialogue.

Lastly, in Mauritius, it appears that a number of stakeholders hold diverging views on the quality of social dialogue undertaken. While the Government, together with public sector unions, considers that adequate social dialogue had taken place on the pension reform, in the view of the trade unions representing private sector workers no effective social dialogue had occurred.

It may be deduced from these examples that some governments see social dialogue as little more than a pedagogic exercise, the purpose of which is simply to explain to and solicit the endorsement of the social partners for the rationale behind the policies of economic adjustment which are decided exclusively at the political level. Social dialogue must be seen to have a role far beyond this not merely to facilitate the smooth application of adjustment policies decided unilaterally by the government, but to promote an interactive process between the government and the social partners to find alternative and better solutions to economic adjustment (Sarfati 2003 and 2006).

It is worth noting that when governments do reach out to social partners, and listen in a responsive way to their views on such issues as support for vulnerable groups, particularly measures to integrate the youth into the labour market, the outcome can be valuable support from both the trade unions and employers' organizations. One example, already noted, is offered by Spain on raising the basic retirement age. This country has shown that extensive reforms can be achieved through an open and inclusive social dialogue even in times of deep economic hardship.

The experience of Canada as well as of Finland, Denmark and Sweden during the deep recession of the 1990s clearly demonstrates that negotiated reforms work better, notably in times of crisis. Indeed, social dialogue is an essential ingredient of the design of smart and creative policies and, more importantly, of their effective implementation.

For instance, in the 1990s, Canada's contributory public pension plan, the Canada Pension Plan (CPP), faced significantly rising costs resulting from changing demographics, slower earnings growth and successive benefit enhancements, as did many public pension systems around the world. The Federal Government and provincial governments worked together on a major reform to put the CPP back on a sustainable track, consulting widely across Canada with social partners and stakeholders. Reforms, including increased contribution rates, a new investment policy, and changes to benefits and administration, were adopted in 1998.

These reforms involved difficult choices and compromises. However, the CPP Chief Actuary reports in successive triennial Actuarial Reports that CPP is sustainable for at least the next 75 years at the current contribution rate. [38]

Box 1. Finland

Finland offers one of the most successful examples of the reversal of early labour market exit as a result of a comprehensive policy mix, followed by a pension reform. In 1990, this country had the highest early retirement rate of all the Nordic countries, with an employment rate as low as 47 per cent for men aged 55-65. To reverse this trend, the Government and the social partners agreed on a five-year national strategy, launched in 1998, which aimed at changing the attitudes of all stakeholders towards the ageing population by turning it into an asset for society by maintaining their health status and working capacity, improving their work environment, promoting partial retirement through employment subsidies, and helping the older unemployed back to work.

The strategy was based on three pillars: information; education and training; and research and development. It consisted of no less than 40 distinct measures. These included a vast public communication and training effort to change the perception of ageing among employers, workers and unions; measures to adapt the work environment and improve working conditions within firms in close collaboration between managements, workers' representatives, experts and local authorities (Delteil & Redor 2003; Guillemard 2003).

The basic principle underpinning this policy was to increase individual choice for labour market exit, while providing incentives to extend one's working life. It excluded a cut-off statutory retirement age and a standard duration of contribution. The programme achieved its objectives by generating a significant cultural shift towards older workers. The early retirement trend has been reversed and the effective retirement age increased by a year and a half during the life of the programme, raising by 25 per cent the employment rates of older workers and 10 percentage points between 2000 and 2005 (EU 2006:30).

This experience demonstrates that ageing can be a win-win situation, where social rights need not be traded off for labour market integration. It underlines the need for government commitment to a voluntarist, long-term policy based on social partnership and broad public awareness. It is noteworthy that this outcome was achieved in the context of a substantial economic restructuring in the wake of a deep recession (following the implosion of the Union of Soviet Socialist Republics, depriving Finland of its main market), and an exponential rise in unemployment (from three per cent in 1990 to 18 per cent in 1994, before declining again and stabilizing at nine per cent in 2003).

But these ongoing efforts to address the labour market and demographic ageing problems had also to adjust the pension system. And, indeed, the Finnish Government and the social partners adopted in 2003, after lengthy negotiations, legislation to reform private sector pensions with the objective of deterring early exit.

The reform, which took effect in 2005, provides a more flexible retirement age, rewarding those who remain in employment, restricting early retirement options, abolishing certain types of pre-retirement pensions, increasing the age limit for early old-age pension from 60 to 62 and introducing flexible retirement between ages 63 and 68 (previously the retirement age was 65). It substantially improved pension accrual rates for those who work beyond age 63 (up to 4.5 per cent per annum, compared to 1.5 per cent under age 52). (EIRO-Finland 2004). Employers in the majority of workplaces regarded the flexible retirement option positively, particularly in the public sector and in large companies (employing more than 250 persons). This general view seems to have been shared by the workers. (Tuominen et al. 2005).

The strategy adopted by Finland shows the need for an ongoing, coherent and substantive effort over a long period of time to adapt the active population and the welfare system to the challenges of demographic ageing. In the latest move to secure the future financing of earnings-related pensions, the social partners agreed to increase pension contributions in 2007 and 2008 (EIRO-Finland 2007).

Uruguay's experience of national social dialogue on social security also illustrates how social dialogue, when conducted patiently and inclusively on the basis of sound studies,

[38] ILO-ILC 2011 Recurrent Discussion of Social Protection (Social Security), Statement of the Government delegate of Canada, 2 June 2011.

can be instrumental in helping the government and all stakeholders to reach consensus on a far-reaching reform of the pension system.

The recent experience of social dialogue on pension reforms in Spain and Uruguay and the past experience of Canada and Finland have in common the following features:

- The government imposed no time frame until the consultations were completed and an agreement reached.
- The government had the political will to listen to the social partners, to take into consideration their proposals and to come to an agreement with them.
- If addressed comprehensively and openly, ageing can be a win-win situation for all sides.
- Reform proposals must involve choices and compromises and not ultimatums and unilateral decision making: acquired social rights such as retirement age need to be traded for a better labour market integration of various categories of workers such as the youth and older workers.
- The challenges of labour market integration and ageing must be addressed together and not separately.
- Flexible retirement options offered to workers that take into account their different needs tend to attract the agreement of both sides of industry as compared to a rigid solution of a fixed age for retirement for all.
- Trade union mobilization and cooperation is useful for successful negotiations.
- Through effective social dialogue and negotiations, ageing which is seen by many as a challenge can be turned into an asset for society. Negotiated measures aimed at maintaining the health and working capacity of older workers, improving their work environment, promoting partial retirement through employment subsidies, helping older unemployed workers back to work and efforts to change the perception of employers and society at large in relation to age proved critical.

Past ILO studies show that the participation of workers' and employers' organizations in the design of reforms can ensure that these reforms match the needs and preferences of the work force and the financial capacities of the economy. Their support can also give reform measures stability during implementation, which in pension systems typically spans many years. This stabilizing effect has been observed in several countries in transition, including Estonia, Poland and Slovenia. [39]

… what are the consequences of the lack of social dialogue?

Implementing pension reforms hastily and without genuine consultations have to a certain extent marginalized social dialogue institutions. Moreover, it has generated frustration among the social partners, particularly the trade unions, and triggered social tensions in countries such as France, Greece, Slovenia, Spain and, to a lesser extent, Jordan, as shown in table 2.2. In France, the frustration of the trade unions caused by the lack of social dialogue is said to have undermined the unions' confidence in government policymaking and the prospects for any quick resumption of tripartite consultations on nationwide social and economic issues. In Slovenia, under the leadership of the trade unions, the law on

[39] See Fultz and Ruck, 2001 and Leppik in Fultz, 2006.

pensions adopted by the Parliament was defeated in a referendum, as has been mentioned earlier.

State unilateralism – under pressure from financial markets – not only places a strain on social dialogue institutions but also affects industrial relations systems and risks undermining the capacity of tripartite actors to strike possible post-crisis social pacts. The marginalization of social dialogue may also lead to a deterioration of the negotiating power of actors in the real economy, notably trade unions, and creates an opportunity for the emergence of new social movements outside organized social partners. Table 2.2 lists the incidence of industrial action in response to inadequate or no social dialogue.

Table 2.2. Checklist summary of industrial action against pension reform

Country	Protests	Strikes	Other action
China	-	-	-
France	X	X	-
Greece	X	X	-
Jordan	-	-	X
Mauritius	-	-	-
Netherlands	-	-	-
Slovenia	X	-	X
Spain	X	X	
Sweden	-	-	-
Uruguay	-	-	-

Source: Based on the information provided in the 10 monographs.

… the social partners can play an active role

One of the important lessons from the wave of recent pension reforms in the countries reviewed in this paper (as well as in other countries) is the value of the active role played by the social partners in the tripartite process and through bilateral negotiations. In the tripartite process, in most cases the social partners not only tried to analyze government plans but also tabled their own proposals on the best means to ensure the sustainability of pension systems.

In France, for instance, the confederations of trade unions made concrete proposals for new sources of funding that would safeguard the system's future sustainability. These included taxes on capital revenues (corporate profits not reinvested in the company, dividends).

In Slovenia, the trade unions proposed the creation of incentives to encourage longer employment. They also proposed measures for financing those incentives, such as taxes on luxury goods and on dividends.

In Spain, the two trade union confederations, Comisiones Obreras (CCOO) and Unión General de Trabajadores (UGT), proposed a new income structure to guarantee social security financing without having to resort to deferring the age of retirement. They also recommended measures to encourage workers to stay voluntarily in the labour market and an increase in minimum pensions.

In the Netherlands, the trade union confederation FNV (Federatie Nederlandse Vakbeweging or Federation Dutch Labour Movement) proposed measures to protect the rights of low-paid workers in arduous work. It won the right for the latter to continue to be able to retire at the age of 65 in 2020 when the retirement age is expected to rise to 66.

Employers' organizations, while generally supporting government plans to raise the retirement age, have also tabled various proposals aimed at increasing employment opportunities for older workers. For instance, in Slovenia, the Association of Employers of Slovenia (ZDS) proposed a drop in the social contributions of employers for workers who turn 60 in order to encourage enterprises to keep them at work. The French employers' organization for small and medium-sized enterprises (Confédération générale des petites et moyennes entreprises or CGPME), made a similar proposal and requested the Government to abolish social security contributions for SMEs that recruit senior workers who are unemployed. It also proposed an increase to 42 years of the contribution period for access to full pension as well as a unification of the private and public pension schemes. In Uruguay, employers proposed the creation of incentives for older workers to work longer.

These examples show how active the social partners have been in the debate on pension reforms and how creative they were in proposing all sorts of solutions in order to move the social dialogue forward and to advance the pension reforms agenda.

As far as bilateral negotiations are concerned, the social partners have been active not only in designing occupational pension schemes and successfully managing them, but also in adapting them to changes in the labour market and in society, as demonstrated by Denmark, Finland, France, the Netherlands and Sweden. Spain has followed a tripartite path since the mid-1990s with the periodic renewal of the Toledo Pact on pension reforms, notwithstanding that, on occasion, the negotiations have been very difficult.

In France and the Netherlands the social partners demonstrated their willingness, independently of their Governments, to take responsibility through the joint negotiation of collective agreements for reforming private sector supplementary pension schemes and tackling other labour market issues. The vitality of bipartite social dialogue in both countries contrast with the difficulties encountered, especially in France, during tripartite social dialogues carried out to bridge the differences between the Government and the social partners on the reform of the PAYG pension system. At the time of the completion of this study (October-November 2011), two trade unions the Confédération générale du travail (CGT) and the Confédération française de l'encadrement-Confédération générale des cadres (CFE- CGC) and one association representing employers in the electricity sector (the Union française de l'électricité or UFE) had challenged the pension agreement before the French courts. [40]

The ten country briefs show a diversity of institutional arrangements for social dialogue that were used to varying degrees in the pension reform process.

Table 2.3 recapitulates the tripartite institutional arrangements for social dialogue on pension reforms in the 10 countries under review.

[40] Retraite complémentaire: La CFE-CGC, la CGT et l'UFE s'allient pour contester l'accord du 18 mars 2011 devant les tribunaux », AEF n° 147142 du Vendredi 18 mars 2011.

Table 2.3. Tripartite institutional arrangements

Country	Does a tripartite institution for social dialogue exist?		Was it used for pension reform?		Outcome
	Yes	No	Yes	No	
China		X		X	No agreement
France	X French Economic, Social and Environmental Council (ESEC) Conseil d'Orientation des Retraites (COR)			X	1. No agreement 2. Bilateral agreement on supplementary pension schemes (AGIRC and ARRCO)*
Greece	X Economic and Social Council (OKE)		X		No agreement
Jordan	X Economic and Social Council (ESC)			X	No agreement
Mauritius	X National Economic and Social Council (NESC)			X	No agreement
Netherlands	X Social and Economic Council (SER) Labour Foundation (STAR)		X		Tripartite agreement
Slovenia	X Economic and Social Council (ESS)		X		No agreement
Spain	X Economic and Social Council (CES)				Tripartite agreement
Sweden		X		X	Partial agreement – unions were excluded
Uruguay	X The Social Security Sector Committee		X		Tripartite agreement

Source: Based on the information provided in the 10 monographs.
* AGIRC: Association générale des institutions de retraite des cadre; ARRCO: Association pour le régime de retraite complémentaire des salariés.

Tripartite (or at least bipartite) institutional arrangements exist in practically all the countries studied. The arrangements have been used to varying degrees in most of the countries during discussions of pension reforms, but they may not have brought about many agreements, as table 2.3 seems to indicate.

The fact that governments in some countries (for instance in France, Greece and Slovenia) acted in a hasty way under the pressure of financial markets did not allow for a smooth dialogue with social partners where all the components of pension and labour market reforms would have been examined in a dispassionate and inclusive way. This would have increased the chances of reaching a tripartite agreement on the issue of pension reform, as it was the case in the Netherlands, Spain and Uruguay.

At this juncture it is worth noting, as the OECD pointed out in 2009, that despite the scale of changes, the pension reform agenda is not finished.

First, the pension systems of some countries, such as France, Greece, Luxembourg, Slovenia and Spain, still appear in need of a fundamental overhaul.

Second, in other cases – such as in Austria, Ireland, Norway and the United States – the reform process has stalled. In Italy, rises in the pension age and reduction in benefits to reflect increased life expectancy have been postponed. In the Slovak Republic, reform has gone into reverse. Moreover, some pension reforms are being phased in too slowly, running the risk that drastic, ad hoc changes might be necessary that could perversely cause more hardship than faster change. This is happening in Austria, Italy, Mexico and Turkey, for example.

Third, many cuts in public pensions have been predicated on people saving for their own retirement through voluntary retirement savings plans. However, in several countries many workers will save too little and for too short a period to ensure an adequate income in old age.

Fourth, too many pension systems still encourage early retirement.

Finally, there will be reduced pension entitlements for low earners in countries with across- the-board benefit cuts, such as Germany and Japan, and those that moved to a stronger pension earnings link, such as Poland and the Slovak Republic. These changes pose the risk of poverty in old age to low earners and people with broken work histories (Whitehouse 2009:534).

To these considerations it is indispensable to add the mounting pressure of public deficits and debts and the related austerity measures adopted by more and more governments by the day (in October–November 2011). The rising liabilities of public pensions constitute an important ingredient in these deficits, while accumulated funds in public pension guarantee reserve funds or in private occupational schemes tempt governments to use them to stem the public deficits or even to bail out banks, as has been shown in this paper. On such vital issues for the population and the economy, it is essential that all stakeholders are kept aware of the options available and their long-term implications, and be consulted on how the burden could be equitably and acceptably shared before adopting such policies.

This clearly shows that the pension debate will have to continue on a number of essential parameters. It underlines the need to maintain and extend social dialogue on such issues as there is no credible and viable alternative to social dialogue.

Social dialogue is an instrument for sound governance of change for at least three reasons. First, the quality of policy design and strategies for the reform of pension systems and the labour market can be improved through information sharing. Second, social dialogue is a means for building trust in, and a commitment to, policies, easing the way for their rapid and more effective implementation. Third, the process of social dialogue helps to resolve inevitable differences and avoid conflicts of interest which could delay the implementation of policies and, ultimately, the much needed reforms. It helps to bring about the bargains needed to restore macroeconomic balance (Rodrik, 1999).

This is not to say that social dialogue is a cure-all. Social dialogue provides a policy tool for addressing divergences and disagreements and seeking solutions, but it is not able to eliminate them once and for all. Sound regulations and public decision-making in economic and social policy are also important instruments of good governance.

