

Making people work longer
Comparing Norwegian and British reform processes, with a
sidelong gaze to Sweden

Rune Ervik • Tord Skogedal Lindén



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STEIN ROKKAN CENTRE FOR SOCIAL STUDIES

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Foreword

This paper is written as part of the research project: «It happened here. The Norwegian pension reform, process and content», directed by Axel West Pedersen, The Institute for Social Research, (Institutt for Samfunnsforskning), Oslo. The project is funded by the Norwegian research Council and its program for evaluating the Norwegian pension reform (EVAPEN, <http://www.forskningsradet.no/prognnett-evapen/Forside/1253961246179>).

Axel West Pedersen

Project leader

Preface

The present version is based on two slightly different papers presented at the 10th European Social Policy Analysis Network Conference 2012, Edinburgh, Scotland, September 6–8 2012 (presented at stream 15 on «Increasing the normal retirement age: A difficult exercise?») and at the European Annual Conference of the European Group for Public Administration Conference 2012, Bergen, Norway, September 5–8 (presented in Permanent Study Group XIII on Public Policy, Street-Level Bureaucracy and Policy Outputs). This final «merged» version has benefitted from valuable comments from participants at both conferences. We would also like to thank our colleagues and members of the «Democracy, Welfare and public administration research group» at the Uni Rokkan Centre for useful comments on an early draft of this paper, and thanks are also due to Axel West Pedersen for providing us with very helpful comments and suggestions on a more recent version.

Summary

A major strategy of recent pension reforms has been to promote what may be called the «working longer» policy paradigm arguing that working longer represents a win-win strategy by addressing both the challenge of pension finance sustainability and adequacy. By working longer this extends the contribution period for pensions and reduces the period of pension payments and so helps to balance income and outlays for pensions. Adequacy and social sustainability is improved by increasing the individual earnings basis for future pension benefits and a shorter period in retirement brings higher yearly benefits. The policy measures to bring about these changes are numerous, but in this paper we will deal with two different ways of bringing the factual pension age upwards, considered to be partial substitutes (OECD, 2011): The first one is the straightforward solution of rising the normal retirement age (e.g. the UK). The second strategy is more hidden and implicit, and consists of introducing demographic adjustment factors into the system, that via expected behavioural changes will induce potential retirees to postpone their retirement. Norway (and Sweden) introduced a flexible statutory retirement age where a longevity adjustment factor ensures that people get lower pension benefits if the life expectancy of their cohort increases. A third strategy not considered here relies on a demographic factor that automatically increases the retirement age in correlation with population ageing (e.g. Denmark). This paper aims at exploring the pension reform processes in two countries and answer why countries embark on different paths toward extended working life. We also raise some critical issues regarding the consequences the policy design might have for implementation and peoples' behaviour and adjustment to the new system. We also question the strategy of automatic stabilizers with respect to information for future pensioners about consequences of different choices and what role street-level bureaucracies might play in making the implementation of the new pension scheme work according to its intentions, i.e. to make people work longer. Theoretically, we will follow an institutional and ideational perspective. The analysis will rely on policy documents, and interviews made with members of national pension commissions.

Samandrag

Ein hovudstrategi i nyare pensjonsreformer er å få folk til å arbeide lengre. Dette vert framstilt som ein vinn-vinn strategi som både gjer pensjonssystemet finansielt berekraftig og sikrar tilstrekkelege pensjonar. Å arbeide lengre aukar innskotsperioden medan perioden ein tek imot pensjon vert redusert, og styrkar dermed og balansen mellom inntekter og utgifter i pensjonssystemet. Systemet si sosiale berekraft og grad av tilstrekkelege pensjonsytningar vert forbetra av eit høgare inntektsgrunnlag for den einskilde samstundes som den reduserte tida som pensjonist gjev høgare årlege ytingar. I dette notatet diskuterer vi to ulike måtar ein kan auke den faktiske pensjonsalderen. Alternativa fell delvis saman (OECD, 2011). Det første alternativet er å auke pensjonsalderen slik som i Storbritannia. Det andre alternativet skjer meir skjult gjennom innføringa av ei automatisk levealdersjustering som gir ei spore til at ein skal utsetje pensjonstidspunktet for å oppnå høgare pensjon. Denne løysinga, som Noreg og Sverige har valt saman med ein fleksibel pensjonsalder, inneber at pensjonistane får lågare pensjon dersom levealderen for deira aldersgruppe stig og ein ikkje kompenserer gjennom å jobbe lengre. Andre alternativ, til dømes den danske løysinga kor pensjonsalderen, og ikkje pensjonsytningane, aukar i takt med levealder, vert ikkje omtala. Notatet diskuterer kvifor land vel ulike strategiar for å få folk til å arbeide lengre. Notatet peikar også på kritiske sider ved den norske løysinga, slik som tydinga av tilstrekkeleg informasjon. Notatet tek utgangspunkt i policy ideas litteratur og eit institusjonelt perspektiv, og empirisk byggjer vi på dokument og intervjumateriale.

1. Introduction

How can governments face the challenge of increasing costs of future public pensions? One way is to increase taxes and contributions to cover additional costs. Fear of compromising competitiveness in an increasingly globalized economy and negative economic work incentives has made governments reluctant to follow this path, although this reform appears to be the preferred one among voters (Finseraas 2009). Therefore, a major strategy of recent pension reforms has been to promote what may be called the «working longer» policy paradigm arguing that working longer represents a win-win strategy by addressing both the challenge of pension finance sustainability and adequacy. Working longer extends the tax base and contribution period for pensions and reduces the period of pension payments and so helps to balance income and outlays for pensions. Adequacy and social sustainability is improved by increasing the individual earnings basis for future pension benefits, and given a flexible pension age, a shorter period in retirement brings higher yearly benefits. The policy measures to bring about these changes are numerous, but in this paper we will deal with two different ways of bringing the factual pension age upwards, considered to be partial substitutes (OECD, 2011): The first one is the transparent and straightforward rising the normal retirement age as in the UK. Table 1 informs on future state pension age (SPA) increases for the UK:

Table 1: *State pension age rise in the UK*

Years of implementation	Pension age rises to
2010–2018	60–65 years for women, to equalize with men's pension age
2018–2020	65–66 years
2026–2028	66–67 years
2044–2046*	67–68 years

*Planned increases according to the previous Labour government. The Coalition government in office from May 2010 has speeded up the previous planned increases and so the hike to 68 years may take place around 2033.

Sources: OECD (2011), DWP (2012), This is Money (2013).

The second strategy is more hidden and implicit, and consists of introducing longevity adjustment factors into the system, that via expected behavioural changes will induce potential retirees to postpone their retirement. Sweden and Norway have introduced a flexible statutory retirement age where the demographic factor ensures that people get lower pension benefits if the life expectancy of their cohort increases. Table 2 illustrates the essence of the Norwegian reform, revealing how much longer different birth cohorts will have to work and postpone drawing their pension to get the same pension as they would receive when retiring at 67 years without the longevity adjustment factor introduced:

Table 2: *Longevity adjustment in the Norwegian pension reform*

Birth cohort	Necessary age for drawing a pension to compensate for the longevity adjustment	Life expectancy at time of drawing the pension	Expected number of years in retirement
1943	67 years	85 years 4 months	18 y. 4m.
1950	67 y. 8 m.	86 y. 2 m.	18 y. 6 m.
1955	68 y. 4 m.	86 y. 10 m.	18 y. 6 m.
1960	69 y.	87 y. 5 m.	18 y. 5 m.
1965	69 y. 6 m.	87 y. 11 m.	18 y. 5 m.
1970	69 y. 11 m.	88 y. 4 m.	18 y. 5 m.
1975	70 y. 4 m.	88 y. 10 m.	18 y. 6 m.
1980	70 y. 9 m.	89 y. 3 m.	18 y. 6 m.
1985	71 y. 2 m.	89 y. 8 m.	18 y. 6 m.
1990	71 y. 6 m.	90 y. 1 m.	18 y. 7 m.

