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Privatization and after: time, complexity and governance in the world of funded pensions

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Summary
Externalities consequent on pension privatization have returned to haunt governments: externalities revealed in falling asset returns, rising administrative costs and increasingly intermittent contributions that reflect more intermittent employment. This article reviews the regulatory complexities following the promotion of personal private pensions, identifies the governance problems these entail and suggests a few measures to restore public confidence and trust. It draws our attention to the political as well as market-based risks implicit in new systems by showing how governments have adapted commercial pension provision to serve social ends and to safeguard the public finances in more ways than one. The conclusions identify solutions to issues that need urgent attention, notably the opaque nature of annuity markets, the provision of independent monitoring and information capacity and a possible reconstruction of retirement itself.

Résumé
Les externalités résultant de la privatisation des pensions sont revenues hanter les gouvernements: des externalités qui sont apparues sous la forme d'une baisse du rendement des revenus, d'une hausse des coûts administratifs et de cotisations de plus en plus intermittentes, reflétant le caractère plus intermittent de l'emploi. Cet article examine les complexités d'ordre réglementaire nées de la promotion des pensions personnelles privées; il identifie les problèmes de gouvernance ainsi créés et suggère quelques mesures destinées à restaurer la confiance publique. Il attire notre attention sur les risques, politiques autant que de marché, inhérents au nouveau système, en montrant comment les gouvernements ont adapté l'offre commerciale de pensions à des fins sociales et pour préserver de différentes manières les finances publiques. La conclusion identifie des solutions aux problèmes qui nécessitent une attention urgente, notamment la nature opaque des marchés des rentes, l'offre d'une capacité indépendante de contrôle et d'information, et une possible reconstruction de la retraite elle-même.

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Zusammenfassung
Die externen Folgekosten durch die Privatisierung der Altersvorsorge stellen die Regierungen erneut vor große Probleme: sinkende Anlagerenditen, steigende Verwaltungskosten und zunehmende Unterbrechungen bei den Beitragszahlungen infolge zunehmender Unterbrechungen der Erwerbstätigkeit. Dieser Beitrag beschreibt die komplexen Regelungen im Zusammenhang mit der Förderung der privaten Altersvorsorge und die sich daraus ergebenden Steuerungsprobleme und schlägt verschiedene Maßnahmen vor, um das Vertrauen der Bürger wiederherzustellen. Es wird gezeigt, wie die Regierungen privatwirtschaftliche Pensionsrückstellungen in mehrfacher Hinsicht angepasst haben, um sie für soziale Zwecke und die Absicherung der öffentlichen Finanzen zu nutzen, und welche politischen und marktbezogenen Risiken diese neuen Systeme mit sich bringen. In den Schlussfolgerungen werden Lösungen für dringende Probleme aufgezeigt, insbesondere in Bezug auf die mangelnde Transparenz der Rentenmärkte, die Bereitstellung unabhängiger Überwachungs- und Informationsmöglichkeiten und eine mögliche Umgestaltung von Ruhestand und Altersvorsorge.

Keywords
Retirement, pensions, personal pensions, pension governance, Defined Contribution pension, funded pensions

Introduction

Pensions and pension policies have long been central to debates over marketization and the merits of private over public provision. Demographic ageing in Europe is necessarily raising public expenditure on state pensions, on health and social care systems. This creates (directly or indirectly) pressure on the public accounts and / or rising labour costs that exacerbate the threat of unemployment, the curse of many European economies since the early 1990s. During those years, as returns on global financial markets soared, the privatization of future pension liabilities looked very attractive (Clark, 2000). The World Bank (1994) openly endorsed the supplementation of public (Pay As You Go – PAYG) pensions by funded (marketized) pensions, both occupational and personal. Western EU Member States have subsequently encouraged private, funded pensions to supplement state schemes. Competition between private providers would reduce costs and consumer choice would ensure efficient commercial provision, thereby containing public liability for income security in old age. In central and eastern European (CEE) countries, the prospect of replacing soviet-style state pensions with private provision generated several additional advantages as accruing pension contributions offered the means to create a domestic financial services sector that could invest in economic reconstruction. Here, in contrast to the western Member States, pension marketization was less constrained by public opposition and mandatory market-based schemes were swiftly introduced. In contrast to funded occupational schemes as found in the Netherlands, where pensions continue to be based on a given proportion of final salary (Defined Benefit – DB schemes), personal private pensions – where retirement income reflects financial returns on personal savings (Defined Contribution – DC) have been widely promoted (not least by the European Commission) and introduced on a voluntary or mandatory basis. Finally, a complex Notional Defined Contribution (NDC) scheme – offering an annuity-based retirement income based on personal pension savings but funded on a PAYG basis – has been pioneered in Sweden, Latvia, Poland and Italy.