Historically, social dialogue between governments and social partners has played a crucial role in times of economic adjustment. Countries with experiences of social partnership and well-established social dialogue institutions are more likely to formulate rapid and effective tripartite answers to the challenges brought about by the transformations of societies and economic adjustment, as shown by the examples of Finland and the Netherlands.

However, when there is the political will and commitment, particularly on the part of the government tripartite partners can come together and achieve compromises on measures meant to address the challenge of ageing and restoring the balance of pension systems, as illustrated by the examples of Canada and Finland and, more recently, the Netherlands and Spain.

Indeed, public discontent and protests are spreading across countries and regions in the wake of the global financial crisis and the related austerity measures to stem public deficits and debts, which were preceded in several countries by the bailout of failed big banks from

taxpayers' money. There is also anger and frustration with growing job precariousness, social exclusion and deprivation, stagnating wages in high-income countries and increasing income disparities in both emerging economies and high-income countries, even in the Nordic countries, formerly a model of narrow income dispersion.

The widening income disparity coincides with the reversal of the post Second World War upward social mobility in advanced economies, which is resulting from unequal access to education and the accelerating mismatch between the supply of, and demand for, skills in the context of rapid technological change and globalization. This has further increased the numbers of the discontented.

The demographic time bomb and the impact of globalization had already imposed a rethinking of the welfare state and pension systems before the global financial crisis and generated great resistance from the population and the social partners. Now, in addition to austerity measures, pension reforms are required not only to ensure the long-term financial sustainability of pensions but also to address public deficits and, in some cases, even to bail out banks. It is no surprise therefore that violent and continuing protests have been occurring in Greece, Ireland, Spain and even in China.

In China, some 150 million workers who have 'migrated' from rural to urban areas and who have been the backbone of the exceptionally rapid growth of the economy, are still marginalized by the household registration system (hukou), which deprives them of access to schools, health care and pension coverage, according to a recent report of the State Council Development Research Centre (Financial Times editorial, 20 June 2011). These events highlight the urgency of the need to take account of the social dimension of fiscal, monetary, urban, educational, and welfare and pension policies.

This paper has pointed out some of the complex issues surrounding pension reforms and the factors to be taken into consideration to ensure the adequacy of coverage and the sustainability of pension schemes. They require knowledge and understanding not only of how to administer pension schemes and ensure the regular flow of contributions, but also of how to balance investment decisions to ensure a sufficient flow of returns in a volatile market and how to adjust to changing macroeconomic and social developments such as:

- the economic context (growth, inflation, stagnation, slowdown or recession);
- the state of public finances (rising public deficits and debts, affecting the ability of governments to increase expenditure on pension and health care in ageing societies; shortfalls in employers' contributions and the inability of employers to meet their liabilities, e.g. in the case of bankruptcies);
- changes in financial markets;
- the demographic impact on labour market retention and on accommodating old-age dependency;
- the impact of atypical employment status on the level of pension benefits, the existence and level of minimum pensions, and the availability of, and access to, schemes for topping up such pensions to prevent old-age poverty.

Understanding of what replacement rates are guaranteed by the different pension pillars, how they are calculated and how they are adjusted (e.g. to changes in the cost of living or in wages, or a combination of both, and the impact of changes in such formulas).

These factors vary widely among countries, as do the relative reliance of employees on the different pension pillars. To be able to contribute positively to the public debate on pension reforms and to make knowledgeable decisions on policies, strategies and governance while

maintaining trust in the pension system, it is necessary to possess technical expertise, administrative capacity and awareness of the principles of good governance. While some bigger employers' and workers' organizations may possess such capacity, particularly if they have members in the banking and insurance sectors, small and medium-sized enterprises, smaller trade unions and the growing numbers of workers in atypical jobs may not dispose of such expertise. This suggests an urgent need for an effort to build capacity in this area among the various stakeholders and especially employers' and workers' organizations.

Policy recommendations

The first essential in addressing social security and pension reform in the crisis and beyond is to secure the political will to reach consensus on reform with the major stakeholders, notably the social partners themselves, as most of them have communications channels and institutions for bargaining collectively.

The existence of social dialogue institutions may be helpful, but even in the countries where they exist and should give a voice to the social partners, they have not always been adequately used. By contrast, some countries without specific institutions for that purpose have nevertheless undertaken effective social dialogue or informal consultations.

But a key necessity, if all of the stakeholders are to be able to play a positive and full role in policy formulation and pension reforms, is to ensure that they have (or have access to) adequate technical knowledge, skills and capacities. This study has shown cases where social partners do have in-house technical expertise on pension issues to enable them to contribute effectively to deliberations on pension reforms if they are asked to do so. This is the case in Denmark, Finland, Spain, Sweden, and in Mauritius.

In many instances, a special capacity-building effort is needed by way, for example, of training seminars and ensuring widespread and easy access to networked knowledge bases on pension issues (including on the various investment choices and their impact). Moreover, a major improvement is needed in communications among stakeholders on pension reform plans and their impact on staff, companies and public services. These improvements are needed not only by governments, by employees in both public and private sectors, and by trade unions and employers' organizations, but also by the boards and human resources departments of occupational pension funds, particularly in view of the increased role of private pensions in the pension-coverage mix.

Regional and international trade union networks can help trade unions in their efforts to build their knowledge capacity so that they can better influence national debates on pension reforms, as shown in box 2.

Box 2. Regional and international trade union pension networks and expertise

While pension systems greatly differ from one country to another, there are several international and regional trade union networks and forums that deal with pension issues and help coordinate the sharing of experiences between unions.

In Europe, the European Trade Union Confederation (ETUC) has a Working Group on Social Protection which gathers annually the ETUC affiliates' experts on pensions, health care and safety net issues.

At the international level, the Global Unions Committee on Workers' Capital helps trade unions monitor the investment policies of pre-funded pension schemes and supports national networks of pension trustees appointed by trade unions. The Committee benefits from the active participation of many trade union national centres in Europe, North America, Brazil, Japan and South Africa.

Other smaller trade union networks specialize in monitoring international organizations active in pension reform. The ITUC*-Global Unions Washington office, for example, covers IMF and World Bank policy work on pension reforms. Similarly the Trade Union Advisory Committee (TUAC) to the OECD in Paris runs a network of trade union pension experts and participates as an observer in regular sessions of the OECD Working Party on Private Pensions.

Source: Pierre Habbard, Trade Union Advisory Committee to the OECD (TUAC).

* International Trade Union Confederation.

Problems related to pensions have, by their very nature, a long-term character, spanning several decades for one generation and impacting on future generations. They cannot be solved effectively on the basis of quick fixes and emergency sittings under the pressure of the short-term concerns of the capital market, when financial sustainability is also at issue.

Pensions do not evolve in a vacuum. They reflect a broad range of social, societal and economic parameters. Among these are the economic outlook (stability, growth, whether of slowdown or recession, the state of public deficits and debts); the demographic outlook; and the labour market outlook, especially the economic activity rate and, more importantly, the employment and unemployment rates of all gender and age cohorts. The employment situation of young and older people, ethnic minorities and migrant workers is of particular importance. The differentials in the employment situations of men and women are part of the picture. In some countries, the recent crisis gave rise to higher unemployment among men than among women, and male employment rates have tended to decline in recent years in several advanced countries, notably in the United States, while female employment has tended to increase.

But employment per se is not enough. As economic growth is closely linked to consumption, and public budgets depend on tax revenue, it is vitally important that consumers (and taxpayers) should be able to count on stable and regular employment with decent pay and working conditions, together with adequate social protection. This will enable them to consume goods and services, pay taxes, defray the education and health expenses of their families, let alone pursue other fulfilling activities.

The global crisis has condemned many to unemployment or inactivity, while others have experienced cuts in pay and reduced employment and occupational safety and health protection where labour costs have been constrained in the pursuit of competitiveness. Cut-throat competition may result in social dumping and exclusion. The overarching objective must be to seek instead a balanced growth within and among the family of nations. This was the message already voiced (well before the financial crisis) in the 2004 report of the World Commission on the Social Dimension of Globalization under the auspices of the ILO) entitled *A fair globalization – Creating opportunities for all*, and reiterated by the ILO Global Jobs Pact of 2009. This message received in turn wide endorsement at the September 2010 Oslo conference, which brought together the heads of the IMF and ILO

with other world leaders and called for a broad international commitment to a jobs-focused response to the global economic downturn. Moreover, on this occasion the IMF and ILO agreed to pursue cooperation in two priority areas. The first has to do with exploring the concept of a 'social protection floor' in the context of a medium- to long-term framework of sustainable macroeconomic development policies and strategies, and the second with policies to promote employment-creating growth. These two global objectives have now received wider attention amongst the United Nations agencies and related institutions such as the International Social Security Association (ISSA).

When engaging in a process of reform of pension systems, tripartite partners should keep in mind certain principles as follows:

As shown by most of the country studies covered by this paper, governments should not be obsessed by what the financial markets think of the pace of the reform or its content. They should rather seek to build national consensus on the key components of the pension reform in order to improve the chances of buy-in (ownership) and therefore of effective implementation of such policies. Governments should avoid acting in a hasty way and ring-fencing topics as being "non-negotiable". Indeed social dialogue is a two-way street: the government should openly inform the social partners, listen to them, and take their views into account. That can be achieved by making available to the social partners and other stakeholders adequate and credible information and data to enable them to understand the government's motivation and plans and to develop their own proposals.

Employers should not focus only on their narrow concerns, such as the level of contributions and liabilities as they did in Slovenia. Rather they should take into account broader issues which can also affect staff motivation and commitment, such as the level of pensions that will be paid to the future retirees who are their current employees, the situation of vulnerable groups, the situation of older workers and how they can be encouraged to remain productively employed rather than inciting them to leave early, and the like.

On their part, the trade unions, rather than just resisting rigid government plans to increase retirement age, should support incentives for longer work and flexible retirement age as alternatives, by including as part of the reform package measures both to improve the health status and working conditions of older workers and to integrate the youth better into the labour market. They can also suggest a diversification of the sources of funding for pension schemes, for example through taxation of dividends and other sources of capital income. Finally, to the extent possible, they should remain united in the tripartite process and cooperate among themselves in order to be better able to negotiate trade-offs from the government, as has been demonstrated by decades of social pacts across Europe. However, as the prolonged impact of the crisis may affect various economic sectors differently, consensus among unions may be more difficult to achieve. For example, as demonstrated in the recent measures in various countries on both sides of the Atlantic, governments trying to reign in public deficits are planning major staff cuts and slashing pension and medical benefits for public sector employees, who in many countries have sometimes benefited from more favourable coverage than that accorded to private sector workers.

This paper has explored experience in various countries of social dialogue on pension reform during and after the global financial and economic crisis that resulted in the loss of assets worth some US$50 trillion, roughly the equivalent of one year of the world's aggregate GDP. This huge loss called into question the trend during past decades of shifting responsibility for pension coverage and income security in retirement from the State (as the main guarantor of public PAYG schemes and some funded schemes) to the private sector pension industry, employers and, increasingly, to the individual employee. Indeed, the crisis also adversely affected companies in various sectors, significantly reducing employees' job security and income from work, as their pension savings were hit

by the financial meltdown. Some Governments have also tried to use pension assets to address public deficits (viz. in Argentina, Hungary, Ireland, Poland).

This combination of circumstances certainly deserves major attention from policymakers and the social partners and should lead them to consider a broad set of issues to ensure the well-being of the population, at work and in retirement. These include general policy issues such as reducing public deficits and debts, regulating financial markets, reducing growing wage and retirement income inequalities, ensuring life-long and broad-based education and training, and creating conditions for a dynamic labour market with a decent employment perspective for the active population.

At the same time, and more specifically, it is important to define the kind of guarantees needed for the sustainability, adequacy and broad coverage of public and private pension systems. These require regulation, monitoring, governance rules and investment guidelines, occupational schemes, insurance regulation, and a government pension guarantee fund (i.e. financing on a last-resort basis in case of employer bankruptcy or default).

A sustained political commitment to these diverse elements is essential in order to prevent old-age poverty among the majority of the population. To secure the expected balanced outcome of the aforementioned pension policies, the social partners representatives of the potential victims of policy and regulations shortfalls should participate in their formulation and in monitoring their implementation. In several countries they have gained experience in administering pension institutions, and as members of civil society they should also have a say on the issues that correspond to global economic and societal concerns at national and international levels.

These concerns are neatly spelled out in the conclusion of a just-published comparative study by Bernhard Ebbinghaus and his colleagues on pension privatization in Europe. It highlights today's pensions' dilemma and the importance social dialogue, or as the authors describe it, 'collectively negotiated self-regulation':

> Although public pensions, particularly in multi-pillar systems, have reduced the risk of poverty and the degree of inequality in old age, the different combinations of the public-private mix still entail a relatively similar overall reproduction of social inequalities found prior to retirement. […] The increased emphasis on occupational and personal pensions results from attempts to offset the costs of public insurance in ageing societies and under fiscal austerity. However, public pensions that provide universal minimum income in old age will become even more important in the future. Moreover, as European welfare states have been challenged by the financial and economic crises of the 2000s, individuals relying on funded pensions have also faced increased financial risks, and these may continue to grow as the reliance on private funded pensions increases. Only broad-based public policies and collectively negotiated self-regulation can pool risks and redistribute social benefits to effectively counter-act social inequalities in the lengthening phase of life after retirement. (Ebbinghaus 2011: 420.)

This study confirms that the message is applicable worldwide and that in the field of economic and social policymaking there is no credible and viable alternative to social dialogue.

Appendix A [41]

Table A.1. Ageing trends: Global and regional projections

Region	Population younger than age 15 (% of total population)			Population aged 60 or older (% of total population)			Population aged 80 or older (% of total population)		
	2010	2030	2050	2010	2030	2050	2010	2030	2050
World	26.9	22.7	19.6	11.0	16.5	21.9	1.5	2.3	4.3
More developed regions[a]	16.5	15.4	15.4	21.8	28.8	32.6	4.3	6.4	9.5
Less developed regions[b]	29.2	24.0	20.3	8.6	14.2	20.2	0.9	1.6	3.5
Least developed regions[c]	39.9	33.7	27.0	5.2	7.0	11.1	0.4	0.6	1.1
Less developed regions, excluding least developed countries[d]	27.3	21.9	18.5	9.3	15.8	22.7	1.0	1.8	4.1
Less developed regions, excluding China	32.2	25.9	21.5	7.5	11.8	17.8	0.8	1.3	2.7
Sub-Saharan Africa[e]	42.3	35.6	28.4	4.9	5.9	9.1	0.4	0.5	0.8

Notes: The projections are based on the medium variant fertility scenario of the United Nations.

[a] Europe, Northern America, Australia, New Zealand and Japan.

[b] All regions of Africa, Asia (excluding Japan), Latin America and the Caribbean, plus Melanesia, Micronesia and Polynesia.

[c] 49 countries: 33 in Africa, 10 in Asia, 5 in Oceania, plus 1 in Latin America and the Caribbean.

[d] The less developed regions excluding the least developed countries.

[e] All of Africa except Northern Africa; includes the Sudan. Sources: Based on ESA. 2009. World population prospects: The 2008 revision. New York, NY, United Nations Population Division, as cited in ILO. 2010. The world social security report 2010/2011. Geneva, International Labour Office.

Table A.2. Life expectancy at age 20 and age 60 – Global and regional data

Region	Life expectancy at exact age x for both sexes (in years)			
	At age 20		At age 60	
	1995-2000	2005-2010	1995-2000	2005-2010
World	52.5	54.0	18.5	19.7
More developed regions[a]	56.1	57.9	20.2	21.8
Less developed regions[b]	51.0	52.5	17.3	18.5
Least developed regions[c]	45.0	46.8	15.4	16.1
Less developed regions, excluding least developed countries[d]	51.8	53.3	17.5	18.7
Less developed regions, excluding China	49.8	51.2	17.0	18.0
Sub-Saharan Africa[e]	43.1	43.1	15.3	15.7

Notes: The projections are based on the medium variant fertility scenario of the United Nations.

[a] Europe, Northern America, Australia, New Zealand and Japan.

[b] All regions of Africa, Asia (excluding Japan), Latin America and the Caribbean, plus Melanesia, Micronesia and Polynesia.

[c] 49 countries: 33 in Africa, 10 in Asia, 5 in Oceania, plus 1 in Latin America and the Caribbean.

[d] The less developed regions excluding the least developed countries.

[e] All of Africa except Northern Africa; includes the Sudan.

Sources: Based on ESA. 2009. World population prospects: The 2008 revision. New York, NY, United Nations Population Division, as cited in ILO, 2010. *The world social security report 2010/2011*. Geneva, International Labour Office.