Note: The table reveals the direct effect of the longevity adjustment factor. In addition there is the effect from new rules for pension accrual, that on average is more beneficial than those of the old system. This effect is especially beneficial for those working more than 40 years.

Source: NAV (2013).

A third strategy not considered here relies on a demographic factor that automatically increases the retirement age in correlation with population ageing (e.g. Denmark).¹ The paper aims at exploring the pension reform processes in three countries and answer why countries embark on different paths toward extended working life.

Why is the choice between these two options important? Both options contribute towards the financial sustainability of pensions systems, but a problem with the benefits adjustment strategy (e.g. Sweden and Norway) is that by: «cutting low income workers their already low benefits as life expectancy increases might risk a resurgence of old age poverty» (OECD 2011:99). Choosing this strategy there is no corresponding automatic mechanism securing that people will compensate the shortfall in benefits by working longer. The UK strategy of increasing the pension age avoids the problem of benefits reductions, people will know what they get, and so this better protects against poverty. However, because of the postponement, some potential retirees will not live long enough to start drawing the pension, or they will do so for only a short period. A major problem of this strategy is to what extent there exist adequate social insurance coverage for those not able to continue to work. And recent calculations by Silcock (2012) confirm that many UK citizens risk a reduction in their standard of living when retiring. Thus both strategies have

¹ Admittedly, this is a simplified way of presenting the many different ways European governments choose to balance the time people spend in work and retirement. See European Commission (2012:10) for a more detailed categorization of strategies.

their pros and cons. Another important political aspect of the policies pursued, is that the longevity adjustment individualize the retirement decision within a flexible and actuarially neutral system for take-up of old age pension benefits. The pension age increase, is the result of collective political decisions, and thus binds everyone to follow this collective choice.

Our findings should be highly policy relevant, as, in the view of the OECD (2011:34); no more than five members have raised the pension age sufficiently to meet the costs stemming from increased life expectancy, demanding further future reforms in other member countries. Recent British developments underline this need for further pension age increases as advocated by the OECD. The government, already in the process of implementing what will be one of Europe's highest pension ages (68 years by 2044–2046), considers to adjust pension age automatically because of the expected further increases in life expectancy (cf. DWP 2011a; Helm 2012).

Comparing Norway, Sweden and the UK implies to compare two fairly similar pension systems with a dissimilar (the UK) one. The (pre-reform) British system (the public system) aimed to provide protection against poverty in old age, rather than income standard security, as in continental Europe (i.e. Germany). The public pensions systems of Sweden and Norway in contrast, have since the introduction of an earnings-related tier during the 1950s and 1960s respectively, combined basic and standard security as goals for their pension provision (i.e. combining Beveridge and Bismarck). The more limited state responsibility has strengthened the importance of occupational and private provision in the UK pension regime. The stronger dominance of the public tier in Norway and Sweden has reduced the scope of occupational and private pensions. In terms of interest structuration the UK pension regime has anchored the middle class more closely to the occupational and the private tier to meet their pension needs. In Norway and Sweden a broader constituency including the middle class has their pension interest linked comparatively stronger to the public system. To illustrate the above, the net replacement rates of public pensions for an earning level at 200 % of mean earnings is 24 % in the UK, compared to 55 % in Norway. For Sweden the figure is 74 %. For mean earnings the figures are 69 % for Norway, 41 % for the UK and 64 % for Sweden (Hinrichs and Lynch 2010: table 24.1:358, figures refer to the year 2004). The institutional configurations express different policy ideas and broader welfare philosophies of the three countries: A basic policy idea of the British and Liberal welfare state tradition, is that limited public resources should be targeted towards those in need to prevent poverty, and that additional income needs ought to be left to individuals and their own choice. The Norwegian and Swedish tradition expresses a wider state responsibility for welfare, in line with the social democratic or encompassing model of welfare (Esping-Andersen 1990). Here a wider public resource base is employed to address the more ambitious goal of «taming inequality in retirement» (Pedersen 1999), i.e. not only poverty prevention but to secure that income inequality in old age is smaller than in the years of working life.

In the following comparison the focus will be on the British and the Norwegian case, whereas Sweden has the role as a comparative shadow case. The cases chosen for comparison, represent different ways of adopting pension systems to increasing longevity, one via explicit pension age increases (the UK), and the others (Norway and Sweden)

through automatic benefit adjustment. The reason for focusing on Norway, is that whereas Sweden is well covered in the literature as an example of radical path breaking reform or «big bang» abolition of the old system and where everything were changed (Anderson and Immergut 2007; Kangas *et al.* 2010), Norway is seldom referred to in the more recent comparative pensions literature. As the new pension reform now is being implemented this merits a closer look at what has been going on in Norwegian pension processes and why Norway did set its course towards similar solutions as Sweden in addressing the longevity issue. Norway is also interesting, because it's unique economic position, with state budget surpluses, and the build-up of one of the largest pension fund investing globally, valued at 523 billion USD in 2011 (Finansdepartementet, 2011). Thus, in this context of affluence and adding strong support for the welfare state, the existence of strong veto players, the new politics of welfare retrenchment (Pierson, 2001) would predict that reform would be highly unlikely, still it happened here, and so makes for an interesting case of path departure.

We structure our paper as follows: First, section 2 describes challenges to sustainability and adequacy in terms of population ageing and the different policy measures making people work longer. A section on theory introduces our institutional and ideational perspective. The third section provides a broader introduction to the background and reform of pension systems in the three countries, but with emphasis on the Norwegian and UK case. In section 4 and 5, we continue our focus on Norway and the UK and discuss why they chose different strategies towards the longevity challenge. Section 6 provides a concluding discussion. The analysis will rely on policy documents and interviews made with members of the pension's commissions in Norway and the UK.²

2. Demographic challenges – making people work longer

One way to illustrate the challenge of rising longevity for pensions systems is to take a look at the average number of expected years spent in retirement after pensionable age.³ Table 3 below provides an overview for ten OECD countries in the period 1950 to 2050. The countries represent different ageing challenges, welfare and pension models.

² Interviews were conducted in 2010 and 2011 with key actors including members of the pension commissions, politicians, think tanks and interest organizations. Unfortunately, we were only able to convince a few British politicians to participate.

³ Pensionable age is defined as: «the age at which an individual with full career can first receive full pension benefits in the main pension scheme. The term «full» here means that benefits are «actuarially» unreduced. (Chomik and Whitehouse 2010:7). It is also important to note that pensionable age is not average retirement age, i.e. the age at which workers move from work to retirement. This is usually at a lower age than the pensionable age.