The consequences of these changes have not been as advantageous as originally hoped. This article analyses why this is so. Financial crises have taken their toll, not only on funded scheme balances but also, thanks to their implications for public debt, on state pensions as well. Externalities consequent on marketization have returned to haunt governments: externalities revealed in falling asset returns, rising administrative costs and increasingly intermittent contributions that reflect more intermittent employment. The purpose of this article is to review the complexities consequent on these developments, to identify the governance problems these now entail and to suggest how the situation needs to be reappraised. Current dilemmas, rooted in marketization and its socio-political consequences, stem as much from repeated political interventions as from financial market instabilities. Political risk and financial risk combine to undermine confidence and trust in new pension systems. Yet it takes time to save for a pension and constant change, whatever its provenance, makes the exercise of rational choice (the bedrock on which marketization rests) impossible. In developing this analysis, the next section addresses how governments have sought to refashion commercial pension provision to serve social ends – and with what results. The following section reviews the basic causes of current and future difficulties, which are largely rooted in labour market changes that countermand some of the assumptions on which current pension calculations rely. The conclusions then address some issues that need reappraisal: the problems of converting savings into retirement income (otherwise known as annuity markets); the building of independent monitoring and information capacity and a possible reconstruction of retirement itself.

Recent transformations of pension systems have generated an avalanche of academic research to examine the financial viability of funded pensions and the social consequences of recent reforms. Drawing on the findings of a Seventh Framework Programme-funded research team (already published elsewhere[1]) this article – which is essentially an opinion piece – will only refer to a fraction of these publications. At the time of writing, continuing euro crises, the limitations imposed by the Stability and Growth Pact (S&GP) and the pressure exerted by global bond markets make any wholesale return to state-based PAYG pensions unlikely. Private funded pensions remain central to proposals for old age income security for Europe's citizens. Both the European Commission's Green Paper and its White Paper (European Commission, 2010; European Commission, 2012) emphasized this point: Europe's workers must work longer and save more for their old age. Therefore an analysis of how states have tried to refashion pension markets to secure this objective is essential – and to this we now turn.

States, markets and the provision of pensions

In the world of pensions, long periods elapse between the acquisition of pension rights (the purchase of a product) and its final receipt. In the space of these 40+ years, situations alter: in terms of interest rates, returns on investments and annuity prices (market risk) on the one hand, in

1 The results of the pension research that developed under the Seventh Framework Programme GUSTO project have been published in a special issue of *Global Social Policy* 12(3): 'Governing Pension Fund Capitalism in Times of Uncertainty' co-edited by B Ebbinghaus, MA Orenstein and N Whiteside. This article draws on this special issue, to which readers are referred for more detailed information – and for reference to the burgeoning literature on this subject which is very partially referenced here. The author wishes to acknowledge the invaluable contributions made by all colleagues who worked on pensions under the GUSTO project and helpful comments by unknown referees, while taking full responsibility for the opinions and interpretations expressed here.

taxation regimes, state benefit rights and social service charges for the elderly and infirm (political risk) on the other. The conceit that the individual, however financially literate (or her employer, or the state), can make a rational choice between different pension systems or products to safeguard an adequate income in 40+ years' time is a fiction. Over time, unforeseeable changes occur. Private pension providers merge or are taken over by other corporations, with the concomitant risk that records are mislaid or electronic transfers fail to work. Other events, such as the 2008 crisis, exert their own impact on public and private finances. It is possible that market returns experienced in the 1990s may be restored, but this is hotly disputed as most asset classes have 'underperformed' since the millennium and pressure to improve matters has pushed pension asset management towards short-term investment and away from those long-term projects that served to promote economic growth in the past.