[41] Source for all four tables: International Social Security Review (ISSR), vol. 63, Nos. 3-4, 2010.

Table A.3. Dependency ratios – Global and regional projections

Region	Total dependency ratio (%)			Old-age dependency ratio (%)			Youth dependency ratio (%)		
	2010	2030	2050	2010	2030	2050	2010	2030	2050
World	53	52	56	12	18	25	41	35	31
More developed regions[a]	48	61	71	24	36	45	24	25	26
Less developed regions[b]	54	51	54	9	15	23	45	36	31
Least developed regions[c]	76	62	53	6	7	11	70	55	41
Less developed regions, excluding least developed countries[d]	50	49	54	9	16	26	41	33	29
Less developed regions, excluding China	59	51	52	8	12	19	51	39	33
Sub-Saharan Africa[e]	84	65	52	6	6	9	78	59	43

Notes: The old-age dependency ratio is the ratio of those aged 65 or older to those aged 15-64; the youth dependency ratio is the ratio of those younger than age 15 to those aged 15-64; and the total dependency ratio is the sum of old-age dependency ratio and youth dependency ratio.

The projections are based on the medium variant fertility scenario of the United Nations.

[a] Europe, Northern America, Australia, New Zealand, and Japan.

[b] All regions of Africa, Asia (excluding Japan), Latin America and the Caribbean, plus Melanesia, Micronesia, and Polynesia.

[c] 49 countries: 33 in Africa, 10 in Asia, 5 in Oceania, plus 1 in Latin America and the Caribbean.

[d] The less developed regions excluding the least developed countries.

[e] All of Africa except Northern Africa; includes the Sudan.

Sources: Based on ESA. 2009. World population prospects: The 2008 revision. New York, NY, United Nations Population Division, as cited in ILO. 2010. The world social security report 2010/2011. Geneva, International Labour Office.

Table A.4. Regional estimates of public social security expenditure (% of GDP)

Regional estimates of public social security expenditure (% of GDP) – weighted by GDP			
	Public social security (excluding health)	**Public health**	**Total**
Western Europe	17.9	7.1	25.0
Central and Eastern Europe	14.5	5.0	19.5
North America	9.0	7.0	15.9
North Africa	10.5	2.5	13.0
Commonwealth of Independent States	9.0	3.9	12.9
Asia and the Pacific	7.9	4.2	12.1
Middle East	8.8	2.8	11.6
Latin America and the Caribbean	6.6	3.1	9.7
Sub-Saharan Africa	5.6	3.1	8.7
Total (for 138 countries)	11.3	5.9	17.2

Regional estimates of public social security expenditure (% of GDP) – weighted by population			
	Public social security (excluding health)	**Public health**	**Total**
Western Europe	18.0	7.1	25.1
Central and Eastern Europe	14.1	4.8	18.9
North America	9.0	7.0	16.0
North Africa	11.0	2.5	13.5
Commonwealth of Independent States	9.9	3.6	13.5
Asia and the Pacific	7.1	3.1	10.2
Middle East	7.6	2.2	9.8
Latin America and the Caribbean	3.6	1.7	5.3
Sub-Saharan Africa	2.8	2.5	5.3
Total (for 138 countries)	5.7	2.7	8.4

Note: The regional groupings are defined by the International Labour Office.

Sources: As cited in ILO. 2010. The world social security report 2010/2011. Geneva, International Labour Office, and based on: IMF. 2009. Public social protection (excluding health) expenditure in percentage of GDP. Washington, DC, International Monetary Fund;. OECD. 2009. Social and welfare statistics – Social expenditure database. Paris, Organisation for Economic Co-operation and Development; Eurostat. Living conditions and welfare social protection database; WHO. Statistical information system – Public health expenditure in percentage of GDP (combination of existing indicators). Geneva, World Health Organization.

Table A.5. Gross replacement rate

Gross replacement rate in 2008 (% of average gross earnings)	
China	77.9
France	49.1
Greece	95.7
Jordan	75
Mauritius	33.3
Netherlands	89.1
Slovenia	62.4
Spain	81.2
Sweden	53.8
Uruguay	45

Sources: OECD, 2011. Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries.

UNRISD, 2009. Pension Schemes and Pension Reforms in the Middle East and North Africa (draft).

Poder Legislativo, República Oriental del Uruguay, 2008. Ley No.18.395 Beneficios Jubilatorios. www.parlamento.gub.uy/leyes/AccesoTextoLey.asp?Ley=18395

Appendix B. Country summaries

The Netherlands [42]

Overview of the pension system in the Netherlands

The pension system in the Netherlands is regarded as one of the most effective pension systems globally. In 2011, the Melbourne Mercer Global Pension Index [43] ranked it as the the best pension system in the world. As in many other European countries, it is a three-pillar system consisting of the State pension, the supplementary collective pensions, and the private individual pension.

The first pillar is the basic old-age pension (AOW – General Old Age Pension Act) and is a pay-as-you-go system. It provides a basic income – the level of which is linked to the statutory minimum wage – to the entire population age 65 and over and is not linked to past contributions or income. The second pillar, the supplementary occupational pensions, is linked directly to a person's contribution and employment history. Contributions are paid for largely by the employer, and the future pension is considered a deferred salary for the employee. In 2009, there were over 630 second pillar pension funds which covered some 95 per cent of the employed workforce. The industry-wide funds are generally set up by collective agreements between employers and trade unions. Finally, the third pillar is relatively small and constitutes a voluntary element in the system.

The pension system is a mixed system combining different welfare state logics. It is a strong collective system with a universal basic State pension that has a very high rate of participation in the occupational pension funds. In addition, it is an ambitious system that attempts to provide pensioners with an income of 70 per cent of the wage they earned just before they retired by combining the first and second pillar. Furthermore, it reflects the Dutch 'polder model' in that apart from the State the social partners play a fundamental role in the system. Under the 2007 Pension Act, the social partners carry the main responsibility for the provision of these pensions. Therefore, it is not surprising that the social partners are at the heart of the pension reform debate since they manage the second pillar.

Pension reform and social dialogue prior to the 2008 crisis

Despite its strong international position, the pension system of the Netherlands is facing a number of long- and short-term challenges. The main challenges under debate are the impact of demographic developments and the performance of the second pillar pension funds, in particular in light of the recent and earlier crises.

During the early 2000s, a series of reforms were made to the pension system to address the declining coverage rate of the second pillar pension funds and the ageing of the population. The objective of the reforms was to make up for the losses resulting from the early 2000 dot-com crisis and to make the pension system sustainable in the long run. However, the

[42] Based on an unpublished paper for ILO-DIALOGUE, "Pension reform and social dialogue in the Netherlands", by Maarten Keune, Professor, Amsterdam Institute for Advanced Labour Studies (AIAS), University of Amsterdam, unless otherwise specified.

[43] The Melbourne Mercer Global Pension Index compares retirement income systems around the world and rates them on the basis of a total of about 40 indicators that measure adequacy, sustainability and integrity.

next crisis that emerged in the second half of 2008 demonstrated that the reforms did not manage to prepare the pension system for the extreme volatility of the present globalized and financialized economy.

Pension reform process during the current crisis

When the impact of the recent crisis became evident, there was widespread consensus on the need to reform the pension system. A first reform attempt was made by the Balkenende Government which pushed for an increase in the pensionable age, currently set at 65 years. Initial efforts to reach agreement between unions, employers, and the Government were made within the tripartite Social and Economic Council (SER) in 2009. No agreement was reached, mainly because the unions refused a change in the pension age and the employers rejected increases in contributions. The Government then commissioned two major studies to review the sustainability of the second pillar pensions and proposed measures to raise the pension age by law to 67 years in 2025. At that time, there was a parliamentary majority for the pension age increase. However, it was not implemented because the Balkenende Government collapsed and new elections were announced.

The social partners saw a window of opportunity in the forthcoming elections and the fact that a new government would be formed. They revamped negotiations in the bipartite Labour Foundation (STAR) and reached broad agreement on the reform of both the State pension and the second pillar. The agreement provided for: (a) linking the pension age to the average remaining life expectancy at 65, which implied pushing the pension age up to 66 by 2020 and further afterwards if appropriate; (b) tying the State pension to growth in effective wages, instead of collectively negotiated wages, to ensure that their value synchronizes with the general welfare; (c) linking pension payments in the second pillar to the financial results of the funds; (d) maintaining the level of pension contributions; (e) introducing more individual choice on retirement age, lowering the level of benefits for early exit and hiking it for later exit; (f) improving the governance of the pension funds; (g) strengthening the labour market position of older workers. However, eventually the government programme adopted only the rise in the pension age to 66 and excluded the other measures agreed by the social partners. Decisions on pension reforms were further postponed and negotiations have since been ongoing.

On 10 June 2011, workers, employers, and the Government reached a pension agreement, under which the pension age will climb to 66 years of age in 2020 and to 67 in 2025. In 2020, people will be able to choose when they retire. For every year below the retirement age accrual will be reduced by 6.5 per cent and for every year above the retirement age it will be pushed up by 6.5 per cent.

However, the pension agreement was strongly opposed by the FNV Bondgenoten, the largest trade union affiliated to the FNV confederation (Federation Dutch Labour Movement) and Abvako FNV, the largest public sector union. These unions believe the pension deal offers insufficient guarantees to low-wage earners and lets employers off the hook in times of crisis. During a member referendum, both Bondgenoten and Abvako rejected the pension agreement. [44] In their view, low-paid workers in arduous work should continue to be allowed to retire at age 65, without facing a reduction in their pension benefits. During subsequent negotiations, the FNV demanded compromise measures. These included the guarantee that workers who are currently participating in the 'tax-friendly life course' (levensloop) scheme should be able to continue saving for early

[44] Van der Westen, M. "Dutch public-sector union votes against Pensions Agreement", in *IPE*, 9 Sep. 2011. Available at: www.ipe.com/news/dutch-public-sector-union-votes-against-pensions-agreement_41997.php

retirement; and that low-wage workers should also be allowed to save enough to avoid an income gap when they retire at age 65. [45]

In September 2011, the social affairs' minister, Henk Kamp, made concessions to enable employees to continue saving for early retirement through the 'tax-friendly life course' scheme. Also, low-income workers who work after reaching 62 years of age will receive €9,000 instead of €5,000 in tax benefits. They will still be able to retire at age 65 in 2020 when the retirement age is due to increase to 66 years. [46] After lengthy negotiations during which the Government made various concessions, the FNV endorsed the pension agreement on 20 September.

The main elements of the new Pensions Agreement are as follows:

- The retirement age for the AOW (the state pension) will be linked to life expectancy, and raised to 66 in 2020 and probably 67 in 2025.
- AOW benefits will increase by an additional 0.6 per cent a year from 2013.
- The AOW age will become flexible, but a discount and additional benefits will apply for earlier or later retirement, respectively, than the standard age.
- Additional pensions will be linked with the accrual of pension benefits to developments on the financial markets.
- Older workers will be kept active through measures aimed at raising their availability, education, labour conditions and mobility.
- Contributions for additional pensions will be stabilised.
- The financial assessment framework (FTK) will be improved and extended to cover a pension accrual based on real but conditional pension rights, rather than on the current unconditional but nominal funding.
- Tax-facilitated saving for additional pensions will be adjusted from 2013. [47]

Dutch state pension to increase to 67 in 2025 [48]

The Dutch Parliament has endorsed the government's proposal to increase the retirement age for the state pension AOW to 66 in 2020 and subsequently to 67 in 2025. Social Affairs Minister Henk Kamp again rejected a proposal – tabled by the Liberal Democrat

[45] Preesman, L. and André de Vos. "Dutch Pensions Agreement at risk as unions fail to find common ground", in *IPE*, 13 Sep. 2011. Available at: ipe.com/news/dutch-pensions-agreement-at-risk-as-unions-fail-to-find-common-ground_42012.php?s=netherlands

[46] Preesman, L. "Final deal on Dutch Pensions Agreement in sight after government concessions", in *IPE*, 14 Sep. 2011. Available at: ipe.com/news/final-deal-on-dutch-pensions-agreement-in-sight-after-government-concessions_42027.php?s=netherlands

[47] idem. "Dutch labour union federation finally endorses Pensions Agreement," in *IPE*, 20 Sep. 2011. Available at: www.ipe.com/news/dutch-labour-union-federation-finally-endorses-pensions-agreement_42107.php

[48] www.ipe.com/home/login.php?type=noaccess&extra=&page=http%3A%2F%2F www.ipe.com%2Fnews%2Fdutch-state-pension-to-increase-to-67-in-2025_43944.php

Party (D66) and the Green Party (GroenLinks) – to start increasing the AOW age incrementally next year. "We must stick to the Pensions Agreement with employers and workers, to avoid new uncertainty and new negotiations, so we can implement the necessary measures as soon as possible," he said.

Slovenia [49]

Overview of the Slovenian pension system

Slovenia's pension is based on three main pillars: the compulsory pension and disability insurance; the compulsory and voluntary supplementary pension insurance; and the different types of insurances or savings. The first pillar is an earnings-related, defined benefit pension scheme financed on a pay-as-you-go basis. The second pillar consists of a compulsory supplementary pension insurance, which is paid by employers to workers who perform services which are restricted to a certain age, or services which are hazardous to health. [50] The third pillar supplements the benefits of the mandatory first pillar and is a defined contribution scheme in which benefits depend on a person's contributions and investment earnings at the point of retirement. [51]

In the 1990s, the Slovenian pension system underwent two reforms, namely the Pension and Disability Insurance Act (ZPIZ) in 1992 and the ZPIZ-1 in 1999. [52] These reforms stabilized expenditures only in the medium term. Pension expenditures were expected to rise to 19.3 per cent of GDP by 2050, if no further reforms were made. In March 2007, Slovenia was encouraged by the IMF to undertake a substantive reform of its pension system in an effort to ensure its sustainability. The IMF argued that, without the proposed reforms, the country's pension system would be completely unsustainable by 2050, since Slovenia had one of the most rapidly ageing populations and the lowest average retirement age in Europe; in addition, it had a high pension to wages ratio.

Pension reform in the wake of the crisis

By late 2008, Slovenia's economy was badly hit by the financial and economic crisis, the worst crisis in two decades. The country's public deficit increased from 1.8 per cent of GDP in 2008 to 5.6 per cent in 2010, while its public debt swung up from 21.9 per cent in 2008 to 38 per cent of GDP in 2010. [53] The impact of the 2007-2009 financial meltdown, as well as extreme pressure from international organizations, especially the OECD and European Commission, forced the Pahor Government (centre-left) to propose several unpopular measures and to act with excessive haste. Among those measures was the 2010

[49] Mainly based on an unpublished paper for the ILO-SEC SOC and DIALOGUE Depts. by Igor Guardiancich, except when otherwise indicated in the text.

[50] Country profile: Slovenia. *Pension Funds Online. Allianz Global Investor*. Available at: www.pensionfundsonline.co.uk/countryprofiles/slovenia.aspx

[51] Holzmann, Robert and Ufuk Guven (2009). "Adequacy of retirement income after pension reforms in Central, Eastern, and Southern Europe", World Bank Publications.

[52] Guardiancich, Igor (2009/2010): "Slovenia: current pension system: first assessment of reform outcomes and output." *Observatoire Social Européen*.

[53] Statistical Office of the Republic of Slovenia. Available at: www.stat.si/eng/indikatorji.asp?id=28&zacobd=1-2008

pension reform, also known as the Pension and Disability Insurance Act (ZPIZ-2), which modified the retirement age, benefit formula and provisions of private pensions. In addition, in the preparation of the 2010-2012 budget, the Government partially froze the indexation of pensions and the wages of public employees (almost a fourth of the workforce), as well as social transfers.

The 2010 pension reform was mainly parametric and diluted the most radical proposals (such as the introduction of Notional Defined Contributions or of a point system) that were advanced at the early stages of social dialogue. At the micro level, the reform forces workers to work between 2.5-3 years longer for a similar level of pension benefits. At the macro level, ZPIZ-2 will lower overall pension spending by slightly more than two per cent of GDP by 2050. The main characteristics of the 2010 ZPIZ-2 are summarized below.