Table 3: Life expectancy after pensionable age in ten OECD countries, 1958–2050, men and women

Country	Gender	1958	1983	1999	2010	2030	2050
Australia	Male	12,5	14,2	16,6	18,6	19,3	19,7
	Female	19,4	22,4	24,5	24,3	22,6	23,3
Austria	M	12,0	13,1	15,7	17,5	19,5	21,1
	F	18,6	20,6	23,7	25,1	24,6	24,5
Denmark	M	13,7	11,9	13,0	16,4	15,8	17,2
	F	19,3	19,6	16,1	19,8	19,6	21,0
Germany	M	14,2	15,2	17,6	17,0	18,7	20,3
	F	18,1	20,8	23,7	20,7	22,6	24,4
Italy	M		17,1	25,4	22,8	19,4	20,9
	F		26,5	29,9	27,4	23,7	25,5
Norway	M	9,5	9,5	13,7	15,7	17,3	18,9
	F	11,1	13,7	17,5	18,9	20,8	22,5
Poland	M	15,9	15,7	15,0	14,4	15,6	17,2
	F	18,7	19,9	21,0	23,1	24,9	26,6
Sweden	M	11,7	12,7	16,4	17,9	19,5	21,1
	F	13,3	16,5	19,9	21,1	22,7	24,2
United Kingdom	M	11,9	13,2	15,4	16,9	17,5	16,9
	F	18,9	21,0	22,7	24,5	21,1	21,9
United States	M	12,8	14,4	16,1	16,8	16,8	17,7
	F	15,8	18,6	19,1	19,3	20,1	21,9
OECD	M	13,4	14,7	17,3	18,5	19,2	20,3
	F	14,0	15,5	17,7	18,9	19,6	20,9

Source: (OECD 2011: Table 1.3 and 1.4:29–30).

On average the life expectancy for both males and females in OECD after pensionable age is expected to increase by 6,9 years over the whole time span (1958– 2050). This implies a general increase in the costs of pension schemes and hence a challenge to financing. Projections of public expenditures on pensions show that these are expected to grow from 8,4 % of GDP in 2010 to 11,4 % in 2050 within the OECD area (OECD 2011:158).

There is however considerable variation across countries. This variation reflects not only differences in demographic forecasts but also political factors such as decisions on pensionable age, which brings us to the focus of this paper. Looking at the UK, British women's expected retirement duration will be lowered from 24,5 years in 2010 to 21,9 years in 2050. This change is due to a quite substantial projected increase in pensionable age from 60 years in 2010 to 68 years in 2050. For British men the increase is 3 years from 65 to 68, and this secures that expected retirement duration is held constant at 16,9 years from 2010 to 2050, which also will be the lowest among OECD countries at that time. Thus, the UK represents a highly interesting case of a country that has chosen an explicit pension age increase strategy to confront the increasing costs of pension system resulting from extension of longevity. In this case benefits are not automatically lowered, but you will have to wait longer before you can start to draw the state pension.

However, a principally different approach, to increasing pensionable ages, is to create automatic links between pension benefits and life expectancy, as was done in the seminal Swedish pension reform in 1994 introducing a notional defined contribution (NDC) system. Sweden represent both the paradigmatic case of a social democratic welfare state in Esping-Andersen's well known typology (1990) and its pension reform is internationally regarded as a most successful reform (Pedersen 2009:142). A key aspect of the reform was a change from a relatively generous defined benefit (DB) scheme to a so-called notional defined contribution scheme based on lifetime earnings. This means that even though the new income pension system is not funded, the scheme imitates a funded defined contribution scheme by estimating an internal rate of return (based on wage growth) for accumulated pension contributions (Anderson 2005:105). Benefits paid out are based on life expectancy at the time the person starts receiving benefits. Increasing life expectancy means that benefits are lowered to cover a longer time spent in retirement.

We mainly cover two ways of adjustments: ad hoc increases of the pensionable age and automatic adjustments via benefits reductions. Below we present an overview of countries choosing pension age increases or automatic link of pension benefits with life expectancy (ABLE) or combinations in order to place UK, Norway and Sweden within a broader OECD context of reform efforts. The table below sums up this development for the ten OECD countries.

Table 4: *Pension age increase and automatic links between pension benefits with life expectancy in 10 OECD countries*

Country	Pension age increase	Change 2010–2050		ABLE (implicit pension age increase, 2010–2050) *	Description of ABLE
Australia	X	W	62–67		
		M	65–67		
Austria	X	W	60–65		
		M	65–65		
Denmark	X	65–67			
Germany	X	65–67		X	Sustainability factor. This factor links the adjustment of the pension point value to changes in the system dependency ratio, i.e., the ratio of pensioners to contributors. A year's contribution at the average of earnings of contributors earns one pension point.
Italy	X	59–65		X (67,7)	Conversion coefficient revised every ten years to take into account change in demographic (and economic factors) (1995 Dini reform). Law 122/10 will link eligibility conditions to old-age benefits with demographic trends. From 2015, every 3 years the pension age will be raised in order to neutralise changes in the life expectancy over the last 3 years.
Norway		67–67		X (69,8)	Automatic longevity adjustment factor. It implies that pension benefits will be reduced in proportion to an increase in longevity compared to measured longevity in 2010. The new pension system has a flexible pension age between 62 and 75
Poland		W	65–65	X (67,9)	NDC system, wherein at retirement accumulated notional capital is divided by the «g-value» to arrive at the pension benefit. The g-value is average life expectancy at retirement age
		M	60–60		
Sweden		65–65		X (68,2)	The individual pension account balance of the NDC income pension is divided by a denominator (an annuity factor), where one factor is life expectancy at retirement. If longevity increases, later cohorts will receive a lower income pension than earlier pension cohorts at a given income.
UK	X	W	60–68		
		M	65–68		
US	X	66–67			

Sources: Information on pension age changes: (European Commission 2012; OECD 2011). Information on ABL: Germany (OECD 2011), Italy (Ferrera and Jessoula, 2007; Jessoula and Pavoline 2011) Norway (Pedersen 2010), Poland (OECD 2011), Sweden (Baroni and Axelson 2011). Information on implicit pension age change (OECD 2011: table 5.3:98).

Legend: W= Women, M= Men, ABL =Automatic link of pension Benefits with Life Expectancy*.

Figures refer to pension ages needed to equalise benefits in 2010 and 2050 under a low mortality scenario, for men on average earnings.

Of countries that have chosen ad hoc increases in pensionable age, we find Australia where women's pension age increase from 63,5 to 65 by 2014. Then there will be a gradual increase to 67 for both men and women in the period 2017–2023. Increasing the pensionable age is an easy and transparent signal to the public that a longer working career is needed before starting to draw an age pension. It is also a collective way of accomplishing these changes, there is no choice left to the individual. A more flexible, but also implicit and hidden way of obtaining a longer working career is the introduction of longevity adjustments via benefits reductions. This is accomplished in those countries that have introduced NDC pension systems (Sweden, Italy, Poland and Norway in the table above) or that have introduced a sustainability factor as in Germany. In this case benefits are lowered with increasing longevity and changes are introduced gradually, with small changes from one age cohort to the next. Here the goal of a longer working life is obtained via expected behavioural changes, i.e. that individuals respond to the threat or incentive of seeing their old age pension reduced, unless they compensate for this by working longer. The fourth column reveals how much the implicit age increase will be by 2050 if benefits levels are to be equalised at 2010 level for a man on average earnings. We see that for the two countries that exclusively rely on this mechanism the implicit pension age increase in 2050 will be 69,8 years in Norway and 68,2 years in Sweden, within a low mortality scenario. Importantly, in these two cases, it is exclusively up to the individual to make the decision of working longer or to face a benefit reduction.

It is of course much too early to conclude with certainty what effects the Norwegian reform will have on the pension age. Yet statistics from NAV, the Norwegian Labour and Welfare Service, indicates that people draw pension benefits earlier than before (Haga and Lien 2012). However, analysis is complicated by the fact that the reform, since 2011, allows people aged 62 and older to continue working while drawing a pension benefit. In 2011, six out of ten retired persons younger than 67 did combine work and pension (Dahl and Lien 2011). From 2010 to 2011, the expected retirement age at 50 decreased by 1,4 year to 62,3 (Haga and Lien 2012:54). This is contrary to the reform aim, but, since 2011, the employment rate for people aged 62–66 also slightly increased due to the combination of work and pension possibility. Haga and Lien expect people to work longer in the years to come as a result of the reform (2012:53). The value of pension age as an indicator of system sustainability is reduced.