In consequence, neither governments nor financial markets can currently promise full pension security, especially as the future impact of demographic ageing remains under-acknowledged. A retirement age of 65 first emerged in the late 1940s when full employment on standard contracts, working lives of 50+ years and lower life expectancy all made pension finance and its security (whether publicly or privately provided) a feasible prospect. Today, 70 years later, higher unemployment, the spread of part-time or temporary work contracts, delayed labour market entry, shorter working lives and rocketing life expectancy – all have changed the financial foundations of pensions. Yet politicians baulk at raising the retirement age as this is highly unpopular and thus politically fraught. In consequence, both public and private pension systems are in a precarious state: any inspection of public accounts about fiscal promises or corporate accounts about company or insurance promises demonstrates this is so. Both ministers of state and chief executives share shorter time horizons than those implied by funded pension promises and, for the sake of a quiet life, are therefore tempted to leave matters as they are – or to secure the least controversial modifications. While most EU Member States have taken steps to increase pensionable age (and some have accelerated this timetable following the 2008 crisis), progress is very slow and substantial relief to the public purse is unlikely to materialize for decades to come.

Public expenditure constraints continue to foster market-based solutions and have changed the state from pension provider to pension guarantor. This is hardly a new role. The state has always been implicated in the operation of markets, including private pension systems: in the creation of rules and regulations stipulating corporate responsibilities, to mediate adverse effects and to secure public trust (Whiteside, 2011). However, the balance between public and private provision is changing. Demographic pressures, falling returns and constantly modified regulations have discouraged employers from offering occupational DB pensions. Private pension supplements have increasingly switched to the DC type. In western Europe, such schemes may have originated as a supplement to state pensions, but today are increasingly becoming a replacement for them. In eastern Europe, by contrast, more recent trends have been the other way. Shrinking public revenues in the wake of the 2008 crisis and rising transition costs (as the state remains liable for existing PAYG pensions while an increasing proportion of current contributions goes to private funds) have forced governments to reclaim a proportion of compulsory contributory income to DC pensions. Old analytical frameworks of state versus market are defunct; fiscal pressures everywhere are establishing a permanent role for funded pensions, notably DC schemes, raising new questions. How should new arrangements be regulated, on what grounds – and who should have the authority for regulating them?

As market-based pensions are more fragmented than state schemes, so they raise specific problems – such as their portability (currently commanding EC attention – see Guardiancich and Natali, 2012), both between Member States (as difficulties are posed by varied tax treatments and

eligibility conditions, among other factors), and also – in the UK, Ireland and some CEE countries – between different employers in the same country. In the case of voluntary personal schemes (such as the German Riester pension), issues of persistence need to be addressed as experience (in the UK) shows how lapsed contributions easily translate into lost accounts and/ or inadequate pensions. The propensity for individuals to change jobs, move house or (if female) even change their names over the course of a working lifetime creates orphan accounts whose owners are hard to trace. To take an example from a country where a mandatory DC system has been in existence for over 25 years (Australia), labour mobility, migration and associated factors have led to the creation of nearly 10 million 'lost' accounts in a working population currently marginally more than 9 million. In many EU Member States (but not the UK) the state has sought to obviate this risk by introducing a central register of who has contributed how much to which pension scheme. Further, as the individualization of pensions implies higher levels of financial literacy than most people possess, governments regulate in areas such as marketing (to prevent mis-selling or unnecessary and costly switching) and to promote pension guarantees (through mandatory reinsurance, for example) as well as lifecycle portfolios for personal fund investment purposes (Barr and Diamond, 2009). All such reshaping of commercial practices involves its policing and raises administrative expense.