Retirement age: First, the statutory retirement age for women is raised from 63 to 65 by 2014, or at a rate of six months per year, with at least 15 years of pension insurance. Second, early retirement without penalties is possible at age 58 for women and age 60 for men (formerly 58 years), if they have 41 (formerly 38) and 43 (formerly 40) years of pension qualifying period, respectively. Third, early retirement rules allow for drawing permanently reduced benefits at 60 years with 38/40 years of pension qualifying period. The penalty is 0.3 per cent of the benefit for each month missing until 65 years. Formerly, the deductions were temporary and varied from 1.2 per cent to 3.6 per cent per missing year. Fourth, the pensionable age can be reduced by eight months for each child born up to the lowest age of 58 years for women and 60 years for men. In addition, mandatory military service fully counts towards a reduction in the pensionable age for men. Lastly, ZPIZ-2 allows individuals to buy back up to five years of insurance period, plus, eventually the years spent in the army.

Pension benefit formula: The benefit formula and other parameters, which determine both entry and existing pensions, have been parametrically modified by ZPIZ-2. The pension assessment base is extended from the average net wage of the 18 best consecutive years to the best 30 consecutive years, from which the three worst are deducted. Regarding pension indexation, under the ZPIZ-2, indexation is based 70 per cent on wage growth and 30 per cent on inflation, on a yearly basis. During the transition period of 2012-2015, the indexation is based 60 per cent on wage growth and 40 per cent on inflation.

Private pensions: ZPIZ-2 introduces several changes to the second pillar voluntary and mandatory schemes. The new system has a higher contribution rate of 10.55 per cent, a pure defined contribution structure with some return guarantee and new eligibility conditions. A professional pension is payable to those insured who have achieved a total pension qualifying period of 38/40 for women/men and have accumulated in the Compulsory Supplementary Pension Insurance account enough money to guarantee a monthly pension at least equal to 80 per cent of the minimum pension assessment base. The other changes introduced concern mainly eligibility conditions, the content of pension plans, investment strategies as well as the pay-out phase.

Social dialogue process

Slovenia has had a long tradition in social dialogue, leading to several collective agreements and social pacts. The consensual decision-making approach saw the social partners, especially the Association of Free Trade Unions of Slovenia (ZSSS), negotiating on equal terms with the Government. The social partners have a dual role in matters bearing on social protection: they have an advisory role through the Economic and Social Council (ESC) and an administrative role through their representatives in the tripartite boards of the Institute for Pension and Disability Insurance (IPDI), the Health Insurance Institute of Slovenia (HIIS) and the Employment Service of Slovenia (ESS).

While lively and continuous tripartite social dialogue characterized the formulation of the reform of the supplementary pension schemes which took place between March 2009 and September 2010 (at the same time as the reform of statutory schemes), the negotiations broke down, despite some concessions from the Government. Notwithstanding, the Government unilaterally submitted the text to Parliament, which approved the Pension and Disability Insurance Act (ZPIZ-2) in December 2010 – a rather rare occurrence in the short Republic's history. This outcome seems to have resulted from the pressure and acuity of the economic crisis which altered the consensual decision-making approach by radicalizing the positions of the social partners: the unions, due to increasing unemployment and falling membership, and the employers' associations, because of widespread firm insolvency and low competitiveness. Moreover, the presence of the Democratic Party of Pensioners of Slovenia (DeSUS) in the centre-left coalition led to the complete breakdown of the consensus in the parliamentary debate, given the Party's opposition to the pension indexation method adopted.

The social dialogue surrounding the 2010 pension reform failed for a number of interrelated reasons. The perceptions of the actors diverged substantially and all three stakeholders committed mistakes. The Government was under extreme pressure from the international organizations (EU Commission, IMF, OECD) and acted with excessive haste on too many different structural reforms as well as on very unpopular, though temporary, anti-crisis measures, rendering the situation unmanageable. The trade unions, while espousing different positions, were entrenched in their original positions, having been often overridden by their own members. With falling membership and a threat of marginalization, they were probably pushed to radicalize the social dialogue process. Finally, the employers' associations, which were plagued by widespread company insolvency and low competitiveness, were very concerned in particular with the level of their contributions and pension liabilities. However, they have alerted the Government to the fact that the Slovenian labour market is hardly ready to absorb high numbers of elderly workers. Even though they were apprehensive about the state of social dialogue in Slovenia, they did not help the other social partners in bridging the most divergent positions. Both trade unions and employers were antagonized by the fact that the Government ignored their alternative proposals for the reform.

Social partners take action against pension reform

Reacting to the unilateral pension reform, which Parliament approved in December 2010, the trade unions launched a court appeal against it and succeeded in obtaining a referendum. This took place on 5 June 2011. The majority of the voters rejected the government scheme, with the electoral committee reporting that 72.2 per cent rejected the reform, while 27.8 per cent supported the retirement age increase. [54]

In addition, the IMF expressed the view that the pension reform approved by Parliament was insufficient and that additional measures were needed to control expenditure. [55] The

[54] Bryant, C. "Slovenia Rejects pension reform", in *Financial Times*. 5 June 2011. Available at: www.ft.com/intl/cms/s/0/ca05ad66-8f73-11e0-954d-00144feab49a.html#axzz1PLuprvlg

[55] Sourbes, C. "Slovenian Government defeated in pension reform referendum," in IPE, 6 June 2011. Available at: www.ipe.com/news/slovenians-reject-pension-reform-as-deficit-continue-to-grow_40856.php

OECD concurred with this view and reiterated that further reforms were required. Other analysts warned that the rejection of the reform could lower the country's credit rating. [56]

Six weeks before the referendum, the pensioners' party DeSUS decided to withdraw from the coalition Government, which put in question the ability of Pahor's centre-left coalition Government to address the challenges the country faced. Borut Pahor announced that he would deal with the pension issue, which is closely related to the State's budget deficit, by preparing an intervention law. It would include a moratorium on new jobs in the public sector, and would also cut into the rights and pay checks of pensioners and public employees, along with other cuts in social transfers. No one welcomed the intervention law, not the opposition parties, nor the unions, nor the coalition itself. Therefore, Pahor started to talk about a State budget amendment and was willing to call for a vote of confidence in Parliament on it. Since the coalition lost the pensioners' party, it is unclear whether Borut Pahor would survive the vote of confidence. [57]

Sweden [58]

Overview of the Swedish pension system

Since the 1940s, the Swedish model has been based on strong political commitment to the goal of full employment. In the late 1980s, there was a broad consensus – among politicians, but also among social partners – on the necessity for increasing the share of the working population in order to guarantee the long-term sustainability of the social protection system in general and the pension system in particular.

Fundamental alterations in Sweden's pension system were made in June 1994. The Swedish Parliament passed legislation replacing the old benefit defined system (DB) with mandatory defined contribution (DC) schemes. The old public pension system was converted into two defined contribution pillars: a pay-as-you-go notional defined contribution system (NDC) and a financial defined (FD) contribution system. These two earnings-related components are both based on contributions from lifetime earnings and the total contribution rate amounts to 18.5 per cent of earnings. The two mandatory schemes were supplemented by a guaranteed minimum pension for those with low income or no income from work and were designed to protect the lifetime poor.

It is also worth noting that the new system is flexible, since the annuities for both NDC and FD can be claimed partially or fully at age 61, with or without leaving the labour force. If the individual decides to continue to work while claiming a partial or full annuity, the pension benefits will be recalculated to take into account the additional contribution from work. The new pension system also makes it possible and financially advantageous to leave the workforce gradually after the age of 65 and therefore to postpone the retirement decision.

[56] Bryant, C. ibid.

[57] Pureber, T. "The super aftermath of super referendum", in *The Slovenia Times*. 5 July 2011. Available at: www.sloveniatimes.com/the-super-aftermath-of-super-referendum

[58] Based mainly on an unpublished paper prepared for ILO-DIALOGUE, "Questionnaire on social dialogue and pension reform in times of crisis and beyond", by D. Anxo (Professor, School of Business and Economics, Linneaus University; Director, Centre for Labour Market Policy Research CAFO, Sweden) and T. Ericson.

The impact of the global crisis and pension reform

The economic downturn weakened Swedish public finances substantially, even though from an international perspective, the deficits have been limited. The Swedish public deficits are primarily the result of "automatic stabilizers", which have been crucial in maintaining aggregate demand in the economy and mitigated the impact of the global crisis, and have enabled the Government to undertake an expansionary macroeconomic policy. Because of its healthy public finances, Sweden, unlike most other EU countries, is not subject to an excessive deficit procedure within the framework of the EU Stability and Growth Pact.

Pensioners are one of the groups most affected by the financial crisis and the subsequent recession. The balancing mechanism in the public old-age pension system led to substantial lower income-based pensions in both 2010 and 2011. The Government therefore considered that further measures to strengthen the economic situation of pensioners were necessary. It thus decided in 2009 to revise the pension system by changing the so-called balance figure.[59] This was previously calculated on the basis of the asset value of the pension buffer funds on December 31 the preceding year, and would now be based on the average of the three previous annual values on December 31.

The changed calculation constitutes an automatic stabilizer, constructed in order to guarantee the long-term financial stability of the pension system. It can obviously affect the level of pension benefits. Indeed, in 2009 the reform led to a slower reaction of the balance figure to sudden falls in the market asset values of the pension buffer funds, and therefore also reduced the magnitude of the reduction of pension benefits. However, it will also delay the recovery of the pension benefits when the asset value of the pension system increases.[60] It is worth noting that the reduced pension benefits will mainly affect individuals with pensions above the ceiling for guaranteed minimum pensions, while pensioners with a guaranteed minimum pension and without or with a low income-related pension will not be affected by the changed balancing mechanism.

Beyond this change in the balance figure, the Government did not reform or adapt the pension system, opting instead for a reduction of income tax for pensioners in both 2009 and 2010 by means of a higher basic income tax allowance for people aged 65 or older. The tax reduction implemented in 2009 and 2010 and proposed for 2011 should be seen partly in light of the extraordinary nature of the financial crisis and the fact that, without the measures taken, pensioners would have been disproportionately affected.

Social dialogue process

One specific feature of the Swedish industrial relations system is the crucial role played by the social partners in mechanisms for regulating the labour market. A unique feature is the mostly optional nature of the Swedish labour market legislation, as most of its provisions may be amended, wholly or partly, by collective agreements. There is thus a long tradition

[59] The balance figure is the ratio between the assets (total pensions contribution asset + asset value of the buffer funds) and the liabilities of the pay-as-you-go pension system.

[60] As a consequence of the global financial crisis in 2008, the balancing mechanism of the pension system was activated for the first time in 2010. As a result, the indexation of pension benefits in 2010 decreased by 1.7 per cent instead of by 3.28 per cent. The balancing mechanism was to have been activated again in 2011, and the indexation of pension benefits was expected to be negatively affected, because the return on funded capital in the buffer funds rose between 2008 and 2009, while contribution assets fell.

of well-established and constructive tripartite social dialogue, through various forms of ad hoc consultation and hearings. A particular form is the inquiry system – the key element of the Swedish governance system – for which the Government fixes the terms of reference on given policy issues (e.g. pension reform). All stakeholders participate in these deliberations, including representatives of employers' and workers' organizations. The deliberations thus provide a sound basis for the ensuing proposals and their endorsement by the social partners increases the legitimacy of the reform.

The large fall in stock market values during the autumn of 2008 led to a considerable deterioration in the financial position of the pensions system. Consequently, the cross-party Working Group on Pensions, representing the five parties in the Swedish Parliament (Social Democrats, Conservatives, the Liberal party, Centre party and the Christian Democrats), argued that there were strong reasons to investigate whether or not the construction of the aforementioned balance figure produced an "optimally true picture" of the financial position of the pension system. In February 2009, the centre-right coalition Government, in cooperation with the Working Group, appointed the central government authority for social insurance to analyze the construction and functioning of the balance figure. The authority presented its conclusions on alternative options in April 2009, proposing to change the calculation by equalizing or smoothing the market value of the buffer funds over time. This was approved by the Working Group.

Before the draft legislation incorporating the Working Group's recommendations was submitted to Parliament for approval, various government entities and interest organizations were given the opportunity to comment on the draft. However, while the Confederation of Swedish Employers and three pensioner organizations were consulted, the trade unions were not.

In summary, the Government's consultation in this case was characterized by the fast process of getting the new legislation in place for the coming year 2010. Although a majority of the bodies consulted did not support the quick change of the balance-figure calculation, the Government and the Working Group decided to proceed with the legislative process. A central reason seemed to be that this model had already been analyzed and seriously considered ten years back though a simpler model had been selected. Now, on the basis of recent experience with the financial crisis, it was considered timely to correct the model. In submitting the bill to Parliament, the Government acknowledged that equalization of the buffer fund's value entailed both advantages and disadvantages. A main disadvantage was a possibly longer period of reduced pension benefit growth as a result of the financial crisis. However, lowering the volatility of the pension benefits over time was regarded as an overwhelming argument in favour of the proposal.

Even though the new pension system does not provide for a fixed retirement age, pensions cannot be drawn before the age of 61 and there is no statutory right for employees to work after the age of 67.

The exclusion of the trade unions from the consultation process does not seem to have been explained either by the Government or by the unions. However, there still remains a window of opportunity to revive the tripartite social dialogue on pension reform in Sweden, namely on the pensionable age.

At present, the Swedish pension system does not stipulate a statutory pension age. While pension cannot be drawn before age 61, there is no legal right for employees to work after age 67. In autumn 2010, the Government decided to launch a dialogue with the Working Group on Pensions to investigate the possibility of raising the age for the right to work from 67 to 69 years. The objective is to sustain the labour supply and to increase opportunities for work for older workers as a means of raising the effective average age of

labour market exit, thereby improving the long-term sustainability of public finances. There seems to be a cross-party consensus that this is a necessary measure, but there is as yet little agreement on how this should be achieved. According to the secretary of the Working Group, the social partners and other civil society organizations will be consulted on the planned reform through the usual process of hearings and consultation. However, at the time of writing (July 2011) no formal calendar for the consultation had yet been decided.

China

Brief historical overview of pensions in China [61]

Soon after the founding of the People's Republic of China in 1949, a centralized pension system was established, with three per cent of wages collected for revenue, mostly administered at local level by the trade unions. In 1969, the administration of the pension system became the responsibility of State-owned enterprises (SOE). As a result, the system became very fragmented, as it still is at present. In late 1970s, following Deng Xiaoping's economic reforms, pension eligibility criteria were loosened, and the number of pensioners increased dramatically. The responsibility for managing pensions became an increasing burden for SOEs, which were under pressure to adjust to a more market-oriented economy. The Government was called upon to take over pension obligations, leading in the mid-1980s to the establishment of a nationwide municipal pooling, resulting again in a fragmented system.

By the early 1990s it was recognized that the system was not only fragmented but also that its sustainability was threatened by increasing demographic ageing. This led to an attempt, starting in 1991, to set up a multi-pillar system; this would consist of a first basic pension pillar topped up by mandatory individual accounts as well as voluntary pension savings supported by tax concessions. In 1997, the World Bank published a report recommending for China a multi-pillar system with nine per cent of wages going to the first pillar and eight per cent to individual accounts in the second pillar. However, it saw problems with the financial sustainability of the first pillar and the projected rate of return for the second pillar.

In accordance with these recommendations, in July 1997, the State Council laid down the broad principles of the new pension system, leaving scope for differing implementation at the provincial level. Under these principles the system would consist of a first pillar, a PAYG defined benefits scheme, based on contributions paid over 15 years that should deliver a pension of 20 per cent of the average pay in cities, and a second pillar of individual accounts. The retirement age was set at 60 for men, 55 for women in management cadre positions and 50 for women workers. However, it fixed contribution rates at levels considerably higher (20 per cent paid by the employer, eight per cent by the employee) than those recommended by the World Bank.

The rules were supposed to be introduced gradually, and benefit employees who started working after 1996, while those retiring by end 1996 were still covered by the former system. The system did not work as planned, notably in the wake of the large-scale SOE restructuring. Many laid-off workers were given their pensions at young ages, and the remaining revenues were used to pay current retirees. In 2001, a new pilot programme was

[61] Oksanena, H. *The Chinese pension system – First results on assessing the reform options*, Economic Papers 410, June 2010 (European Commission, Directorate-General for Economic and Financial Affairs), 43pp.

launched in Liaoning province, separating the two pillars, fixing contributions for the first pillar at 20 per cent of pay for employers and eight per cent for employees. The relevant State Council document specified that the balance on individual accounts at retirement would be converted into monthly payments and when the individual account was depleted, pension would be paid from the social pooling fund, making the public authorities liable for the deficit.

Aware of the funding problems at provincial level, the Central Government set up the National Social Security Fund (NSSF) as a strategic reserve fund, transferring to it part of the proceeds from selling the SOEs. In 2004-2006, the Liaoning pilot scheme was extended to 10 other provinces (out of a total 31), covering 39 per cent of the population. By the end of 2008 only a fraction of the original blueprint was implemented, and only 55 per cent of employees with residency registration in urban areas were covered.