An important question is whether people realize that drawing on a pension benefit early means that the total pension benefit is lower than the benefit would be if received later provided that you do not keep working. There is a possible trade-off between self-responsibility and security (cf. Casey and Dostal 2012 for an interesting discussion on basic

security in old age in the UK system and Pedersen (2013) for a critical discussion of privatization of social risks inherent in the Norwegian reform. Here the role of street level bureaucrats is crucial. How well are people being informed about the consequences of different choices? To what extent can this (lack of) information influence the major aim of the pension reform to make people work longer, and with what social consequences for the clients?⁴ Problematic, as will be discussed later in the paper, is also the question of whether people understand the automatic stabilizer; how it reduces the pension benefit if not compensated by working longer. Even though it is too early to conclude whether the reform reaches its aim, these important questions should be kept in mind as the first figures on people's behaviour are made available. The relationship between policy design, street level bureaucracy and policy outputs in terms of pension behaviour will be a crucial topic when evaluating the Norwegian pension reform.

3. Institutional change, interests and ideas

When describing the three country cases in terms of their pension system we did so by briefly accounting for contrasting institutional configurations, policy ideas and interest constituencies, seen as important explanatory factors. Within the pension reform literature informed by institutional perspectives a central insight is that existing pension policies have feedback effects in terms of affecting resources and interpretive effects altering the capacities and interests of affected publics (Pierson 1996). Becoming large and visible government programs, pensions provided time and resources to those retired. This tied their wellbeing and interest to a public program that also shaped their political identity, around which their interest organizations mobilized (Campbell 2012). Over time such positive feedback processes strengthened both the program and its constituency, creating path dependencies that became increasingly difficult to change. Cutbacks of pension programs are thus politically risky, because losses are highly visible for a target group (the elderly) with a high voter turnout (Weaver 2003). Reforming public pensions towards increasing their financial sustainability in the long run (for instance through raising pensionable age or introducing longevity adjustments, reducing future benefits), would therefore be possible only if political elites could bypass open democratic arenas and processes, or by advancing reform plans in lieu of an urgent economic crisis. There is a strong premise of actors and constituencies driven by self-interest within the politics of retrenchment account. It is supposed that those who will suffer materially from cutbacks will more or less automatically oppose such changes, in terms of their voting behaviour and mobilization of their interest organizations. Recent analysis of policy preferences on pension programs has questioned this premise by showing that the hypothesis that public pension system creates policy feedbacks of self-interested beneficiaries supporting further

⁴ These are such important questions that they are part of the Norwegian research Council's program for evaluating the Norwegian pension reform (EVA-PEN). A project directed by Eric Breit, AFI, called «Information and interpretation of the retirement pension reform a matter of securing the legal protection of citizens», will look at such issues, cf. <http://www.forskningradet.no/servlet/Satellite?c=Prosjekt&cid=1253968577021&pagename=ForskningradetNorsk/Hovedsidemal&p=1181730334233>

pension spending is not empirically supported (Lynch and Myrskylä 2009). Armingeon and Giger's, (2008) study of OECD countries shows that there is no strong and systematic electoral punishment for government cutting back welfare state entitlements. Punishment is conditional on whether governments have the chance to stretch retrenchment over a longer period of time, and whether social policy cuts are made an issue in the electoral campaign. This indicates that the space for pension reform may be wider and more malleable than suggested by a focus on self-interested beneficiaries as reform veto actors alone.

The pension reform literature evolving in the wake of many substantial reform processes has in some instances supported Pierson's thesis that successful pension reforms tended to be decided by narrow policy communities, for instance pension commissions, (e.g. Lundberg 2003 on the Swedish reform) and by the use of obfuscation or beclouding strategies. Others have pointed to broader institutional factors and actor constellations as decisive for pension reforms to succeed cf. (Immergut *et al.*, 2007). And yet another body of literature has analysed policymaking as an ideational battle where policy paradigms, agenda setting and framing plays an important role (Araki 2000; Béland and Cox, 2011). Applying the concepts of conversion, layering and policy drift developed by Thelen (2004:35–36) and Hacker (2004) to characterise different forms of institutional change, (Béland 2007) has scrutinized the role of ideational processes in explaining the direction of policy change in US social security development.⁵ Béland argues that because institutional change is related to strategies of concrete social and political actors, understanding the effect of their ideas and assumptions is central in explaining how these actors can bring about institutional change in a particular area, and the form and orientation of this change will take (Béland 2007:23). Further on it suggests that in addition to focusing on institutions and interests, the framing of policy alternatives, in terms of combining problem understanding, policy goals and policy solutions into a coherent and actable narrative, often in the form of a specific policy paradigm (Hall 1993), are a key in contributing to shape pension reform processes and content. As an example of such an institutional policy making device the use of pension commissions is of particular relevance. Previous research on the role of commissions in policy making has identified those as potentially important players in pension reform processes (Marier 2009; Lindén forthcoming 2013). One of their roles is to establish a common problem understanding and to come up with principles for reform that can be acted upon to confront these problems. This is why we focus on pension commissions and their members as one important source to understand how countries embark on different strategies to confront the longevity challenge.

⁵ Conversion implies that: «new goals or the incorporation of new groups into the coalitions on which institutions are founded can drive a change in the functions these institutions serve or the role they perform» Thelen 2004:36). Thus in this case institutions are transformed. Institutional layering involves «the grafting of new elements onto an otherwise stable institutional framework» (op.cit: 35). Hacker (2004) define policy drift as: «changes in the operation or effect of policies that occur without significant changes in those policies' structure» (op.cit.: 246).

4. Case studies: Pension reform and the longevity challenge in Sweden, Norway and the UK

Before going into discussing the factors contributing to our understanding of why the three countries embarked on different ways of confronting the costs to pension systems of increasing longevity, we shall describe the public pension system at pre and post reform stages.

Both Norway and Sweden had a similar pre-reform structure of their pension system, by combining income and minimum security within the same system and with a ceiling on the earnings-related part of the system. In contrast, the UK has traditionally concentrated its public resources on securing minimum pensions and leaving income security to occupational and individual pension pillars.

4.1. Background and content of Swedish reform

In 1957 the so-called ATP (Allmenna TjänstPensjonen) reform was adopted that added a public earnings related tier to the existing flat-rate basic pension (called folkepensionen). Both were based on PAYG and financed by earmarked employer contributions. The ATP system provided income-related pensions calculated according to defined benefit principles. A full ATP pension paid 60 per cent of average income for the best 15 years of at least 30 years of labour market participation up to a ceiling. Importantly, both the basic pension and the ATP pensions were indexed to inflation every year (Anderson 2005).⁶

In 1990, 18 per cent of the population was older than 65 years, making Sweden already then one of the oldest countries of the world. Besides these demographic challenges, the country was caught in a rapid deterioration of its economy. Between 1990 and 1993, Sweden went from budget surplus to a deficit of 12, 3 per cent of GDP. Additionally, increasing unemployment contributed in undermining two preconditions of its welfare model, full employment and stable growth. The pension system thus faced a twin shock of shrinking tax revenues and increasing expenditures because of the growing numbers of retired persons.