Thus multiple regulations have grown to govern investments and asset management, solvency and risk controls in an effort to contain market externalities (Ebbinghaus and Whiteside, 2012). Fees, charges and administrative costs are particularly problematic for DC schemes: provider competition is supposed to guarantee efficiency gains, but there is little sign that this happens in the funded pension world. In the 1990s, when investment returns were high, such charges could be accommodated. In the current state of the market, administration costs (sales commissions and fees for funds under management, for transfers between providers, for liquidating a pension) eat into the pension 'pot' and reduce the final pension, threatening the future income security of the low-paid or under-employed. High marketing costs and administrative expenses incurred by multiple small pension pots with uneven contributory income raise the price paid for consumer choice. Denmark and Sweden have contained costs by vesting the collection of contributions to DB and DC schemes with a single agency (in the former case) and with the state (in the latter). Capping charges and stipulating fee structures (as in CEE states) has led to more homogenous pension provision but necessarily limits competition. A UK experiment that introduced tax privileges for kite-marked products with capped fees for the low-paid as a means to encourage voluntary pension savings (Stakeholder) alienated potential providers, did not attract target customers and is now widely considered a failure. Another, similar attempt is being made with auto-enrolment under the National Employment Savings Trust (NEST) from October 2012: the jury remains out on whether this will encourage the 51 per cent of UK private sector workers, with no or low retirement savings, to contribute to a DC pension. While Member States have toyed with the solution of raising consumer financial literacy, the provision of such programmes is expensive and not necessarily effective (Casey and Whiteside, 2011a). Direct financial advice is even more costly: those most in need of it are frequently those least able to afford it.

Regulation thus accumulates in an effort to secure consumer protection: a process that necessarily encourages herding, conservative investment strategies and, as indicated above, limits innovation and competition – the supposed advantages of market-based systems. Such effects have stimulated criticism of the constant legislative interventions, notably from supporters of market efficiency who argue that accumulating regulation of itself raises administrative expense and interferes with professional risk management, thereby damaging the proper operation of financial markets (Yermo, 2008). Such criticism is not unfounded. Recent financial crises have exerted their

own impact, forcing governments to use pension fund resources for purposes quite other to those originally intended. Faced with pressure from the European Central Bank and its allies as well as threats posed by international bond markets, Hungarian, Portuguese and Irish governments have raided private pension funds to shore up public account balances. Hungary has effectively nationalized all private accounts. Elsewhere, pension funds have become subject to fiscal repression; in Poland and Spain, for example, funds are directed to purchase domestic government bonds (Casey, 2012). In the UK, pension funds are strongly encouraged to fund infrastructure projects; this does not necessarily comply with the fiduciary duty of trustees to maximize investment returns on behalf of fund members. In CEE Member States, the costs of transition from state-based to private funded systems, underestimated from the start, have proved unsustainable. As public budgets crumbled under the impact of the 2008 financial crash, contributions originally destined for private schemes have been partly redirected to public coffers, to shore up state responsibilities under the Stability and Growth Pact (Drahokoupil and Domonkos, 2012). Distinctions between public and private systems have dissolved and public uncertainty has grown as accountability diffuses. Such developments reflect governance problems: more transparency is badly needed.

The governance question is important because other consequences of marketization remain unaddressed. The expansion of personal DC schemes is recent and most schemes have yet to reach maturity. Regulation to date has largely focused on the accumulation phase and less official attention has been paid to the process of converting personal pension savings into a retirement income. While mandatory DC schemes in east European states (and elsewhere) plan compulsory annuities, the market for such products is under-developed (except in the UK). The recent judgement of the European Court, rendering the pricing of insurance products on the basis of gender illegal[2], has outlawed a hitherto common practice that made annuities for women more expensive than for men, thanks to their higher life expectancy (a discrimination already outlawed under the German Riester pension scheme: Ebbinghaus et al., 2011). Gender, however, is but one means insurers use to distinguish the good lives from the bad. When pricing an annuity age, health status, previous occupation – even postal district – can all be taken into consideration. In the UK, retirees living in Blackpool get 6 per cent more pension income for the same pension 'pot' at the same age than those who live in East Dorset, for example, reflecting the disparities in life expectancy found in different parts of the country (*Guardian Money*, 27.07.13: 3). Market practices emit mixed messages: a high health insurance premium due to smoking, for example, will be counterbalanced by a cheap annuity on retirement. Experience in the UK indicates that annuities are often overpriced and poorly understood; consumers do not shop around for 'best value', but transfer to the annuity offered by their existing provider with two-thirds of retirees purchasing a single life product that offers neither a survivor's benefit nor protection against inflation (both options being expensive) (Casey and Whiteside, 2011b). This has serious implications for gender equality issues, which are explored in the following section.