There seems to be agreement among both Chinese and non-Chinese experts that the contribution rate of around 28 per cent for urban pensions is an obstacle to increasing coverage, and even at that level it would not suffice to maintain the current level of pensions as the population ages. As regards the rural population, the 1991 reform document also covered pensions for rural employees, to be financed by a contribution rate of three per cent. Coverage remained low and by 2008 only 12 per cent of rural employees had joined the system. The challenge of extending coverage to the rural population is recognized by the Government, which issued a new plan in August 2009 aiming at full coverage of the rural elderly by 2020. It consists of a flat-rate pension, to which are added the individual accounts, based on contributions at three per cent of rural wages, which would offer a pension of 15 per cent of rural wages.

Latest phase in the pension reform process [62]

Investment and Pensions Asia (IPA) notes that, with the 2010 census confirming China's rapidly ageing society, the Government recently brought forward its target for universal pension coverage from 2020 to 2013. To help achieve this, it has adjusted the target for coverage of the rural pension pilot scheme from 40 per cent to 60 per cent by the end of 2011. Moreover, on 1 July 2011, the Government launched a new plan for previously uncovered unemployed urban residents, which will be funded by government subsidies and individual contributions. All unemployed urban residents over the age of 45 are eligible.

But the rapid development of national pension systems has given rise to financing problems, particularly evident with the rural pension scheme launched on a pilot basis in 2009. The scheme is part of a broader government drive to ease interregional inequality and accelerate the transfer of the benefits of modernization to citizens living in the Chinese interior. However, continued migration to the cities is aggravating the rural aging problem, and weak economic growth in some rural areas could hinder enrolment and ability to pay for coverage.

Dr Guo Jinlong, Assistant Director of the Institute of Finance and Banking at the Chinese Academy of Social Sciences (CASS) and a pension expert, points out that the current funding for the first pillar urban pensions is ensured by government subsidies and individual contributions. This may not be easily replicated by local governments and individuals in less economically developed rural areas. Moreover, he notes the lack of expertise in managing pension funds and limited options for investment that generate adequate returns to cover the growing pension liabilities as population ageing continues.

[62] Based on "China expands statutory pensions and aims for system convergence", in *IPAsia*, 7 July 2011.

However, he points out that the currently fragmented pension systems will eventually converge, driven partly by the ongoing urbanization process and improving social status of the population. He notes that the regulations which came into effect on 1 July 2011 (see above) are a first step in this direction as they make it easier for individuals to transfer pension schemes between different jobs and geographic locations. Another factor favouring convergence will be the improvement of fund management standards. Currently, he notes, most pension capital is collected and managed by municipal governments, and there have been instances of misappropriation at this level. In the future, he expects pension funds to be pooled and managed on a provincial level to improve oversight, returns and efficiency of the funds.

Among the other pension changes between 2008 and 2010 are the following: [63]

- Part-time urban enterprise workers are now also covered under the pension plan, increasing coverage by eight per cent. While the contributions and benefit formula remain unchanged, pension benefits for retirees have been raised by 10 per cent, and are paid by transfers of funds from the Central Government.

- A pension plan for rural residents was implemented, with the Central Government paying RMB 55 per month for men aged over 60 and for women aged over 55. Local governments also pay a subsidy of RMB 30 per year for rural residents to encourage them to set up an individual account starting at age 16.

- Some local governments (Guangzhou City, Shanghai City) and public institutions (in Shanxi, Shanghai and Chongqing) piloted a pension insurance policy that harmonizes the pension systems for civil servants and enterprise workers.

As regards coverage of the rural population, Hu Jintao, the Communist Party Secretary, stated in March 2010 that the Government should accelerate the establishment of a social security system covering urban and rural residents to guarantee basic living standards; promote the reform of the basic pension insurance system for enterprises, government agencies and public institutions; establish rural old-age insurance; and improve work for the elderly (Yansui Yang, loc.cit. p. 6).

The urgency of bridging the gap between urban dwellers and rural migrant workers is now recognized by the Government, as shown by Chinese (and foreign) press coverage in March 2010 and June 2011. A report from the State Council Development Research Centre, published on 14 June 2011, noted that the huge shift from the countryside to cities will continue for decades, and unless the migrants have better welfare, housing and legal status in towns and cities, their discontent could turn into a serious threat to stability. It notes that while the pool of young rural residents is shrinking as China ages, another nine million villagers will move to cities each year in the next five years. It singled out the household residence permit (*hukou*) system, which channels most welfare, housing support and health care to urban residents, as another major impediment to the integration of rural migrants, estimating that granting these migrants the welfare, health care and education conditions of established residents could cost the Government RMB80,000 (US$12,340) per migrant (*People's Daily*, 05, 08, 24 March 2010; *China Perspectives*, 2010/4; *The Guardian* 14 June 2011; *Financial Times* editorial, 20 June 2011).

[63] Information from an unpublished monograph for ILO-DIALOGUE by Prof- Yansui Yang, Research Centre of Employment and Social Security, School of Public Policy and management, Tsinghua University, China.

A multidimensional social protection response to the crisis (2008-2010) [64]

It is noteworthy that unlike many countries worldwide, China's financial institutions were not significantly affected by the global financial and economic crisis, despite the fact that the country is a major actor in the globalized economy. This can be attributed mainly to three factors: the non-convertibility of its currency, the yuan or yuan renminbi (RMB); the very limited investment in foreign equities; and the fact that its social security fund has not yet invested overseas.

The main impact of the crisis was on export-oriented enterprises as demand fell dramatically, especially from advanced economies, and exports plummeted, causing factory closures, massive lay-offs and a sharp decline in recently created urban jobs. By the last quarter of 2008, some 40 per cent of enterprises experienced job losses, as net retrenchment affected three million urban workers and more than 20 million rural migrant workers. By mid-2009, exports were halved by comparison to their pre-crisis level, while GDP growth shrank to 6.1 per cent (from over 10 per cent to11 per cent per year over the past decade). These developments affected the social security system, generating difficulties in the collection of contributions and provoking a significant decline in social security coverage.

The immediate response to the crisis by the Government, in which social protection played an important role, has mitigated the impact of the shock. It consisted of expanding domestic demand by investing overwhelmingly in infrastructure and in social security projects. These were financed by a government two-year stimulus package of US$586 billion [65] and a US$73.2 billion tax concession programme each year, which aimed at producing an eight per cent annual GDP growth and resulted in nine million new jobs in 2009.

Measures to strengthen the social security system have focused on employment promotion and the improvement of various social security schemes. They include:

- An employment promotion package (with an expenditure of US$27.53 billion in 2009, an increase of 131.2 per cent over 2008).
- A pilot pension programme for farmers with government subsidies (under which the Government committed itself to covering 10 per cent of rural areas by the end of 2009, benefiting around 10 million farmers aged 60 and above). [66]
- Upgrading social insurance pooling levels (targeting a provincial pooling of pension funds by end-2009 and envisaging a national pooling of pension funds by 2012).

[64] Based on People's Republic of China, ISSA Crisis Country Case Study. ISSA, Geneva, 2010.

[65] US$1 = RMB6.83.

[66] Major decisions were made in 1998 and 1999 in regard to the nationwide implementation of the basic medical insurance and basic pension insurance for urban employees. Since 2003, there has been an effort at unified planning for both urban and rural areas and the extension of coverage, with the Government committing itself to developing a comprehensive social security system for the entire population by 2020. By 2008, the urban basic pension scheme covered 165.87 million people, equivalent to a 54.91 per cent coverage ratio.
Data from the National Bureau of Statistics of China show that, in 2009, the rural population in mainland China totalled 712.88 million, accounting for 53.4 per cent of the total population. (ISSA–China 2010).

- New policies on portability of pension and health care benefits.
- A pension scheme for rural migrant workers.
- A US$125 billion three-year plan on top of the stimulus package for building a universal health care scheme by 2011.

To reduce the financial burden of enterprises, the Government allowed companies experiencing difficulties to delay or reduce the payment of social security contributions for a certain period of time. In 2009, the unemployment insurance funds alone spent about US$3 billion on deferred or reduced social insurance contributions as well as social insurance contribution subsidies, which benefited 25,000 enterprises, covering 7.4 million workers.

How effective were these measures, particularly in the area of pensions? According to data from the National Bureau of Statistics, by the end of 2009 a total of 234.98 million people (including retirees) had participated in the basic pension scheme for urban enterprise workers, a rise of 16.07 million or 7.3 per cent over the previous year. The provincial pooling of pension schemes was implemented in all 31 provinces, and the Government hoped to complete the national pooling by 2012. Moreover, a total of 127.15 million people nationwide participated in unemployment insurance schemes, up by 3.16 million since the end of 2008. In 2009, new jobs were created for a total of 11.02 million people, and 5.14 million laid-off or unemployed people were reemployed. Urban employment also bounced back, absorbing most of the 20 million rural migrant workers who had to leave the cities after the crisis, as manufacturing has bounced back and the sector is already complaining about staff shortages. The policy responses appear to have effectively countered the impact of the crisis. The GDP growth rate amounted to nine per cent in 2008 and 8.7 per cent in 2009; the forecast for 2010 was about eight per cent, but the latest data show a growth rate of 10.3 per cent for the year.

Social dialogue process

Besides government institutions,[67] the following stakeholders participated in the discussions on the pension reform process: the All-China Federation of Trade Unions (ACFTU) and the China Enterprise Confederation. Pension experts from research institutes and universities also joined the policy consultation.

However, Professor Yansui Yang (*op.cit.*) states that the social partners do not appear to have pension experts who are able to conduct pension analysis, nor do they have specialized departments to deal with pension issues. Moreover, while consultations were held with social partners on various reform parameters, these were not conducive to any outcome given the complexity of issues and variety of policies involved (implications of the pension budget, regulations on investment options in stocks and equity for the pension funds, how to maintain the value of funds, building China's pension market, etc.).

[67] Research Office of the State Council, the Old-age Insurance Bureau (in the Ministry of Human Resource and Social Security), the Ministry of Finance, and the Ministry of Civil Affairs.

Greece [68]

Overview of the Greek pension system

The Greek pension system is predominantly based on a generous public pension pillar. Voluntary occupational and private plans exist, but are of minor importance. High replacement ratios and generous rules for early retirement, especially for women, have put pressure on the Greek pension system, and consequently on public finances.

The public pension pillar consists of three parts: earnings-related basic pension, earnings-related supplementary pension, and minimum pension benefits. [69] The pension is financed on a pay-as-you-go basis and the contribution rate is unequally shared between the worker and the employer, with actual rates depending on the worker's profession. For persons who were affiliated with the Social Insurance Institute (IKA) after 1 January 1993, workers contribute 6.67 per cent of their salary, while employers provide 13.33 per cent and the State 10 per cent. For supplementary pensions an additional contribution has to be paid.

The most important social insurance institutions in Greece are the Social Insurance Institute, the Farmers' Insurance Organization (OGA), the Insurance Organization for the Liberal Professions (OAEE), and the State insurance for civil servants – together they cover 92.9 per cent of the population and 92.7 per cent of pensioners in Greece. More than 130 funds provide primary and supplementary pension coverage (the recent pension reform lowers the number of funds considerably in order to reduce complexity and administrative costs). Pension benefit rules and levels differ among the various funds and separate schemes exist for the different occupational lines. Employees in the public sector are directly paid from the national budget during retirement. Besides the earnings-related part of the pension system, a minimum pension is paid to those without adequate means. [70]

Impact of the global crisis

ISSA Crisis Monitor notes that the global financial crisis clearly induced a recession in Greece and the resulting 4.5 per cent decline in GDP by the first quarter of 2010 – the sixth successive quarter of contraction hit the manufacturing and tourism industries particularly hard. Average unemployment escalated from 7.7 per cent in April 2004 to a six-year high of 12.1 per cent by February 2010. By spring 2011, Greece was still grappling with the recession and the threat of default of its sovereign debt, despite the repeated and stringent austerity programmes and the US$145 billion three-year emergency financing package from the EU Commission and IMF.

The global financial crisis also harmed the investment performance of social security funds. There was only a marginal change in total asset value between 2007 and 2008, according to the Ministry of Employment and Social Protection. However, the pension deficit is estimated at about twice the size of the country's GDP of US$322 billion and the system is likely to go bankrupt in less than 15 years, if left unchanged. This weak actuarial state of pensions motivated several wide-ranging austerity measures as part of the bailout.

[68] This section draws on the unpublished monograph done for ILO-DIALOGUE by Patrina Paparrigopoulou, Associate Professor, University of Athens, unless otherwise indicated. The other sources include the ISSA Crisis Monitor Project and EIRO (European Foundation, Dublin).

[69] Country profile: Greece. Pension Funds Online. Allianz Global Investor. Available at: www.pensionfundsonline.co.uk/countryprofiles/greece.aspx

[70] ibid.

The first bailout enabled the Government to continue paying benefits with rising expenditures and falling revenue, and led it to embark on a large-scale social security reform (ISSA, ibid).

Latest pension reform in light of the crisis

To understand the stringency and pressure under which the Greek Government had to reform its pension system, one has to note the main requirements imposed by the Memorandum of Agreement between Greece and the EU and IMF on the emergency package. The Memorandum was enacted into Law 3845/2010. It specifies requirements for social insurance and pension reform which aim at ensuring the system's long-term actuarial balance. These requirements were to have been implemented by end-December 2010.

On 8 July 2010, the Greek Parliament approved major changes to the national pension system, a key element of the US$145 billion agreement with the EU and IMF. The reform cuts pension benefits and curbs early retirement. By 2050, IMF staff projections indicate that the reform could reduce annual pension expenditures for private sector workers and civil servants by 8.5 per cent of GDP.[71] The main characteristics of the recent pension reform can be summarized as follows:

- The statutory retirement age for women will be gradually raised from 60 to 65 by December 2013, to match the current retirement age for men. Beginning in 2020, the statutory retirement age for men and women will be automatically adjusted (every three years) to reflect changes in life expectancy.

- Early retirement for all including workers in arduous occupations will be restrained by limiting the minimum early retirement age to 60 by 2011. The Government aims to increase the effective average retirement age from the present 61.4 years to 63.5 years by 2015.

- The minimum contribution period to receive a full pension will be gradually lengthened from 37 years to 40 years by 2015. Pension benefits will be reduced by six per cent each year for individuals who retire between the ages of 60 and 65 with less than 40 contribution years.

- Pension amounts will be frozen during the 2011-2013 period and will be indexed to changes in the consumer price index (instead of being indexed to changes in civil service pensions) starting in 2014.

- Benefits for new claims will be based on career-average earnings rather than the current highest five out of the last 10 years.

- The average annual accrual rate (the rate at which entitlement to future pension benefits accumulate) will be limited to 1.2 per cent of earnings, resulting in a less generous earnings-related pension. This benefit will top up a new means-tested, non-contributory monthly pension of US$474 for citizens older than the normal retirement age.

[71] Social Security Administration. *Research, Statistics, and Policy Analysis*, International update, Aug. 2010. Available at: www.socialsecurity.gov/policy/docs/progdesc/intl_update/2010-08/index.html#greece

- A new flat bonus of US$1,053 per year will replace the seasonal bonuses (for Christmas, Easter and summer) currently payable to pensioners. The new bonus will be available only to those with pensions of less than US$3,290 a month. As a result, monthly pensions of more than US$1,806 will be reduced by an average of eight per cent. This reduction will affect about 10 per cent of pensioners.

- Pensions greater than US$1,843 per month will be taxed by five per cent to ten per cent starting in August 2010. [72]

Social dialogue process and social partners' positions

Social dialogue takes place within the Economic and Social Committee (ESC), created in 1994. It proceeds through the presentation of the views of the social actors and government – appointed experts (economists, lawyers, accountants, pension experts), and tries to shape a common agreement on a number of issues. In the current reform exercise, the Ministry of Labour and Social Insurance (MLSI) distributed a text to an expert committee [73] outlining the objectives of the reform in light of the current context (the extremely difficult financial situation of the country and the interaction between the social and financial situation).

The dialogue was to be completed within a short period of four months, leaving time only for a discussion of the adequacy of the actuarial studies. Objectively, this was of minor importance, since all existing actuarial evaluations clearly showed the urgency of containing costs to ensure sustainability. The ESC prepared two reports expressing its opinions on the proposed reforms of pensions (No. 194 and 241) on the proposed bill and including the opposing views and arguments of the different actors. There appears to be a consensus that the proposed bill provided for a substantial reduction in the amount of pensions and a restriction of State responsibility. More specifically, this meant that the State would guarantee and finance only the basic pension but not the contributory pension or the supplementary pension); the contributory pension had a very low replacement rate and would be calculated by taking into account one's entire working life; the reform reduced the supplementary pension benefit; the rights of women with minor children and workers insured under the special regime of arduous and unhealthy occupations were seriously curtailed by the sharp increase in the standard retirement age to 65 years.