In addition to the demographic challenges there were two system internal design features that had unintended future consequences: The ATP benefit ceiling was indexed to prices, so that with real wage growth over time, the relative level of the ceiling compared to real wages was decreasing. This implied that the ATP system would be transformed into a flat rate basic pension for many workers, and hence this threatened the legitimacy of the system. The other unintentional consequence concerned the best years rule (benefits based on best 15 of 30 years of earning) which caused benefits to flow disproportionately to workers with higher education and steeply rising earnings over a relatively short period. Those workers with many years of slowly rising earnings benefitted less than they would

⁶ In the following presentation of the Swedish system and reform, we rely on Anderson (2005), if not otherwise indicated.

from a system based on life time earnings. Thus mainly the question of economic sustainability, but also issues of legitimacy and fairness were involved in setting the pension reform agenda in Sweden.

A key aspect of the reform was the change towards a NDC scheme, as described in section 2. In addition to the income pension the new system also includes what is called a premium reserve. Thus of the 18,5 % paid in pension contributions of qualified income, 2,5 % point of these are placed within an individual investment fund based on defined contribution. This development is in line with the multi-pillar approach and its recommendations for diversifying risks in pensions and increasing individual responsibility and choice. An important point to mention is the stabilisation of contribution rates (18, 5 %) that follows from the automatic balancing mechanism securing that anticipated pay-outs for each age cohort are automatically adjusted to correspond to a cohort's contribution, including returns to those contributions. If together with expected payments of pension contributions, funds are too low to cover expected payments of pensions, a balancing mechanism takes care of that problem and the pensions should be decreased to keep the balance and the contribution rates fixed. Because of this the contribution rate can continue indefinitely and hence the architects of the Swedish reform declared that they had created a scheme that will last to the next ice age (Lundberg 2003).

4.2. Background and content of Norwegian pension reform

The pre reform public pension system dates back to 1967, when an earnings-related second tier on top of the universal flat rate pension was introduced, and so a two tier system of public pension provision was integrated into the National Insurance system. The earnings-related tier promised to replace 45 % of earnings between a lower threshold set at the level of the minimum pension and an upper ceiling which was well above the average full time wage. To qualify for the full earnings-related pension a 40 year record of contribution was required and benefits were calculated on the best twenty years of the individual's earnings record (Pedersen, 2010).⁷ In this respect the Norwegian scheme was similar to the Swedish, but it was less generous, because of having 40 instead of a 30 years record, and a best years rule based on 20 best not 15 as in Sweden. In 1969 a Special Supplement was introduced to compensate those with short earnings records and lower earnings-related pensions. The supplement was tested against benefits from the earnings-related part of the system with a 100 % taper (deduction). The supplement provided a kind of guaranteed minimum increment to the universal basic pensions for those with low earnings- related pension rights.

In addition to the public pension system, a tier of public and private sector occupational pension schemes provided additional pension coverage for their members. Within the public sector employees in the municipal and state sector were and are covered by defined benefit final salary schemes. Coverage is near universal. In the private sector,

⁷ In the following presentation of the Norwegian system and reform, we rely on Pedersen (2010), if not otherwise indicated.

until new legislation on mandatory occupational pensions (OTP) was introduced in 2006, coverage was much lower than in the public sector and both the coverage and the quality of pensions varied substantially between industries (cf. NOU 2004:1, 246–252). As in other countries defined contribution schemes increase their share of provision within the private sector.

As of January 1st of 2011, Norway implemented its pension reform after a decade on working out the structure and details of the reform. However, the debate on the need for a pension reform started already during the early 1980s, when a White paper argued for increasing the income basis for future pensions and at the same time curbing future public pension spending (NOU 1984:10). Thus in 1986, the former ceiling on incomes from which to pay contributions was removed. And in 1992 a parametric reform which reduced the pension percentage accrual and which lowered the ceiling on pension earnings for incomes between 6 to 8 times the basic amount. Income within this range now only counted as 1/3 for earning pension points. In 1998 a onetime substantial increase of minimum pensions added to the above previous changes in making the public pension system more egalitarian in terms of reducing the distance between maximum and minimum pensions. Put differently; the link between contributions and pension benefits was continuously weakened. In this respect the recommendations of the pension commission appointed under the minority Labour government headed by Stoltenberg (Stoltenberg I) in 2001 and publishing its White paper in 2004, represented a path departure from the parametric reforms of the 1990s (NOU 2004:1). A key proposal there was to restore the link between contributions and benefits. The present system was also seen to provide weak work incentives and there were concerns over increasing early retirement rates. In terms of challenges the Norwegian case was similar to other countries, although demographic changes were expected to be moderate (birth rates among the highest in Europe) and labour market participation is relatively high in a comparative OECD perspective (OECD, 2006). In terms of reform resistance, it was of central importance for the Pension Commission to point out the relative insignificance of oil revenues as a way of securing future pensions. An alternative of increasing the future tax burden was also seen as problematic:

The ability to pay taxes and premiums is enhanced when the economy and businesses are doing well. However, a high and increasing tax level may make production too costly, thus undermining our financial safety and welfare (Pension Commission Norway 2004:2).

In addition the Commission questions the viability of what they called the Norwegian model of intergenerational solidarity. The sharp increase in the number of elderly would put this model under strain. In order to avoid generational conflict the system has to be restructured accordingly. A key strategy of lessening the burden was to stimulate growth and work.

The Norwegian pension reform was strongly inspired by the innovative NDC reform of Sweden from 1994. This means that the system emulates a funded defined contribution scheme by estimating an internal rate of return for accumulated pension contribution on lifetime earnings. The Norwegian reform contains five main elements according to Pedersen (2010):

- A new (NDC-inspired) system for the accrual of pension rights
- An actuarially «neutral» flexible retirement between age 62 and 75
- Automatic longevity adjustment factor
- Less than full wage indexation of pension benefits
- The introduction of mandatory occupational pensions in the private sector

The first is a new (NDC-inspired) system for the accrual of pension rights. The new old age pension will consist of two elements: An income Pension that is designed to be strictly proportional to life-time earnings and a Guarantee Pension providing minimum protection. For each year in gainful employment an amount equal to 18.1 % of yearly earnings will be credited a «notional» pension account. The pension wealth on the notional account is supposed to accumulate over the economically active life, and it will be converted to a life annuity when the individual decides to start drawing benefits. Yearly earnings (and self-employment income) up to a ceiling of 7.1 times the base Amount (NOK 562 000 in 2011) (around 70 000 Euro) count, and pension accrual can start from the age of 13 and continue to the age of 75. There are also pension accruals for child care, military services and social security benefits. The Guarantee Pension will be tapered (or income tested) against the Income Pension by 80 % over a long income interval. This implies that people with income pensions always will keep at least part of their advantage vis a vis individuals with no earned pension rights. But it also implies that the marginal effect of increased earnings and contributions are very modest for wage earners who can expect to end up with less than average lifetime earnings.

The second element is an actuarially «neutral» flexible retirement age between 62 and 75. This principle implies that each individual carries the full costs associated with the timing of retirement. It is possible to draw a pension at the age of 62 and work full time without any earnings or work tests. It should be noted that the right to start drawing old-age pensions at age 62 is made conditional on having enough accumulated pension rights so that the actuarially reduced benefit is at least as high as the Minimum pension. This means that for some low income groups the flexible option will not be available.

The third element is the automatic longevity adjustment factor. It implies that if there is an increase in longevity by one year, one need to work an additional 8 months to compensate the reduction in yearly benefits (cf. Table 2 above). In terms of retrenchment the longevity adjustment will result in a 20 % reduction of pension benefits for those retiring around 2050.

The point on less than full wage indexation of pension benefits is part of the retrenchment element of the reform and is expected to reduce future pensions expenditure by 7 % compared to full wage indexation.