Annuity markets in general remain under-addressed. They could be modified to fund future long-term care (and, Germany aside, few Member States have made provision for this consequence of demographic ageing). They might also be adapted to offer variable cover, providing additional income to the very elderly and frail. However, annuities appear to be generally unpopular: only three were sold in the whole of Belgium in 2011 (albeit that the DC system there remains highly immature) as retirees preferred draw-down arrangements or the payment of a lump sum. While some market analysts tend to ascribe the unpopularity of annuities to consumer ignorance or

2 European Court of Justice Test – Achats Ruling: ECJ C-236/09, 1 March 2011.

irrational behaviour, other research points to inheritance motives and to a general disinclination to hand over the largest sum of money the retiree is likely ever to have received to a profit-oriented financial service company for an uncertain return. Whatever the reason, unpopularity translates into political reluctance to take decisions to make annuities compulsory. In contrast to pension accumulation, the regulation of decumulation is currently something of a blank sheet, but cannot stay that way indefinitely.

In summary, the attempt to convert commercial pensions to social purposes is proving to be a messy business and the 2008 crisis revealed significant weaknesses. On the political side of the argument, governments are compelled to respect the key interests of their supporters and are reluctant to deliver bad pension news to ageing electorates with high expectations based on established systems. At worst, the result has been delayed reforms to generous public sector pension schemes and severe downturns in bond markets in consequence (e.g. Greece, Italy). Reliance on the social partners cannot promote security either: occupational and other schemes governed by the social partners have had to face substantial financial problems too (Marier, 2012). Employers have no wish to extend existing liabilities (hence their advocacy of DC supplementary schemes) and trade unions, while protecting their members, do not necessarily promote the interests of potentially excluded social groups and labour market outsiders, such as migrant workers. On the commercial side of the argument, market-based pensions promise individual choice and the opportunity to secure a personally tailored product protected by a legal contract. However, as this engages other externalities (asset management, marketing and servicing charges), providers stand accused of excess profit-taking, mis-selling, default, inflexibility in the face of changing circumstances and prioritizing shareholder value over better pensions. More and more state regulation is seen as a solution, to force the insurance industry to behave in a manner private pension advocates suggest that it should (Ebbinghaus and Wiss, 2011). The results are less a privatization of pensions than a reconstruction of commercial practices to serve policy purposes. However, the more the state directs private provider operations, the more likely it will be held responsible for future shortfalls. Further, the pressure on fund managers to secure specific returns (passed on to traders as targets and benchmarks against which performance is assessed) feeds financial market instability, speeds up market trading ('the fidgeting fingers of the hidden hand': Haldane, 2010), fostering speculation, instability and thereby promoting the likelihood of another financial crash.

Greater regulation thus raises issues of transparency and accountability revealed by the crisis. Pension governance is multi-tiered and has focused increasingly on technical measures designed to secure financial viability, in part reinforced by international conventions supported by the EU (e.g. IAS 19: the standard set by the International Accounting Standards Board to assess the financial assets and liabilities of DB schemes). At national level, state regulation may cover marketing, asset management, return guarantees and the licensing of providers who comply with the law. As indicated above, further regulation is sure to materialize. Fiduciary duty remains the primary legal purpose of fund administration, so ethical or environmental considerations must take second place, even where managing bodies contain representatives of the insured who might wish otherwise. The social partners exert very little control over the activities of asset management firms contracted to manage their funds. Trade union representatives who sit on governing bodies of pension funds require training in finance, commercial insurance and the law, thereby transforming them from simple representatives of members' interests into regulatory and financial experts in their own right. The translation of pension provision into private hands has raised the political authority of financial and insurance expertise, actuaries, accountants and specialist lawyers. Public involvement in pension policy and its development has diminished radically. The citizen is viewed less as

a voter on policy options than as a consumer of pension products and public accountability has increasingly assumed a market-based (rather than a civic-based) form. In several ways, therefore, the basis for determining the justice on which pension rights are founded has changed – away from the democratic accountability of pension provision and towards the rewards accruing to regular savers and the financial acumen of commercial firms.