Following this debate, the original bill was posted on the website of the Ministry (MLSI) for public consultation, and was simultaneously forwarded to the EU Commission and IMF so that these could consider its consistency with the Memorandum. Surprisingly, the bill that was eventually submitted to Parliament for a vote was different from the text originally posted on the website. The differences were in key areas, such as the calculation of basic and contributory pensions. The Government never explained how the differences arose and on which basis they were decided. Even more surprising is the fact that the ILO technical note dealing with the pension income replacement rates, which was forwarded to the National Actuarial Authority and accompanied the bill submitted to Parliament, refers to the version of the bill that was posted on the Ministry's website and not to the actual text submitted for vote. [74]

[72] ibid.

[73] Committee of Experts, Social Partners, and the Political Leadership of the Ministry of Labour and Social Insurance.

[74] Technical Note of 22.6.2010 by the ILO titled *Consolidated financial situation of the Greek pension system*, 2008-2060.

The final ESC report included members' suggestions on what action to take. These proposals, however, were not benchmarked with social and economic criteria in a manner that would help assess whether the solutions ultimately chosen by the Ministry were the best. In other words, the main weakness of the social dialogue in this case was the lack of scientifically and technically argued alternatives and the related selection criteria and benchmarking.

The position of the social partners GSEE and ADEDY [75] was very clear and firm: the State is obliged to finance social insurance and the pensions' parameters should not change, because all changes lead to a fall in pension benefits. Both were against the equalizing of the retirement age of men and women, mainly owing to the latter's family caretaking responsibilities. ADEDY's positions were not incorporated in the ESC report, but were publicized in the media. GSVEE, [76] another trade union, also participated actively in the social dialogue. GSEE left ESC halfway through the dialogue, having submitted proposals only on increasing State financing for the social insurance system. As employers' contributions were not to be raised, the employers' role would be limited to pointing out that measures to accelerate economic development should be taken by the Government so that pensions and social protection in general could be financed adequately.

Jordan [77]

Overview of Jordan's pension system

Jordan's national pension scheme is managed by the Social Security Corporation (SSC) and covers private sector workers, public sector staff who joined the civil services after 1995, and military personnel recruited after 2002. Since 1987 and until recently, it had been a compulsory scheme for enterprises operating with a minimum of five employees. However, since 2008, the SSC has been extending its coverage to enterprises with fewer than five employees and to self-employed persons. By the end of 2011, 150,000 micro and small enterprises with approximately 340,000 workers will be covered by this new initiative. In 2009 about 60 per cent of the Jordanian population was registered with SSC, compared to 40 per cent in 2002. In addition, the SSC has endeavoured to cover, on a voluntary basis, the 600,000 Jordanians working abroad, especially in countries where they are denied any social security protection.

Since 2001, the contribution rate for combined types of pensions (old-age and early retirement; natural cause; work-related disability; and natural cause and work-related death insurance) has been 14.5 per cent of the wage, with employers contributing nine per cent and workers 5.5 per cent. Workers' contributions to the SSC are exempt from tax, and employer contributions are income-tax-deductible. In addition, registration with the SSC requires employers to contribute an additional two per cent for insurance covering work injuries and occupational diseases. Two new types of contributions were to have been made mandatory by September 2011: a maternity insurance contribution of 0.75 per cent to

[75] GSEE: Hellenic General Confederation of Labor; ADEDY: Civil Servants' Confederation.

[76] GSEE represents workers and employees in the private sector and is the biggest Greek trade union confederation. GSVEE, the Hellenic Confederation of Professionals, Craftsmen and Merchants, represents small businesses and the self-employed.

[77] This note is based on an unpublished monograph written for ILO-DIALOGUE by Jalal Al Husseini, Associate Researcher, Institut français du Proche-Orient, Amman, Jordan, except when otherwise indicated.

be paid by the employer, and an unemployment benefits scheme to be funded jointly by the employer (0.5 per cent) and the worker (0.5 per cent).

Impact of the crisis and pension reform

Jordan escaped relatively unscathed from the global economic crisis, suffering little by way of unemployment, which by the summer of 2009 was up by two per cent on the previous year. However, despite having minimal exposure to risky financial products, the global economic downturn shook investors' confidence in Jordan. In 2008, the Amman Stock Exchange index suffered unrealized losses of 20.4 per cent for the SSC, Jordan's largest investor and administrator of social security benefits. Conversely, by end 2009 the entire SSC portfolio grew by 1.5 per cent.[78]

The Government's main objective in reforming the pension system was the urgent need to salvage SSC from future bankruptcy, given the alarming conclusions of the ILO actuarial study, besides the concern for maintaining social stability. It is noteworthy that, to maintain social stability, the Government is committed to universal social security, spending over 14 per cent of GDP on social protection and health in 2007 alone, considerably higher than some developed economies (see, for example, Appendix B to this paper, table A.4).

In October 2009, the Cabinet approved a first set of modifications to the social security law of 2001, which included restrictive revisions of the early retirement pension regulations and to the calculation of pensions. In March 2010, Cabinet endorsed a temporary social security law that finalized the SSC's reform endeavour. The temporary law also extended the coverage of the mandatory social security law to previously non-covered categories (small or micro enterprises with less than five workers); it linked the pension benefits to inflation; it established new insurance schemes for maternity and unemployment; and it excluded a few categories of insured persons (contributors) from the new early retirement regulations. The components of the pension reform that have triggered the most debates in Jordan are outlined below.

The temporary Social Security Law of 2010 maintains the same mandatory retirement ages prescribed in the previous 2001 social security law: 60 years old for men and 55 years old for women, including the payment of a minimum of 180 monthly contributions (15 years of contributions). The contributions may be paid either as a portion of the monthly wage (for employed persons) or as payments (for non-employed persons or employed persons purchasing previous, non-paid months of contributions). However, the 2010 law raises the minimum number of actual monthly contributions paid as employed persons for old age retirement from 60 (2001 law) to 84 (article 62, para. a). It compels the enterprises to hire employees until they have met these conditions (article 63).

Given its alleged burden on the SSC's budget, early age retirement is the main target of the 2010 temporary law's restrictive approach. It delays the minimum age for early retirement pension from age 45 to 50 and increases the number of contributions required for both genders to 300 monthly contributions for men (instead of 216 contributions previously) and to 264 monthly contributions for women (instead of 180 contributions previously) (article 64, para.1, 2). As a measure of equity, those insured persons who were approaching the age of early retirement requirements according to the previous pension regulations (41-

[78] *Crisis country case study: Jordan*. ISSA Crisis Monitor Project, Geneva, 2010.

44 years old before 1 January 2011) may still apply for a pension before age 50, although on rather disadvantageous terms. [79]

Pension benefit formula: The temporary law of 2010 prescribes a calculation formula that may result in a fall in pension benefits, especially for pensioners with high insurable wages. For old-age pension, the annual accrual rate applied to insurable wages exceeding JD 1,500 drops from 2.5 per cent to 2 per cent. In addition, the average monthly insurable wage is calculated on the basis of the 36 last monthly contributions instead of 24. Moreover, the insurable wage at the end of the last 60 months of contributions shall not be higher than 60 per cent or lower than 20 per cent of the wage at the beginning of the person's service. In order to maintain the pensions' purchasing power, the temporary law indexes for the first time pension benefits to the inflation rate, provided the pension benefit does not increase by more than JD 20. [80] Furthermore, the temporary law sets caps on family allowances provided to pensioners with dependants.

The new pension calculation formula lowers incentives for early retirement. As with old-age pensions, the accrual rate of 2.5 per cent formerly used is replaced by a gradual age-based accrual rate on average lower than 2.5 per cent. The calculation used to determine the early pension benefit takes into account the average monthly wage during the last 60 monthly contributions, instead of the previous 24 monthly contributions, and applies the new maximum 60 per cent and minimum 30 per cent limitation. Early retirement pensions are not indexed to the inflation rate until the early retirement pensioner has reached the mandatory old-age retirement age of 60 for men and 55 for women.

Social dialogue process

During its preparatory work for the new social security law, SSC launched a national dialogue over a two-year period. This differed from the traditional framework for social dialogue. First, it was a temporary endeavour tied to a specific reform of the social security law. The second major difference between the national dialogue and other dialogue settings is precisely its national character. It involved a vast array of stake-holders, ultimately endeavouring to embrace the entire Jordanian population. Third, the national dialogue was carried out quasi-exclusively by the SSC, with technical assistance from the ILO and the World Bank.

The national dialogue consisted of face-to-face meetings with institutional stakeholders [81] to inform them of the relevance of the SSC reform plan and to collect their views and suggestions. Additionally, it used a series of direct communication channels with the Jordanian population through a wide range of media. There were numerous workshops, lectures and meetings, and media awareness campaigns. Then, the input of SSC's

[79] For instance, those insured persons who reached age 41 before 1 January 2011 may apply for early retirement when they complete age 49 with at least 282 monthly contributions (men) or 246 monthly contributions (women). At the other end, those who reached age 44 before 1 January 2011 may apply for early retirement when they complete age 46 with at least 228 monthly contributions (men) or 192 monthly contributions (women) (article 62, para. b).

[80] US$1=JD0.7.

[81] These consisted of the traditional social partners the General Federation of Jordanian Trade Unions (GFTU), the employers' Chambers of Commerce and the Jordan Engineers Association (JEA) as well as representatives of political parties, academia, the media and cultural circles, and civil society.

counterparts during the national dialogue was synthesized in a "National Dialogue Matrix", [82] and was made available at SSC's headquarters.

Following the closure of the national dialogue in 2009, SSC has had to engage, quite reluctantly, in a controversial "post national dialogue" with the opponents to its reform, mainly through the media. The SSC's reluctance stemmed from its belief that opposition to its scientifically-based reform boiled down to factors beyond its control, which it identified as the conservative character of Jordanian society; JEA's political agenda; and the 'selfish behaviour' of the main losers in the reform, mainly the wealthy contributors or contributors who wanted the generous benefits offered by the old early retirement scheme, irrespective of its adverse impact on the pensions of future generations. The controversy did not revolve only around the new pension system, but it also questioned the overall governance of the SSC and its operational methods.

The social partners' position

The notion of "dialogue" has been contested, as most stakeholders did not consider that national dialogue was the participatory tool that the SSC claimed it was. Rather, they thought that it was mainly an effort by SSC to convince its counterparts of the inevitability of the reform for reasons of financial sustainability and the interests of future generations. Several voices insisted that such an ambitious reform deserved more than a patronizing "civic education" exercise and that it required informed teamwork involving all parties familiar with the issues at stake, including the traditional social dialogue partners and experts from relevant institutions of civil society.

The Jordan Engineers Association contended that the figures produced by the ILO's actuarial study and aired by the SSC during the national dialogue were inaccurate. More precisely, it contested the figure of 80 per cent of early retirement pensioners repeatedly used by the SSC to justify its modification of the early retirement regulations. The actual figure, JEA spokespersons argued, is 37 per cent. The highly publicized, but irrelevant, "data controversy" was fuelled by restrictions on reform-related data.

By way of conclusion, it appears that the opponents of the reform were never in a position to influence its legislative outcome. Their voice often came out fragmented and at times contradictory. While JEA adopted a radically oppositional stance to the reform, the Jordan Pharmacist Union publicly voiced its approval. Even though JEA's anti-reform campaign was widely publicized by the media, it did not mobilize the masses. [83] The SSC claims that it did record various suggestions made by its counterparts and that these inputs had brought about 18 revisions of the law draft. These include the exclusion of workers with hazardous occupations from the new pension system; the link between pension benefits and inflation; and higher wage pensions for those above 65. However, the basic parameters of the pension reform, namely a new and more restrictive early retirement pension regime and a cap on the highest pension, remained untouched.

[82] The matrix is an 18-page document presenting inputs and feedback.

[83] The gatherings and sit-ins JEA staged since 2009 have mobilized no more than a few hundred people at most, mainly union members themselves.

France [84]

Overview of the French pension system

The French pension system is especially complex as it has five components ("regimes"): (a) the general old-age pension scheme for private sector wage earners, set up in 1945; (b) the public servants scheme; (c) special pension schemes for employees of State-owned enterprises and public utilities (SNCF, RATP, EDF and GDF);[85] (d) two mandatory supplementary (second pillar) pension schemes for all wage earners (with the exception of those covered by the special schemes), namely ARRCO for blue-collar workers and AGIRC for professional and managerial staff;[86] and (e) voluntary, 'optional' third pillar 'super-supplementary' pension schemes open (since 2003) to all wage earners and can consist of individual or collective savings arrangements.[87]

The complexity also results from the fact that these schemes are governed by different rules for the various parameters, among them the contribution rates for employers and employees, the number of working years required to get a full pension, retirement age, and early retirement options. These differences resulted in inequalities between different categories of workers, which have been subject to strong criticism over the years from various stakeholders including political parties and the social partners.

As in most EU countries the French pension system has been faced with a number of challenges, including low economic growth, ageing of the population, persistent high unemployment rate, and low employment rates for young and old people. For more than a century, the pension system has been the subject of discussion, conflict and compromise between the various political and social actors. It is an area of confrontation between the political right and left, and between employers and trade unions, but it can also generate tensions and disagreements within each of the stakeholders themselves.

The impact of the crisis and early recovery

Like most EU countries, France was severely hit by the global crisis, though perhaps less acutely than some of its neighbours. The biggest impact occurred in 2009, when real GDP fell by 2.9 per cent, the total unemployment rate reached 9.5 per cent (up from 7.8 per cent in 2008), and the youth unemployment rate swung to 23.3 per cent from 19.1 per cent in 2008.

The French economy has experienced a moderate recovery since 2010; there has been a rise of 1.3 per cent in real GDP in 2010 and another rise of an estimated 1.5 per cent in 2011. However, despite the Government's macroeconomic policy response which enabled

[84] This section is based mostly on an unpublished monograph prepared for ILO-DIALOGUE by Jacques Freyssinet, Professor Emeritus, University Paris I, France, except where otherwise indicated.

[85] SNCF: Société Nationale des Chemins de fer Français; RATP: Régie Autonome des Transports Parisiens; EDF: Électricité de France S.A; GDF: Gaz de France.

[86] ARRCO: Association pour le régime de retraite complémentaire des salariés; AGIRC: Association générale des institutions de retraite des cadre.

[87] The collective schemes are optional in the sense that they can be created by an individual company, by a financial institution or by collective agreement. In the last case, they can be made mandatory for wage earners covered by the agreement.

the economy to withstand the shock, the OECD deems that, given the financial and global nature of the recession, it will leave lasting traces even in France. The OECD predicts that France will continue to undergo a moderate pace of recovery, which will be insufficient to bring down unemployment quickly. This implies the need for a number of policy priorities, of which the first is fiscal consolidation and the second is raising the employment rate of young and older workers.

The 2010 pension reform

The French pension system has undergone several reforms over the last three decades. In 1982, the statutory retirement age was fixed at 60 (down from 65) by the then Socialist Government. In 1987, the Conservative Government abolished the system of indexing pension to wages and instead indexed it to consumer prices. In 1993 the National Assembly adopted a law reforming the pensions system in two ways: the first extends from 10 to 25 the number of work years used as the basis for calculating pension benefits; the second raised from 37.5 to 40 the number of contribution years required to benefit from a full pension rate. Another law, adopted in 2003 (called the Loi Fillon), further increased, among other things, the number of contribution years required to get a full pension from 40 to 41 by 2012. At the same time, it set a date (2008) for a national debate on the sustainability and future orientation of the pension system in France. This clause is at the origin of the pension reform carried out in 2010, which is further discussed below.

The French Government had originally scheduled a major pension reform to take place in 2012. However, the deteriorating financial situation of the basic old-age pension system due to the rapid ageing of the working population, compounded by the outbreak of the global financial and economic crisis, prompted it to embark on a major reform in 2010. The ageing of the baby boomers and the preference for early retirement resulted in a decline in the number of active contributors per retiree, from 4.1 in 1960 to 1.8 in 2010. This ratio is expected to decline further to 1.2 by 2050. Therefore the focus of the reform is on raising the legal retirement age and delaying the age of entitlement to full retirement benefits in the general PAYG scheme covering the private sector. The reform package became law on 9 November 2010. It includes the following main provisions:

The first important change is the phased increase of the statutory retirement age for both men and women from 60 to 62, adding annually per generation (age cohort) four additional months starting on 1 July 2011 and completing the process by 2018.