Finally, the introduction of mandatory occupational pensions in the private sector was legislated as part of the pension reform process in 2006. It requires a minimum quality (at least 2 % of the wage in contribution) occupational pension scheme to be available for all employees. This means that the coverage with occupational pensions is near universal.

4.3. Background and content of UK pension reform

The UK pension system is based on three pillars: an unfunded Basic State Pension (BSP), and additional State Second Pension (the S2P, replaced the previous SERPS, State Earnings-Related Pension Scheme, in 2002) and voluntary funded occupational and personal pension schemes (Seeleib-Kaiser 2012:4). With 30 qualifying years pensioners are entitled to a flat Basic State Pension of £ 102,15 per week. The S2P provide additional income for those who have earned entitlements through employment (requiring a minimum earnings of £5304) or by qualifying periods of care. The previous Labour Government introduced means-tested programs to fight poverty in old age. With the guarantee credit (Pension Credit) the basic State pension can be topped up for individual low income pensioners so that they will receive £137,15 in weakly income, whereas couple's will receive £209,70 (op.cit.). Because of modest minimum pension's access to occupational or personal pensions are vital in order to maintain accustomed living standards.

Thus the UK pensions system combines one of the least generous minimum pensions among OECD countries with a developed system of voluntary private funded pension (UK Pensions Commission 2004:58–61). Recent reforms (i.e. pensions acts of 2007 and 2008) of the system include improved access to the Basic State Pension, increased pension age and removal of the default retirement age and finally, as of 2012, every worker will be automatically enrolled in an occupational pension scheme, but with the option to opt out (Seeleib-Kaiser 2012:4)

The system could be characterized as a hybrid one with clear liberal market oriented elements, but also with strong statist traits, developed from the 1950s, evidenced in the growing role of the state as employer and regulator (Bridgen and Meyer 2011).⁸ This implied that pension coverage was extended to include less qualified public sector employees with final salary defined benefit pensions. Also private sector employees have been included in a voluntary system of private occupational schemes. But here, in contrast to the wide coverage of public sector pensions [reaching 84 % of public sector employees in 2010 (Seeleib-Kaiser 2012:6)], coverage varied widely by firm size, industry and earnings. For instance the coverage within Financial intermediation was close to the public sector share with 80 %, whereas within Hotels and restaurants only around 15 % of employees was covered in 2003 (Pensions Commission 2004:64–65). One element of conflict in UK pension politics has been the question of superannuation or introducing a system of earnings related pensions as part of public provision. In 1975 the Labour government of Wilson introduced the State Earnings-Related Pension Scheme (SERPS) and thus set the course towards a more social democratic regime, with improved pensions for blue collar workers and women without resort to occupational schemes (Bridgen and Meyer 2011:271–272). However, the incoming Thatcher government (1979) had different ideas on future pension policy. In 1980 benefits were indexed to prices and SERPS benefits were substantially reduced. Further cuts were made in 1986 and 1995. A part of the idea of

⁸ In presenting the British system and development below we rely on Bridgen and Meyer (2011), if not otherwise indicated.

«popular capitalism» was a major shift of responsibility away from the state and onto the individual (Bonoli 2000:50–51, 70–71). In order to make this change, private sector provision was encouraged through individualized personal pensions, rather than collective occupational schemes. The pensions scandals for the private pension schemes that hit in the mid-1990s, where people were given inadequate and inaccurate advice before investing their savings, created problems for this policy and resulted in government initiatives for greater regulation of the pensions industry.

When the New Labour government took office in 1997, this did not result in a major change of the voluntary approach, but there was increasing focus on pension poverty and lack of savings amongst low and medium income groups. Policies to confront these problems included the introduction of a means – tested Pension Credit (1999) and Stakeholder pensions (1999) the last representing a regulated and low cost scheme intended to boost pension savings among those least well off. In addition, improvement of SERPS was made for low-income earners and carers (2002). However, the voluntary approach was not delivering as hoped for: Take up of Stakeholder pensions was low and the beginning of the new millennium saw a massive closure of DB schemes to new members. This implied in its turn that an increasing number of pensioners would be reliant on means-tested benefits in the future and this would be detrimental and undermining voluntary individual savings. The response of the government was to set up the independent Pensions Commission with three members from academia, the employers and the trade unions. One of their main tasks was to ask whether private sector voluntarism was still feasible. Their answer was that less voluntarism was needed and that an approach based on automatic enrolment at national level (but with a right to opt-out) was needed (Pensions Commission 2005:7). According to Bridgen and Meyer (2011:273) the greater state intervention in private pension sector anticipated from the commission's recommendations made the pension industry interests as well as organized employers, mobilize against such interventions and instead advocated a higher state pension. Doing this would accordingly safeguard the voluntary non-state pension system from state intervention. The Commission reacted by stretching its original remit and recommended fundamental change not only for the private but also the public sector (Interviews, UK). Thus, in addition to recommending the introduction of a National Pensions Saving Scheme (NEST) based on auto enrolment, the Commission recommended substantial improvements to the basic and state second pensions, and in order to finance part of this as well as contemplating future demographic changes increases to the SPA was recommended. In the following it is this pension age increase that will be scrutinized in our analysis that focuses on the Norwegian and UK development.

5. Why hidden or transparent strategies of pension age increases in Norway and the UK?

5.1. Norway: A hidden strategy of pension age increase

In Norway there was little discussion on rising the pension age as a way of introducing longevity adjustment factors into its pension system at the time (2001) when the pension commission was appointed. Having at the time of discussion one of the highest pensionable ages within the OECD area of 67 years, that is now (2010) shared only by Iceland, this partly explains why a further increase of the pension age was not contemplated in policy discussions. According to one informant:

It was a continuous pressure to go in the other direction, i.e. that one would like to retire earlier than one usually did before, so it was bad timing to suggest and discuss the question of raising the pension age. We ended up with creating a so-called carrot system, we have a flexible age of retirement, the longer you continue in work, the more you will gain when you start to draw your pension (Interview 2010, member of Pensions Commission Council).

Especially in the Norwegian context of a rich country it would be a hard message to sell to voters. The debate evolving early in 2013 on the many extra years people will have to work to compensate for the effect of the automatic stabilizer, several years after the reform was legislated, is perhaps indicative of a successful obfuscation strategy. The Norwegian system is self-regulatory, implying that politicians do not need to make unpopular decisions as life expectancy increases.

To this should be added the broader institutional context of pension provision in Norway. Central as concerns the issue of pension age was the establishment of the negotiated early retirement scheme AFP (Avtalefestet Pensjon) implemented in 1988 as a tripartite agreement between employer organisations and trade unions and with the state as a third party providing the schemes with subsidies. The background was a perceived need for an early retirement scheme that would allow workers with long and demanding working careers to leave the labour market, without having to resort to a disability pension. The AFP scheme allowed workers that were covered by this agreement and that fulfilled certain eligibility requirements, to take out an AFP pension as from age 65, later this age was lowered to 64 years (1992) and to 62 in 1997 (NOU 1998:19:44). Thus this development could be designated as an instance of policy layering. There were several critical points around this scheme that were discussed. Among them was the view that it was unfair that some groups of the population were allowed to retire early, through a scheme that was partially tax financed, whereas others did not have access. It was difficult to provide definite criteria concerning what was to be considered as «long and demanding» working careers, and in practice the arrangement turned into a general early retirement scheme for those covered by the scheme. This also gave an impetus for considering a national scheme with a flexible pension age as part of the pension reform discussion. The issue of a flexible retirement scheme had already been addressed in several previous Official Norwegian Reports and white papers, over the previous decades (NOU 1980:54;

1994:2; St.meld. nr. 12, 1988–89). The focus of these was on increasing the possibility for early retirement, but it was also stressed that the norm of pensioning at 67 should not be weakened, because of future demographic changes and the associated cost burden. Hence, a general reduction of the pension age was to be avoided. Instead the Labour party government headed by Gro Harlem Brundtland supported the introduction of the AFP scheme as part of wage negotiations in 1988, in return for wage moderations. Still, the idea of increasing the general pension age was considered as an additional measure, if policies to include older workers, was not successful in increasing the effective retirement age (NOU 1994: 2).⁹ A majority of the 1994 commission supported this idea, but this met with strong resistance from a minority, including representatives from the major unions and the employer organisation NHO:

When the effective exit age is assumed to be 60–61 years on average, a proposal to increase the general pension age from 67 to 68, 69 or 70 years, will have no real effect. The only effect it might have, in the best case, is to raise the awareness about the pension challenges (op.cit.:265).