The 2008 financial crisis increased demand for new regulation: when markets wobble and threaten to fail, publics turn to the state for more protection, not less. As crisis has followed crisis, understanding the regulations governing private pension scheme operations has become confined to an ever smaller number of people. In consequence, although the property rights people acquire when saving for a pension are very valuable, they are not understood: as they are not understood, so alterations (in taxation, in fee charges) can change final pension outcomes in a manner not appreciated by the public at the time. States (by changing tax and benefit regimes, by realigning contributions or cutting pensions in payment) as well as pension providers (with constantly modified charges and fees) can take advantage. Oligarchic governance breeds suspicion that easily translates into hostility based on a principled defence of democratic values, as recent demonstrations in city centres (Barcelona, Athens, Madrid) have shown. Current systems are thus breeding classic insider-outsider problems. Access to decision-making protects established interests (be these privileged pension positions, party political advantages or private profits) to the detriment of the public good. Without opening up pensions systems to public understanding, the problems of public mistrust and concomitant uncertainty will remain. And, under such circumstances, the long-term political viability of current pension systems comes into question.

Pension outcomes of labour market change

This section addresses underlying transformations in labour markets and in the nature of working lives that threaten the viability of future pensions in a context of rising longevity. It argues that inequalities inherent in marketized systems exacerbate divisions between men and women, between rich and poor, making private pensions unable to offer a secure and viable route out of current difficulties.

Under most pension schemes, a decent pension rests on savings over a 40+ year working life in standard employment. Yet escalating unemployment (most notably among young people in southern European Member States) and growing 'non-standard' working arrangements ('mini-jobs', part-time or temporary contracts) undermine this assumption (Hinrichs and Jessoula, 2012). High unemployment damages public revenues as well as personal saving capacity, making states prone to impose further limitations on public support. The general response has been for governments to increase pensionable age, although neither as far nor as fast as might be deemed necessary. Here, the solution to future financial sustainability essentially involves politicians kicking the can down the road in the hope that the situation improves. Any individualization of pension saving does not help as it works to the detriment of those under-employed, with broken careers, in part-time work or on low pay as well as those disabled or in poor health. The future looks problematic: state-funded services (social housing, free child care) shrink and the cost of living rises, forcing families to prioritize immediate demands over saving to secure future financial goals.

Reliance on working longer raises numerous difficulties. The extension of the retirement age to 67 or even 70+ years of age is easily proposed, but little research has been undertaken on the willingness of employers either to hire or to retain workers at such advanced ages – or whether the state of health of older workers would permit such an extension of working life. Studies suggest that

productivity declines with age and, as unemployment is rising and the overall supply of labour currently far outstrips demand, there is little incentive for employers to take on employees whose skills may be outdated and whose capacity for retraining may be limited. Research in the UK and the USA shows that men working beyond the current retirement age are commonly from the professional or managerial classes, where consultancy income complements the receipt of a comfortable pension. For women, in contrast, post-retirement employment is more common among unskilled workers in retail, cleaning and catering – indicating possibly forced labour due to the lack of a decent pension (Economist, 2013). Further, later retirement ages do not necessarily transform into public expenditure savings. Early labour market exit can be facilitated by access to disability pensions, prior to achieving formal pensionable age. Historically, this has been a common pattern in many recessions: when shedding workers, employers commonly seek to rid themselves of the least productive – which translates as the (usually older) worker with a poor health record, who can more easily be understood as 'disabled' when seeking social support. As indicated above, there is a gendered dimension to all of this, much of it derived from the balance between unwaged caring and waged work that pertains in most households. State labour market activation policies are raising the numbers of women in work while also raising female pensionable age (faster than for men, in the name of gender equality). This means that the current army of voluntary carers of the very old and frail (those over 80 being helped by women in their 50s and 60s, frequently family members) will dwindle at the very time when numbers needing such help (thanks to rising longevity) are liable to grow. One way or another, policy thus sets future social expenditure against personal pension adequacy. Either a woman neglects elderly relatives, leaving them to the care of publicly funded social services, in order to sustain her employment and gain a pension; or she risks personal old age penury by offering them her unwaged care. By viewing the socio-political context within which such decisions are made, the reasons behind 'irrational' savings behaviour become transparent, and the contradictions between assumed patterns of pension saving and concepts of 'work-life balance' become plain. Luckily for the future costs of social care, not all women are motivated solely by the desire for future pension wealth at no matter what cost to others. However, policy also fails to address the associated issue of adequate pension coverage for the army of migrant (usually female) workers from outside the EU, found in many Member States, who take on the duties of social care either in the domestic setting (Italy, Spain) or as institutional carers (UK, Nordic states). Their pension rights depend heavily on the nature of their employment contract: whether or not such rights can be transferred on return to country of birth, or following a move elsewhere in Europe, remains unresolved. Unless the position of such women (and male migrant workers in other economic sectors) can be fully addressed, there is a risk of a dual labour market developing that threatens the security of EU workers.