The second measure is the phased increase of the retirement age from 65 to 67 for full pension benefits without penalty by adding annually per generation four additional months starting in 2016 and ending in 2023.

Exemptions from these rules allowing early retirement include: workers in arduous or dangerous occupations; workers who began their careers early; mothers of three children, who have interrupted their working careers to raise at least one of the children; and the disabled.

Social dialogue on the 2010 reform

The reform process started with the publication of a technical document prepared by the Advisory Council on Pensions (Conseil d'orientation des retraites or COR, see box A infra), a body composed of various stakeholders including the social partners, members of Parliament and pension experts. The document analyzed different reform options and assessed their impact on the sustainability of the general pension scheme. Both medium- and long-term perspectives for the four pension schemes were considered.

Consultations with the social partners took place between April and June 2010. In April, the Labour Minister organized a first series of bilateral meetings with the social partners; they were held separately with the employers' organizations and the trade unions. The Government steadily refused to have a tripartite debate with all the social partners, admittedly to avoid the risk of a "union overbidding". In May, the Government released a guidance document suggesting some objectives and options that were discussed in a new series of bilateral meetings. In June, the Government announced a draft law, on which the social partners had three days to present their comments and suggestions.

In late August, reacting to the mass union and popular demonstrations, the Labour Minister resumed discussions with the trade unions on possible amendments to the draft bill or additional provisions concerning the arduousness of work, long careers and the case of people who as a result of changing jobs were affiliated at different periods to different pension schemes with heterogeneous applicable rules ("polypensionnés"), adversely affecting the level of their total benefit entitlement. While the Labour Minister was adamant about keeping the measures regarding age, he introduced to the parliamentary debate new topics for which modifications could be envisaged, namely: gender equality in employment status, early retirement for disabled workers, and the issue of jobseekers close to retirement. In early October, amendments were introduced to remove the benefit reduction (décote) for mothers who interrupted their professional activity in the three years following the birth of a child or the parents of handicapped children. While trade unions welcomed these measures, they reaffirmed their overall opposition to the reform.

Trade unions have consistently defended diverging approaches to the objectives and contents of pension reforms since the 1980s. Their deep divergence in confronting the 1995 and 2003 pension reforms left lasting traces.[88] Therefore, the inter-union coordination among the five nationally representative confederations and their unity of action since 2008 has been outstanding.[89] It is also exceptional that the eight existing trade union confederations met regularly throughout 2010 to coordinate their action against the government reform project and maintained their opposition till the end. The unions believed that the burden of the 2010 reform project would fall mainly on wage earners. Moreover, they considered that it was unfair towards low-skilled workers who started working early in life, mothers with discontinued careers, and workers exposed to hardships and dangerous work.

[88] Historically, unions have always considered the development of pensions as a social conquest and have systematically fought for the advancement (reduction) of the statutory retirement age and for improvement of the level of pensions. While they expressed a global opposition to the restrictive measures that were gradually introduced in the schemes since 1987, they were sometimes divided on the advisability of accepting compromises with trade-offs. The most significant event in this respect was the signing in 2003 by the Confédération française démocratique des travailleurs (CFDT) and the Confédération française de l'encadrement - Confédération générale des cadres (CFE-CGC) of an agreement on the final Fillon pension reform, which was vehemently rejected by the other unions. CFDT suffered, as a result, a major loss of membership.

[89] These are the five confederations that are currently recognized at national level as representative intersectoral social partners – namely CFDT, CFE-CGC, Confédération française des travailleurs chrétien (CFTC), Confédération générale du travail (CGT) and Confédération générale du travail force ouvrière CGT-FO. They are the only organizations present at the consultative "social summits" convened by the State, and authorized to negotiate intersectoral (national) collective agreements, including those that regulate the supplementary pension schemes. However, a 2008 law changed the rules for recognizing union representativity, which will from now on be based on the election results of staff representatives at enterprise level. Taking into account the time to complete the electoral process, these new rules will not take effect before 2012.

During the 2010 reform debate all three employers' organizations [90] globally approved the Government's proposal, though notable differences appeared among them with regard to alternative proposals, partial reservations or hierarchies of priorities. Arguably, as private sector pensions (basic PAYG schemes and supplementary schemes) are primarily financed by payroll contributions, employers' organizations have always manifested a global opposition to any increase in labour costs (i.e. no increase in contribution rates).

General assessment of the outcome

The social dialogue suffered two major flaws. First, it was limited to bilateral meetings between the Labour Minister and each social partner separately; there were thus no tripartite consultations between the three parties. Also, from the outset, the Government stated that the postponement of the statutory retirement age was not negotiable. The fact that the Government eschewed tripartite meetings which would have allowed an exchange of views and arguments, as requested by the trade unions, led the latter think that the Government did not want to engage in a dialogue on the reform options or to change its plans.

Secondly, the Government left little time for real consultations and negotiations. The trade unions felt that they lacked time to study the draft law and the different possible scenarios that would have enabled them to make appropriate comments on issues involving complex parameters. After the draft law was issued, the social partners had three days to react. Such a rush was attributed to the pressure of the financial markets which were carefully watching the pension debate in France in a context of increasing deficits and debt.

It therefore appears that the reform debate did involve a limited social dialogue. The few concessions made by the Government, which related to the question of equality between men and women, pre-retirement of persons with disabilities and older jobseekers, were obtained as a result of the massive and successful protests and industrial action organized by the trade unions.

Bipartite agreement on supplementary pensions reached in 2011

On 18 March 2011, the social partners [91] concluded their negotiations by signing a historic agreement on the two mandatory second pillar pension schemes ARRCO and AGIRC (covering all workers and professional and managerial staff respectively). This agreement is meant to adjust several parameters of these regimes (retirement age, duration of contribution years, etc.) in accordance with the 2010 law on pension as well as to increase benefits.

The agreement provides a top-up to the pension benefit in the private sector which represents 30 per cent of total pension benefits for blue collar workers and 55 per cent for professional and managerial staff. To take account of the 2010 reform, the new agreement focuses on the extension until 2018 of the Association pour la gestion du fonds de financement (AGFF), set up in 1983 to finance top-up pensions for individuals retiring before the age of 65. The scheme is currently in surplus; however, the long-term financial

[90] These are: Mouvement des entreprises de France (MEDEF), the predominant organization, which considers itself the representative of French companies across the board; Confédération générale des petites et moyennes entreprises (CGPME) for small and medium-sized enterprises; and Union professionnelle artisanale (UPA) for craftsmen.

[91] The three national employers' associations (MEDEF, CGPME and UPA) and the five national confederations of trade unions (CFDT, CGT, CGT-FO, CFTC and CFE-CGC).

sustainability of the ARRCO and AGIRC schemes cannot be assured without an increase in contributions. On the side of the unions, CFTC first had reservations but eventually signed the agreement with CFDT and FO on 30 March. Two unions remained opposed and did not sign, CGT and CFE-CGC, the latter being the union representing professional and managerial staff ("cadres"). CFTC signed it because, otherwise, workers nearing retirement would have suffered a 20 per cent reduction in their pensions. However, aware of the risk for the scheme's future sustainability, it will continue to lobby for an increase in contributions by both employers and employees. CGT considered such an increase a prerequisite for signing the agreement, as it believed that without it, future pensions were in danger. That increase was, however, unacceptable to MEDEF (IPE, 31 March 2011).

Despite such differences, the agreement, concluded after several weeks of negotiations, demonstrates the vitality of the bipartite social dialogue in France on pensions and other labour-market issues. It also shows the willingness of the social partners to preserve their autonomy and to move the dialogue forward despite the difficulties encountered at the tripartite level. Interestingly, Laurence Parisot, the president of MEDEF, in a recent press interview, expressed her positive assessment of social dialogue and bilateral cooperation, and said that it was now possible to relaunch negotiations with the unions on updating social dialogue in France, including on how to share profits with employees (Le Monde, 17-18 April 2011).

Despite major obstacles to tripartite social dialogue on pension reforms, the impact of the financial crisis and growing public awareness of the impact of demographic ageing led the social partners to rise to the challenge of the time by asserting their autonomy vis-à-vis the State, as the sole arbitrator in the industrial relations area, and reaching a major agreement on supplementary pensions. This is an important lesson for many other countries facing similar challenges.

Box A. France – The Pensions Advisory Council

Created in 2000, the Pensions Advisory Council (COR) is a permanent, independent and pluralistic body, combining a broad range of different political and social points of view. It reports to the Prime Minister.

The Council's mandate consists of the following responsibilities:

- monitor changes and the outlook of public mandatory pension schemes;
- assess the requirements for ensuring the long-term financial sustainability of these schemes;
- disseminate information on the retirement system and on the effects of both the currently implemented and planned reforms;
- monitor the living standards of both the working population and retirees.

The COR membership brings together members of Parliament, representatives of employers, employees and self-employed persons, directors of relevant administrations, as well as experts chosen for their experience and competence.

Since its creation, the Council has been an active forum for debate between these different stakeholders. It has strengthened their capacity for analysis and dialogue. It has, in particular, succeeded in formulating a shared diagnostic on some issues, while on others, it enabled the participants to juxtapose their opposing views on a shared rigorous analytical basis.

The COR's analysis underpinned the social debate on the 2010 pension reform. In particular, its January 2010 report examined the implications of a systemic reform by comparing the impact of different options, namely pension schemes based on annuities, on pension points and on notional accounts. The COR's April 2010 report updated its earlier medium- and long-term impact assessments, which provided the quantitative data for the debate on the proposed reform. These assessments do not contain any prescriptions, nor do they advocate any specific scenario and they do not commit the organizations represented in COR to any stance. However, these assessments have been of crucial importance for agreement among the stakeholders on the diagnostics and on the range of the different anticipated outcomes that were deemed reasonable.

Source: Jacques Freyssinet.

Spain

Overview of the Spanish pension system

Spain's pension system is a multi-pillar scheme composed of a generous State pension, a voluntary occupational pension and a voluntary private pension. The State pension system contributes about 90 per cent (for low and average wages) towards pensioners' incomes. It consists of two components: an earnings-related contributory scheme and a means-tested non-contributory scheme. The contributory scheme is mandatory for all employees and self-employed persons. It is financed through contributions paid by employees, equivalent to 4.7 per cent of their wage, and employers, providing 23.6 per cent. The non-contributory old-age pension is granted to persons aged 65 and older, who have not acquired enough pension contributions or are not entitled to a contributory old-age pension. It is financed solely from tax revenues. [92]

Spain has one of the most rapidly ageing populations in Europe as well as one of the lowest birth rates. Over the last 10 years, the increased number of women and immigrants in the Spanish workforce has helped to pay the pension of people who are retiring at this time. [93] However, there are real concerns about the sustainability of the pension system in the long term, when the number of retirees is set to increase dramatically. Therefore, the current Socialist Government is committed to pension reform and has achieved social consensus on measures aimed at maintaining the long-term sustainability of the pension system.

The impact of the recent global crisis

After a decade of very rapid economic growth and healthy public finances, Spain entered a recession of unprecedented depth and length in 2008. In 2009, its GDP declined by 3.6 per cent and total employment shrank by 6.7 per cent. That same year, general unemployment reached 18 per cent and youth unemployment 37.8 per cent. Both continued to rise in 2010, and by the second quarter of 2011, the unemployment rate had climbed to 20.89 per cent and youth unemployment to 45.7 per cent. [94]

While the economy began to emerge slowly from the deep recession, the Zapatero Government (in power until late 2011) adopted an ambitious and wide-ranging policy response to address its exponentially rising public deficits. These measures included: reforming and strengthening its banking sector, notably its weakened regional savings banks which were particularly exposed to the housing meltdown; reforming labour legislation to reduce labour market duality; and reforming the pension system. While the OECD welcomed these important measures, it insisted that that deeper reforms were still required.

In announcing its ambitious budgetary consolidation and sweeping reforms in May 2010, the Zapatero Government acknowledged that it was crucial to convince investors of its commitment to a structural reform to revive the economy and avoid a bailout. Its cost-cutting measures included a reform of the pension system. The Government stated that it

[92] *Country profile: Spain*. Pension Funds Online. *Allianz Global Investor*. Available at: www.pensionfundsonline.co.uk/countryprofiles/spain.aspx

[93] Wood, Danny. "Guide to Europe's pension woes." *BBC News*. 17 August 2007. news.bbc.co.uk/2/hi/europe/6937301.stm#spain

[94] Eurostat.

was counting on reaching a tripartite agreement by 28 January 2011. After several months of negotiations, this date appeared beyond reach. However, the pension reform was eventually adopted as part of a global social pact only a few days later.

Pension reform

The retirement age will be gradually increased from 65 to 67 years of age, but with a list of exceptions. Generally, retirement can take place between 61 to 67 years of age, depen-ding on one's contribution history and personal situation. The main provisions of the pension reform can be summarized as follows: [95]

- ***Normal retirement age:*** The retirement age with full pension is set at age 67, but people with a contribution period of 38 years and six months (an increase from 35) can retire at age 65.

- ***Early retirement:*** Workers may retire as of age 63 with a minimum contribution period of 33 years, with a reduction coefficient of 7.5 per cent for each year under the normal retirement age.

- ***Early retirement for hazardous work:*** The retirement age for heavy, hazardous, toxic or dangerous working conditions or for disability is below age 65.

- The calculation base period will gradually increase from 15 to 25 years of the workers' last earnings.

- ***Calculation scale to earn full pension:*** The scale will be gradually changed from 50 per cent of the calculation base with 15 years of contribution to 100 per cent of the calculation base with 37 years of contribution.

- ***Incentives to voluntarily delay retirement:*** These are given for each additional year worked after the normal retirement age, 65 or 67 years of age, and depend on the years of contribution. For a contribution period of less than 25 years, the annual ratio will be two per cent annually starting at age 67. For contribution periods between 25 and 37 years, the incentive for voluntarily delaying retirement after the normal retirement age shall be 2.75 per cent per annum starting at age 67.

- ***Recognition of credited years:*** Women who have interrupted their career because of giving birth or adoption may advance their retirement by nine months for each child, up to a maximum of two years.

Social dialogue on pension reform

The Spanish social partners have been involved in negotiating all the aspects of the public pension system since the 1995 Toledo Pact. The Pact was renewed in 2001, 2006 and on 28 December 2010 and had three objectives: (a) to consolidate the national pensions system; (b) to reinforce the contributive character of the system; and (c) to control the increase in pension expenditure and guarantee income level. [96] In the latest negotiations on

[95] Acuerdo social y económico para el crecimiento, el empleo y la garantía de las pensiones, 19 pp. CCOO: Reply to the ILO's request for information on social dialogue and pension reforms in times of crisis, March 2011. CCOO also provided a copy of the text of the Social Pact.

[96] "Spain – Pension reform: difficulties experienced in renewing the 'Toledo Pact'", by A.M. Artiles, in Transfer, Vol. 17/1, Feb. 2011, pp. 116-117.

pension reform, the Spanish Government had been under constant pressure from the European Union to accelerate the reform and to proceed with or without a social agreement.

In early January 2011, the Government and the two largest trade unions (Comisiones Obreras – CCOO and Unión General de Trabajadores – UGT) held meetings in hopes of reaching an agreement on the upcoming pension reform. The meetings were scheduled to discuss reforms of the pension system as well as labour market and employment issues, changes in the collective bargaining system and economic policy. Before the formal meetings, government officials and union leaders held informal negotiations, mostly over the telephone. At one point, the talks broke down and the future of the proposed reform looked bleak.

A number of interest groups and, to some degree, the Government, wished to move towards a "mixed pension system", using the economic crisis and the sustainability concern as an opportunity. The Government's proposed measures included: compulsory retirement at age 67 for all workers; limited access to early retirement and partial retirement; an increase in the number of minimum contribution years needed to have the right to pension payments from 15 to 17 years; a gradual rise to 38 or 40 years of contribution to obtain a full pension; and changing the calculation period for pensions to the entire working career.

Trade unions and civil society organizations were opposed to the pension reform bill. The CCOO and UGT had warned the Government against raising the retirement age from 65 to 67 and were planning a second general strike in January. These unions considered that a social and political global pact to address economic challenges was necessary to address the two urgent issues of pensions and collective bargaining.[97] Furthermore, they believed that a widespread and mandatory rise in the retirement age was both unjust and unnecessary. The CCOO warned that the pension reform proposal would produce more poor pensioners in 20 years. Instead, it proposed retirement bands (e.g. 61 to 67 years), seeking ways to discourage labour market exit when it was not justified and to encourage workers to work longer when it was possible. The CCOO felt that the government proposals would not only adversely affect the level of pension benefits but would also weaken the overall system. The main union objective was, within a sustainable financial framework, to ensure that the public pension system would provide maximum coverage of the population and an adequate income for retirees.