Four years later a new commission reported on flexible pensioning, and here the need for a general flexible pension arrangement within the National Insurance scheme, and opening up for the possibility of a change in the pension earnings rule towards a system based on life time earnings and the abolishment of the best years rule was recommended. Also in this commission conflicting interests were exposed. The representatives from the employee organizations left the commission, just a month after it started to work, arguing that the commission was making recommendations outside its mandate.¹⁰ This lack of consensus and opposition from veto players (here the LO and other employee organisations) in a commission that addressed central topics of the structure of the pension system, may well have contributed in the later decision to exclude these organizational interests directly from the Pension Commission.¹¹

The inspiration from Sweden identified in several studies (Ervik 2009; Marier 2009; Pedersen 2009) was also decisive in directing the reform discussion, driving it towards a flexible retirement age and the idea of longevity adjustments and automatic balancing mechanisms to secure long term fiscal sustainability (Interview 2010, member of Pension Commission). In the words of one commission member the turn to Sweden came quite early in the commission work, and was even initiated by the bureaucrats before the commission was set up:

I do think that the civil service, working on the pension reform issue, had spent a long time in advance to come to grip with what had happened in Sweden. And one of the first things to

⁹ However, this was only to take place if after a specified date, in this case 2015, the goal of increasing the expected pension age by 3 years was not reached.

¹⁰ «Several members of the commission, among them the representatives from the ministry, now concentrate on reporting on substantial changes in the National Insurance (Folketrygden), such as removing the best-years rule, and that the demand for earnings years should be increased. The inspiration obviously comes from Sweden, which recently has legislated major changes to their public pension system» (authors translation from Norwegian) (NOU, 1998:19:10–11).

¹¹ A pension council group were set up to consult on the work of the commission In this council representatives of the labour market organisations participated.

happen as we embarked on the work, was that we all went on a study trip to Sweden. Many of the topics raised in the Swedish model were also part of our discussions. And so there are many resemblances, even though and luckily we also see some differences, there is no doubt that we looked closely at what happened in Sweden (Interview, member of Pension Commission).

This view was also expressed by other informants (Interviews, commission and pension council members).

Other changes of the institutional landscape of pensions were also critical for the framing of the longevity adjustment via the benefit reduction route. In 2001 new legislation concerning defined contribution occupational schemes was introduced, partly to stimulate growth of coverage for private sector workers. The increasing emphasis on defined contribution schemes was part of an international trend that started already in the 1970s in the US, followed by the UK, Canada, Ireland and others. In the UK the coverage with defined benefit pensions nearly halved, from 23 to 12 per cent of the total workforce between 1988–89 and 2002–03. Sweden changed the largest occupational plan to defined contribution from 2006, following an earlier similar shift for blue collar workers (OECD 2009:28).

A part of the pension commission mandate was to suggest ways of increasing coverage of occupational pensions, and therefore the issue of a mandatory occupational pension scheme came up (NOU 2004:1,;246–280.). A majority of the commission opposed such a solution, whereas a minority favoured a mandatory system, but without this new system replacing already good pensions such as those in the public sector.¹² However in 2006 a majority of the parliament adopted legislation on OTP (Obligatorisk Tjenestepensjon) that required all employers to provide an occupational pension with a minimum contribution at 2 per cent of wages. The OTP could be arranged as a defined benefit or a defined contribution scheme. There is a clear development towards defined contribution arrangements. In 2011 94 per cent of all new contracts for private sector occupational pensions were defined contributions and many existing defined benefit arrangements are converted to defined contribution schemes (Finansnæringens Fellesorganisasjon 2012a). The importance of this for our research question is that as an increasing number of private sector employees are covered by defined contribution schemes, this means that their pension benefits per year spent in retirement when longevity increases are reduced.¹³ Thus in this way the norm of longevity adjustments of benefits was gradually strengthened, as a

¹² This is a simplification, since there existed several different minorities within the commission on the question of how to adapt a proposed system of mandatory occupational pensions to existing occupational schemes and the reformed national insurance system.

¹³ To be precise, in Norway almost all of the defined contribution arrangements operate with a fixed number of years of benefit payments, 10 or 15 years, most commonly this is ten years. This implies that it is up the individual to take into account longevity increases and divide the benefits so as to cover a longer period in retirement. According to a survey by TNS Gallup a majority (56 %) of those asked in January 2012 would prefer lifelong payments of their contribution based pensions (Finansnæringens Fellesorganisasjon 2012b).

point of reference in the pension reform discourse and materially as more workers will depend on the success of these schemes for their pension income in the future.¹⁴

5.2 The UK: Transparent increase of the normal retirement age

For the UK, with a public system intended to secure minimum pension and adequacy understood as poverty avoidance linking pension benefits to life expectancy would mean that benefits would deteriorate in a situation where one of the main problems already was the high incidence of pension poverty. In this situation, increasing the pensionable age, avoids the implicit pension reductions, by postponing the age at which people start to draw a pension. And the existing, complex system limited available solutions (cf. Pierson 1996); the pension credit would contradict an automatic stabilizer as this credit is meant to guarantee a certain benefit level (Hill 2007). This implies that the public basic state pension would not be that much relieved by the stabilizer since the means-tested pension credit would kick in and partly compensate retirees for what the stabilizer «saved». The introduction of an automatic stabilizer could of course be accompanied by a reform of the pension credit as well, but this would be difficult as adequacy was already a huge worry. The private pension system, however, has from 2012 a quasi-compulsory savings scheme (NEST) which automatically enrolls workers who have not explicitly asked to be excluded. This is introduced because many citizens have inadequate savings when reaching retirement (cf. Foster 2012), but should not be confused with the kind of automatic stabilizer introduced in Norway.

In addition, and in contrast to Norway, there was no prehistory of a negotiated early retirement scheme that could have contributed in directing institutional solutions towards the flexible retirement and benefit adjustment path. Also the Swedish case includes a pre-reform history of early retirement schemes. In 1976 the pension age was reduced from 67 to 65 and a partial retirement scheme (*delpension*) was introduced for those aged 60–64 years who switched to part-time work (Anderson and Immergut 2007:362). A problem with a fixed pension age strategy is, however, that if life expectancy continues to increase, as it currently does at a level higher than predicted some years ago, new decisions must be made which either accelerates the planned increases or sets a new fixed pension age. The newly legislated Pensions Act of November 2011 does exactly this; advancing increases part of the 2007 Pensions Act.