Caring work for children (although not, let us note, for elder care) has been compensated by pension credits for women under state and many occupational DB schemes, but such credits remain largely unknown for DC pensions (with the exception of Riester). The standard male pattern of full-time employment, with pension savings accumulated primarily during the middle years of working life, is not reflected in women's work – where part-time employment (or labour market inactivity) prevails when children are small and return to full-time employment is not guaranteed. Evidence from countries where DC-type schemes are well established (USA, UK and Australia) shows that women's average pension savings are below men's, with pension savings of mothers the smallest of all. This would matter less were survivors' benefits protected, but – except under state schemes – they are not (and the UK state scheme is abolishing survivors' pensions from 2016). Dutch funded occupational pensions reduced survivors' benefits by 50 per cent following the 2000-01 dot-com bubble burst, on the grounds that women were now working and therefore

saved for their own pensions. Thanks to accruing financial pressures, survivors' benefits remain likely targets for further cuts. Under DC schemes, where these are not automatically provided, female pension vulnerability grows. First, women retire with smaller pension pots; labour market disadvantage (consequent on part-time work and/or low pay) accrues as lower personal retirement income. Secondly, as women are statistically likely to outlive their husbands / partners, he will probably select the higher annuity derived from a single life policy and later expire, leaving her without a survivor's pension to face a sharp contraction in income at an age when she is unable to do anything about it. For migrant women (as noted above) outcomes are even more detrimental as their ability to access any pension savings or to transfer them across borders opens up additional problems (EGGESI, 2011).

Labour market studies show that the standard working life based in a single country with a single employer, is becoming increasingly rare: a privilege largely found among older cohorts whose pension rights are correspondingly stronger than those envisaged for their successors. Member States and the Commission encourage workers to adapt to more flexible forms of working to promote work-life balance while simultaneously urging them to save more for old age. Current data suggest that the contribution of funded systems towards pension adequacy has probably peaked and, in the absence of a future expansion of standard employment contracts, public expenditure in the form of social assistance will be forced to fill the gap. Albeit in part designed to accommodate labour market flexibility, the shift from public to funded personal private pensions does not help. The promotion of market-based pensions does not permit redistribution of assets from the rich to the poor or disadvantaged, unless tax intervention facilitates this. On the contrary: over time DC personal pension savings widen the differential in savings (in absolute terms) between rich and poor. The same interest rate on a large pension pot earns more money than the amount accruing to a small one. Moreover, professionals marry professionals, doubling such disparities between rich and poor pensioner households. While residual state provision is designed to protect against destitution, such developments point up issues of social justice – while also raising questions concerning the political sustainability of pension arrangements in the future.

The situation demonstrates how pension marketization transforms judgement about socially just outcomes. Both DC schemes and their notional variants operate on an actuarially-based concept of fairness that rewards individual self-reliance, thrift and financial assiduity. It is right that those who work the hardest, who earn most and who can save most should gain from their efforts. In this market-based world, the informed individual who acts rationally and takes personal responsibility for her future retirement income is given her just reward. Under more civic notions of social justice, however, the whole of society, through democratic deliberation, determines the ethical principles that should underpin access to social support, the terms on which such support should be provided, who should receive it – and who should pay for it. Such deliberation could / should recognize the needs of those unable to conform to market requirements. Hence the current compromises with market-based systems outlined in the previous section. However, the search for a satisfactory compromise between these very different bases for coordinating social action has, to date, proved elusive. Recurrent crises have exacerbated falling trust in both financial markets and the state as a source of sustainable and adequate pension outcomes of whatever type.

Concluding remarks

Falling returns on personal savings, especially since 2008, have undermined the credibility of personal pensions, making their promotion extremely difficult in the face of public uncertainty and encouraging policy to switch away from mandatory to voluntary provision. New vocabularies

of 'nudging' (through fiscal incentives or auto-enrolment) now describe how the public may be persuaded to subscribe to new systems (Orenstein, 2013). Although DC schemes (and their notional equivalents) currently remain the only real game in town, such incentives may prove insufficient. As this article has argued, the central issue is one of public confidence and trust: this requires greater transparency than pertains at the moment, better coordination between states and markets and better information for the exercise of consumer choice to promote socially just and politically viable (as well as financially sustainable) outcomes. These concluding remarks offer a starting point to help us to address these issues.