After lengthy negotiations, agreement on the pension reform was reached. The Zapatero Government secured the support of the main trade union for a rise in the retirement age. This agreement led to a larger tripartite agreement, the *Social and Economic Agreement for Growth, Employment and Guaranteed Pensions,* which focuses on growth, jobs and the sustainability of public finances. The social pact was signed on 2 February 2011 by the three parties. Hence, Spain demonstrates that politically difficult and extensive reforms can be achieved through social dialogue also in countries with adversarial industrial relations, record-high unemployment and a high incidence of atypical jobs.

[97] "CCOO y UGT convocan encierros por una pensión digna, no a la jubilación a los 67 años", in CCOO. Jan. 14, 2011. Available at: www.fsc.ccoo.es/webfsc/menu.do?Inicio:113129

Mauritius [98]

Overview of the Mauritian pension system

The pension system is one of the major elements of the broader structure of the social security system in Mauritius. In a survey of eight African countries, the Economic Commission of Africa (2001) concluded that Mauritius had the best organized programme in terms of social security covering all citizens of old age.

The World Bank (2004) classified the Mauritian pension system into a three-tiered system. The first tier consists of the universal non-contributory Basic Retirement Pension (BRP). It was introduced to provide a guaranteed minimum income for the elderly when the majority of the Mauritian population was living in poverty. The tax-based financing was meant to introduce a strong redistributive effect. The second tier, for the private sector, is made up of two mandatory income-related pension schemes: the National Pensions Fund (NPF) and the National Savings Fund (NSF), which are public sector institutions. Lastly, a number of voluntary schemes make up the third tier, which is geared to supplementing the pension income.

Under the system, Mauritians receive non-contributory benefits and contributory benefits.

Non-contributory benefits are administered by the public sector and are payable to every Mauritian citizen under certain residency conditions. These benefits include:

- basic pensions which cater for the elderly, invalids, widows and orphans, irrespective of their economic status;
- allowances such as Social Aid, Food Aid, Unemployment Hardship Relief and Funeral Grant which are payable to the low-income group of the population;
- inmates allowance and indoor relief payable to, or on behalf of, Mauritians residing in government-subsidized institutions (such as old people's homes, infirmaries and orphanages) provided they would have otherwise benefited from a basic pension or from Social Aid.

Contributory benefits, on the other hand, are payable only to, or on behalf of, persons who have contributed to the National Pensions Fund (NPF). They cover old age, invalidity, widows and orphans; industrial injury allowances are also provided.

The pension rates for non-contributory benefits are fixed at the beginning of each financial year. The allowances payable as contributory benefits vary according to the amount contributed to NPF by the insured worker. For those whose contributions were marginal, the Government guarantees a minimum contributory pension.

Economic context

Over the past three decades, Mauritius has made enormous progress in economic development and poverty reduction. At the time of its independence in 1968, it suffered from a stagnant plantation economy with a single crop – sugar – which accounted for more than 90 per cent of its exports. Beginning in the 1980s, however, the relative importance of

[98] This note is based on an unpublished monograph prepared for ILO-DIALOGUE by Riad Sultan, Department of Economics and Statistics, and Ibrahim Koodoruth, Department of Social Studies, University of Mauritius, April 2011, except where otherwise indicated.

sugar dropped markedly, mainly as a result of increased exports of light manufactures, primarily garments. The persistent and strong growth in the 1980s and 1990s was referred to as the "Mauritian miracle", during which the Government diversified the economy, developing tourism, manufacturing and financial services. It added an information technology and communication (ICT) sector at the turn of the twenty-first century.

Mauritius' economic policies, such as the Government's initiatives in the labour market and in the public sector, have helped to mitigate the impact of earlier slowdowns as well as of the latest global financial crisis. Some of these initiatives included the revision of pay and conditions of work in 2008 and public sector pension reforms.

The issue of pension reform

Pension reform in Mauritius has been a major concern to policymakers and social and economic partners for decades – the first reform initiatives were taken in the 1990s. Major attempts to reform the pension system started in 2004, when a World Bank team examined policy options to make the pension system sustainable (WB 2004). In 2005, the Government Actuaries Department (GAD) of the United Kingdom (UK-GAD 2005) also proposed policy recommendations in the same area. However, Mauritius chose policy options which were quite different. Moreover, one policy option (the targeting approach) recommended by both the World Bank and GAD did not have the required results.

In 2006, regular meetings on pay and pension were organized with government officials, representatives of the private sector, the Pay Research Bureau (PRB) and trade unionists from the public and private sectors. The Ministry of Finance announced two major reforms in the 2006-2007 budget speech: the retirement age for both public and private employees went up from 60 to 65 years (in practice, this would be implemented gradually over a number of years starting in August 2008) and the public sector pension, which was non-contributory, became contributory as from August 2008, with public sector employees having to contribute six per cent of their pay and the employers 12 per cent. A third change made the Basic Retirement Pension a part of chargeable income for income tax purposes.

The start of the progressive implementation of the new retirement age coincided with the publication of the 2008 PRB report on wage determination, which provided for a revision of salary and conditions of service in the public sector. Upon retirement, public sector employees are entitled to a pension gratuity. The formula for computing the gratuity changed slightly: the amount of pension would no longer be computed at the rate of number of months of service divided by 600, but at the rate of number of months of service divided by 690. With the rise in pensionable age, the number of months required to qualify for a full pension changed from 400 to 460 months.

The Government eventually decided not to align the Basic Retirement Pension with the new retirement age (65); rather, it kept the entitlement to BRP payment at age 60 and allowed some employees to continue to be employed while benefitting from the BRP. Since pension has now become contributory and the length of service has been extended from 60 to 65 years of age, an adjustment table has been set up for calculating when workers would retire.

In accordance with the conditions for the gradual increase in retirement age, from July 2008 all employees will have to work one additional month for every two months of work left before they reach age 60. This formula is applied to both public and private sector employees. Where the employees have reached their top salary and still have years to work, the Government decided to give one increment each year above their wage bracket as an incentive to remain in employment till they reach the retirement age.

Civil servants were given a choice between remaining in the previous system (no change in the retirement age to 65, no increase in salary as per the PRB report 2008, and no six per cent contribution to the Public Civil Service Pension), and accepting the reform (i.e. agreeing to an increase in salary in 2008 and retiring at age 65). Trade unionists insisted that the contributions should not be channelled to a newly formed separate pension fund in the wake of a bank scandal involving the disappearance of large chunks of the national pension funds. (cf. *infra*). In response to this concern, the Government decided that the contributions would be kept in the Consolidated Budget Revenue of the Government.

Social dialogue process

No formal and exclusive mechanism was set up for pension reform, even though an institution for social dialogue – the National Economic and Social Council (NESC) – exists. However, consultations did take place and various stakeholders[99] had regular meetings. In the 1990s the Government initiated moves to sensitize all stakeholders to the implications of an ageing population for the pension system. Public debates and workshops have been organized through the years with the participation of both civil society and the employers, thus encouraging social dialogue though no concrete recommendations resulted. Several technical committees and a task force were also set up to examine the technicalities of the pension reform. In 2006, the Government used a different approach to the reform by allowing it to coincide with the discussions leading to the publication of the PRB report on wage determination in 2008. Consequently, the debates, especially in the public sector, focused on wage issues and pension reform for the public sector was brought in as a side issue.

Inquiries with stakeholders revealed divergent opinions on social dialogue. Employees and trade unionists in the public sector held the view that social dialogue existed, while trade unionists in the private sector did not recognize that this dialogue had taken place.

Stakeholders in the public sector consider that the successful adoption of the pension reform in the public sector was due to the package of incentives offered to employees by the PRB report. Nevertheless, some trade unionists believe that public sector employees had been misled by the decision to link the PRB report with the pension reform. Moreover, the percentage increase in salaries was offset by the imposition of income tax and additional responsibilities.

The employers held an ambivalent opinion. While admitting that there had been social dialogue, they believe that more discussions should have taken place.

The discussions with stakeholders also revealed that the pension reform was welcomed by most workers and pensioners. There was a channel through which consultations took place. The Government had used the PRB office and the consultations held under its auspices to obtain feedback from the workers' and employers' representatives. Some stakeholders considered that more consultations were required and a specific forum should have been set up to discuss the issue. Others felt that some form of dialogue did prevail and were therefore satisfied with the reforms.

It may be concluded, therefore, that social dialogue did take place. It might have been more intense after the announcement of the reform, but eventually the social and economic partners, including trade unions, did accept the need for reform, as well as the changes that were introduced.

[99] Public sector officials, representatives of the private sector, representatives of the Pay Research Bureau (PRB) and trade unionists.

Uruguay [100]

Overview of the Uruguayan pension system [101]

In 1996, Uruguay introduced a mixed pension system that consisted of a public pay-as-you-go first pillar and individual accounts as a second pillar. The public pillar covers employed and self-employed persons including rural and household workers. Certain groups such as the armed forces, the police, bank employees, notaries, and university professors fall under separate systems. The individual accounts are mandatory for those earning above 19,805 pesos (US$957) a month and voluntary for all other income levels. In December 2009, approximately 900,000 workers, or 56 per cent of the labour force, had individual accounts in four pension fund management companies (three privately managed and one State-run), with assets totalling 70 billion pesos (US$3.4 billion).

Response to the global financial and economic crisis

As the global crisis mainly affected exports, the Government took measures to promote trade, support competitiveness and assist the most hard-hit sectors to encourage retention of employment. To address labour market difficulties, it developed a comprehensive package linking employment protection to social protection. The Equity Plan included an employment insertion package and Working Uruguay (Uruguay Trabaja) combined family benefits and old-age non-contributory benefits. The main goal of the package was to promote the employment of the long-term unemployed who came from low-income households.

The package was followed on 1 July 2008 by the Employment Target Programme, aimed at stimulating employers to retain or recruit long-term unemployed workers. In addition, the National Employment Board (JUNAE) earmarked an additional fund of US$5 million for training in industry-relevant skills to facilitate workers' reinsertion into the labour market (ISSA, 2009a). These measures were implemented through strong cross-institutional coordination between the Ministry of Labour and Social Security (MTSS), the Social Development Ministry (MIDES) and the Social Insurance Bank (BPS).

The 2008 pension reform

Since the beginning of his term, President Tabaré Vázquez emphasized plans to reform the social security system structurally to improve its coverage. The Vázquez Government reform that was put into force in September 2008 did not change the overall system. The reform introduced amendments to Law 16713. [102] (3 September 1995). In the short term, if Law 16713 had not been amended, it would have resulted in coverage loss.

[100] This note is based on an unpublished monograph prepared for ILO- DIALOGUE by José Miguel Busquets, Department of Social Science, Universidad de la República, Montevideo, Uruguay, January 2011, except where otherwise indicated.

[101] Based on: International update: Recent developments in foreign public and private pensions, *Social Security Administration*, October 2010.

[102] Law 16713 called for contributors to be 70 years of age and to have had 15 years of service to be eligible for pension payments. The rigidity of the normal and old-age retirement did not allow contributors 65 years of age or more with a significant number of years of service (between 25 to 30 years) to receive coverage. Therefore, a more flexible system has been introduced: for every deducted year of age, the years of service are increased by two years until 65 years of age and 25

Social security experts agree that the severity of the restrictions and requirements of pension schemes put forward by Law 16713, in particular the increase in years of service from 30 to 35 years, would bring about a significant annual decline in the number of retirees in subsequent years. After 10 years of implementation of the reform, a study carried out by the Social Insurance Bank (BPS) on Law 16713 concluded that "there is a high risk a significant percentage of registered workers will not reach the 35 years of service requirement by the time they reach the normal retirement age."

The 2008 reform proposal was originally a bill drafted by BPS which sought more flexible conditions for access to old-age pensions; this proposal was later submitted to the Government. The BPS study triggered the dialogue process, as it showed a dramatic drop in pension coverage over the short and medium term – a situation that goes against Uruguay's historical record of being among the countries with the highest pension coverage in Latin America. The enactment of Law 18395 of 24 October 2008 sought a solution to this problem.

The normal retirement age (60 years) was not a topic of debate at the National Dialogue on Social Security (DNSS). The main concern was directly related to the guiding principle of social security: the universality of the coverage. For this reason, the 2008 reform aimed to modify the required number of years of service, rather than to change the statutory retirement age. Law 18395 of 24 October 2008, which came into effect in July 2009, sought to render the conditions governing eligibility for retirement pensions more flexible by doing just that. Its main provisions can be summarized as follows:

- The number of years of activity required to qualify for a retirement pension is reduced from 35 to 30, while maintaining the same statutory retirement age (60 for both men and women). Women will be credited with one additional year of work per child born alive, up to a maximum of five.

- Workers with more than 30 years of activity to their credit will receive a rise of one per cent of the basic pension for each year of service over 30 years, up to a maximum of 35.

- A graduated scale provides access to old-age pensions at age 65. This scale is based on a combination of age and number of years of activity.

- The conditions governing eligibility for full disability pensions as well as temporary allowances for partial disability have been made more flexible. In both cases, the requirements concerning activity in the six months prior to the disability or within two years of cessation of the activity have been abolished.

- The law also introduced a "special compensated unemployment subsidy" that provides protection for unemployed workers who are at least 58 years of age with more than 28 years of registered employment.

These changes were phased in gradually and progressively, in order to facilitate the implementation process and mitigate their financial impact.

years of service are reached. Law 16713 raised the normal retirement age for women from 55 to 60 years of age and from 65 to 70 years for old-age retirement. However, the increase in the years of service – from 30 to 35 years for normal retirement, and 10 to 15 years for old-age retirement – caused a postponement in the retirement age.

Social dialogue process

During the Vázquez administration (2005-2009), there was a push to further institutionalize the processes of consultation and social participation. In 2007, the National Dialogue on Social Security (DNSS) was created. It goes beyond the existing institutional structures and enables civil society and the State to come together to formulate proposals. The DNSS comprises two bodies: a Plenary, where ideas are shared; and an Executive Committee, where agreements are negotiated. It is further organized into five committees: demographics; inclusion and employment; social protection; coverage; and financing. The Government invited 50 institutions[103] to participate in the DNSS committees to discuss and negotiate a more flexible access to pension payments and between 50 per cent and 60 per cent of these institutions responded positively.

According to the workers and retirees' delegations, the requirement to access pension benefits should be based on working years and not on years of contribution. Their arguments are: there are people who have worked and contributed but who cannot offer proof of their number of years in service; and there are cases where companies withhold contributions from their employees but fail to transmit these to the BPS, as a result of which the withholdings do not get recorded.

There was consensus among the participants that there is a need to make access requirements for pension more flexible. However, there were different opinions on what measures to take. The delegations' proposals can be summarized as follows:

- PIT-CNT,[104] retirees and BPS: for normal retirement cases, reduce the working years from 35 to 30 years; for old-age retirement, reduce the pension age from 70 to 65 years. All the delegations agreed with the latter.

- PIT-CNT and retirees: the number of working years required for old-age retirement should be reduced from 15 to 10.

- Employers: as an incentive to work longer, give a bonus to those who can reach 30 years of service. There must be a scale that allows combinations, so that workers between 60 and 69 years of age with more than 15 years and less than 35 years of service can retire.

After the social partners reached consensus on what measures to take, the BPS' proposed bill was modified. When the Executive Committee[105] had a draft law, it consulted the workers, employers, and retirees before sending the draft to Parliament. Parliament passed the bill unanimously.

[103] Government institutions, other public sector representatives, universities, the four political parties representing Parliament, workers, employers, and retirees. The ILO, Organización Iberoamericana de Seguridad Social (OISS), United Nations Development Programme (UNDP), United Nations Development Fund for Women (UNIFEM), United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and World Bank also participated in the DNSS Plenary.

[104] PIT-CNT: Inter-Union Workers' Plenary National Workers' Confederation.

[105] The Executive Committee consists of employers, workers, retirees, and government representatives. They met after each Committee meeting to compile a report that includes points of agreement.

An important result of the DNSS was the strengthened relationship and communication between the participants. The participants assessed the agreement very positively. According to the former MTSS Undersecretary, Dr Jorge Bruni, there were no barriers or differences – at least none that were not overcome – on the implementation of pension reform. The actors' participation in the DNSS strengthened the already strong institutional culture of cooperation within the BPS. Implementation was eased because the amendments were conceived inter-institutionally.

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