These increases in SPA were originally recommended by the Pension Commission (often referred to as the Turner commission, after its chairman, Lord Adair Turner). This commission actually discussed whether the UK ought to introduce some kind of automatic stabilizer. In the end, such a stabilizer was not among its core recommendations. Still, the commission did recommend to have a sort of regular review of SPA that would help secure long-term sustainability and consensus through «the principle of pension ages rising proportionately with life expectancy» (Pensions Commission 2005:30). What the

¹⁴ In the period from 2005-2011, the number of persons with defined contributions schemes increased from around 120 000 to 1 034 000. 52% of the contracts was made at the minimum level of 2 % contribution and only 37% of the contracts, included a disability pension arrangement (Finansnæringens Fellesorganisasjon 2012c).

commission had in mind was an independent body that every three–four years could report on demographic and economic developments and make recommendations. An UK informant explained how the introduction of a regular review was discussed and how unfortunate it is that this has not been introduced so far as it means that the retirement age has to be changed again soon. Frequent changes increase uncertainty about future pension benefits and could maybe even make people suspicious of the governments motives. This key actor in the reform process reveals that a main reason why they did not recommend an automatic stabilizer was the fear that it would be too complicated to understand for people. A fixed retirement age sends the clear signal that as life expectancy increases, so must the pension age. The automatic mechanism, on the other hand, might make people believe that behavioral changes are not really needed as long as they can manage with a little less money as pensioners. Interestingly, the current government considers introducing an automatic stabilizer that automatically would adjust SPA based on increases on longevity (Helm, 2012).

Lundberg (2009) has criticised the Swedish pension reform for being undemocratic through setting up a commission to prepare legislation, not making pension an election issue and excluding stakeholders from the process. The Swedish system is supposed to be «both self-regulatory and externally adaptive», and automatic stabilizers de-politicise issues (Lundberg 2009:185). Lundberg is worried that such de-politicisation might result in democracy being more of a ceremonial facade (2009:195). Lundberg's criticism is too comprehensive to discuss in detail here, but it is a relevant point that policies developed in this way may have less legitimacy and approval from the people, something which might influence how long time it takes before a new reform is necessary.

A thorough consultation process might reduce the democratic deficit, Lundberg (2009) warns against. The UK government asked for advice in a consultation paper from April 2011 (DWP 2011a). A summary of responses to this consultation was published in July 2011 (DWP 2011b). The consultation practise means that different stakeholders are included and allowed to comment on different solutions before they are implemented. In the consultation paper from April 2011, the government argues:

It would be important for any mechanism to command widespread confidence, and so the extent to which any decision is informed by evidence independent from Government is of critical importance in designing a mechanism, particularly around the life expectancy projections which will form the basis of any decision (DWP 2011a:45).

The paper asks for advice on which of the two solutions are best: To increase SPA through a formula (i.e. an automatic stabilizer) or through a regular review. The former has the advantage of certainty and objectivity, but deprives parliament of latitude to consider SPA in a broader picture, e.g. economic developments. The latter allows politicians to consider other issues when setting the SPA, e.g. differences in healthy life expectancy between different groups, but then it is also more complex. Interestingly, there was, at least according to the government, «a high level of support for a more automatic mechanism to manage future increases to State Pension Age» (DWP 2011b:11). Most respondents preferred the regular review alternative, but quite a few also liked the formula alternative (DWP 2011b:11).

This trade-off between an understandable and trusted system on the one hand, as will be provided by a fixed SPA, and a self-regulatory system on the other hand, which would be secured by a system incorporating an automatic stabilizer, might seem insurmountable. However, for the politicians being held accountable by their voters such confusion might be to prefer to a high, fixed SPA. Recently, the former head of the pension commission, Lord Turner has floated the idea of a further increase in pension age to 70 beyond the 68 years already legislated. Recent discussions such as Chancellor George Osborne's move to create an automatic link between longevity and the pension age points in the same direction (Helm 2012).¹⁵ This would be similar to the Danish solution briefly referred to in the introduction.

5. Concluding summary and discussion

Our analysis has identified several reasons why countries embark on different paths toward extended working life and how consensus was reached. In the case of Norway, there are at least four important points. First, in a context of public surpluses and high oil revenues, the increase of pension age is more difficult to introduce than an automatic stabilizer coming into effect over time. Secondly, the whole conflict surrounding the early retirement scheme (AFP) could be less directly addressed than a new fixed pension age would have demanded. In order to gain support from the Norwegian confederation of trade unions (LO) of the pension reform principle of longevity adjustment, the condition was a continuation of the AFP system. In the UK case there is no corresponding constituency, that pressures for an early retirement scheme, reflecting the weakness of the British labour movement. The Norwegian case is a good example of institutional layering developing gradually and expanding so that when pension reform was on the agenda, this previous layering strongly shaped feasible policy options within the National Insurance towards the flexible retirement age and longevity adjustment via benefits route. Normative policy ideas constructed around the need of securing a decent route out of employment (outside the system of disability pensions) for «workers with long and hard working careers» was decisive and compelling in establishing the AFP regime. Third, there was a general gradual increasing focus on longevity adjustments, as in the mandatory occupational pensions (OTP), making the benefit reduction alternative more attractive. The institutional conversion of occupational pensions within the private sector from defined benefit to defined contribution arrangements means that longevity increases is indirectly transformed into benefit adjustments. Finally, the analysis has also shown that ideational inspiration from Sweden was an important reason in itself to introduce an automatic stabilizer rather than a new fixed retirement age.

The following key points were important in the UK case: First, the already existing problem of poverty and inadequacy of pension benefits would have been aggravated by introducing an automatic stabilizer whereas a simple increase in SPA delays the time of

¹⁵ This reform implies that; a child born today would have to wait until 74 at the earliest for a state pension, that for a student graduating in 2011 they would have to wait until age of 71 and that the phased in increase of the pension age would have to be brought forward from 2046 to around 2030 (Helm 2012).

receiving the benefit without reducing it. Second, informants reveal that they considered proposing such a mechanism, but worries over its complicated nature, being difficult for people to understand and sending unclear signals with regard to how people should relate to retirement, kept them from doing that. A third factor is the reduced scope for action left to politicians when introducing automatic mechanisms. Finally, and paralleling the Norwegian case, the conversion of occupational pensions from defined benefit arrangements to defined contributions and the introduction of a quasi-compulsory savings scheme, NEST, also implies that future British retirees will have their fair share of longevity adjustments via the benefits route.

The UK transparent strategy seems to contradict the blame avoidance thesis, as it sends a clear message to people. This seems quite different from the Norwegian case where we argued for the importance of using obfuscation strategies to hide the retrenchment reform effects. One way of explaining this difference is that the UK reform also contained some key expansionary elements, i.e. improving the BSP, reducing the contributory requirement, particularly gaining women, and the introduction of auto enrolment through the NEST scheme (although this is outside the state pension system) increasing pension coverage, so that retrenchment is only part of the picture. In this perspective the transparent strategy seems less risky, as the reform could be framed as a balanced combination of expansion and needed retrenchment. In Norway, the unique economic context, the reform required a broad consensus politically in order to secure «blame sharing» (Immergut and Anderson 2007:11). But to this should be added the importance of framing the reform as a positive change. Thus recalling the quote above, the reform is portrayed as a carrot system; «you can earn a higher pension by working longer». And many pro-reform actors portrayed the pension reform as a fairness reform and even as a reform that all would gain from.

In sum, then, our analysis has drawn on and illustrated the usefulness of combining perspectives that variously emphasize the role of institutions, interests and ideas in explaining policy change. Whereas the exploratory qualitative comparison of the two dissimilar cases is useful in identifying potentially important causal factors, we cannot discriminate between them or assess their relative weight in determining outcomes, although adding the Swedish case provides some form of control, as illustrated in that both Norway and Sweden had pre-reform histories of early retirement schemes, in contrast to the UK.. Further analysis should include additional cases more similar to one or the other of the two countries studied here.

6. References

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