First, as indicated in this article, there is a desperate need for EU Member States to build more objective and open monitoring and information capacity to promote the responsible governance of private pensions. A permanent research service could be used to inform and warn, to kite-mark reliable pension products and to publicize the consequences of demographic, political and financial change. Collective evaluation, representative of public and private interest, should replace the short-term, fractured and frequently highly partial publications put out by states and market agents to serve immediate political or commercial ends. The object is to offer impartial information, to open up decision-making processes and, thereby, to enable greater participation in democratic deliberation – allowing social factors to be tabled alongside the financial information that currently dominates decision-making processes. The Finnish Centre for Pensions in Helsinki serves as an example: this combines professional knowledge offered by financial, demographic and legal expertise to develop detailed and comprehensive regular (six-monthly) reviews of pension developments that are published and available to the insurance industry, policy-makers, media and public alike. Europe's citizens in other countries also need to internalize possibilities and constraints to a far greater extent than they are able to today. Pension futures are unknowable, uncertainty proliferates and, generally, no clear institutional authority is in place to map a route forward. As demonstrated above, political and commercial vested interests do not currently pay sufficient heed to long-term perspectives required by pension systems that entail substantial investment by working people over a prolonged period of time. Such dilemmas are arguably pertinent to other areas where private (commercial) agencies have been adopted as delivery mechanisms for policies that address similar issues. Market-based pensions offer but one example of the problems of accountability that arise when crisis strikes.

Coming under the same umbrella, forms of pension drawdown (including annuities and annuity markets) require specific attention. Currently overpriced and completely impenetrable to the layperson, annuities need to be made more transparent. For example, insurance products may not discriminate on the grounds of gender, but should annuities continue to reflect health status (penalizing those who do not drink or smoke) or occupation – or should standardization be required? In addition, taken that DC schemes are spreading, could flexible retirement be encouraged? Should cover for survivors be expected – and should annuities be index-linked? Behind all these questions lurks the issue of whether annuities, which are unpopular, should be mandatory – or whether retirees should use their pension savings as they choose. Those reaching retirement, faced with the liquidation of their pension savings, need impartial advice. Currently, information is offered by the financial services industry and its associate advisors whose motives are necessarily mixed. While this question is not immediately urgent (many DC schemes are still in their infancy) it will become increasingly so in the future, and it is in the interest of both state revenues and the general public for retirees to be able to trust the information they are given about how to use their savings.

Finally, both the notion and process of retirement need reappraisal. While old age pensions of various types can be traced back for centuries, retirement pensions are of relatively recent vintage (late 1940s). Their financial sustainability sprang from the burgeoning growth experienced in

western Europe over the three ensuing decades. It would be sensible now to understand that that era is over, that the prospects for future growth are not good and that our understanding of 'retirement' requires revision. Currently workers move from full-time work to full-time retirement, either at a pre-specified age or following a fixed number of years in employment. The recent advent of labour market flexibility to accommodate work-life balance opens up the opportunity to introduce options for a more gradual withdrawal from work, to enable individuals, as indicated in the previous paragraph, to stretch their retirement savings further. This would also help to tackle another, associated problem. Today, the frailest and oldest pensioners tend to have the lowest incomes, at a time in life when more money is required for heating and help in the home, not less. If partial pensions were introduced for years when health and working capacity remain comparatively sound, more money would be available for later life, when it is more urgently needed.

In addressing this area, researchers and political actors alike have to remain cognisant of the role time plays in evaluating pensions, particularly funded systems. This is not the first time that governments have tried to supply funded pensions and earlier attempts tended not to survive the course (Jacobs, 2011). The generations in retirement today are the beneficiaries of PAYG schemes in play 40+ years ago, at the zenith of the post-war boom years when occupational and state provision was at its most generous. In consequence, the incidence of pensioner poverty in EU Member States today is probably lower than ever before. In evaluating the consequences of pension marketization, however, we have to look to the future: to the likely outcomes (in terms of their social and political as well as their financial sustainability and adequacy) of pension systems that have yet to reach maturity. As this article indicates, the runes are not good and further action will be required.

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