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Petra Häfner:
A European Social Model? Structural Changes in Old-Age Pension Schemes in Central and Eastern European Countries

About the author:

Petra Häfner holds an M.A. in Sociology, Psychology and Intercultural Business Communication from Friedrich-Schiller-University in Jena. She is now writing her PhD thesis at the Max Weber Center for Advanced and Cultural Studies in Erfurt. Her research focus is on pension reforms in Central and Eastern European countries.

Email: petra.haefner@stud.uni-erfurt.de

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Forschungsstelle Osteuropa an der Universität Bremen

Research Centre for East European Studies at the University of Bremen

Klagenfurter Straße 3

28359 Bremen

Germany

e-mail: fsopr@uni-bremen.de

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Abstract

Looking at the European pension landscape, one can recognise a trend towards a multi-pillar approach employing various combinations of public and private financing. Under conditions like Europeanisation, globalisation and demographic challenges, many changes to existing pension schemes have been and surely will continue to be undertaken. But can we expect convergence towards a so-called European social model, i.e. towards harmonised pension schemes? As regards the Central and Eastern European countries, different pension schemes with various public-private approaches were developed after 1989/90. Lithuania and Estonia as well as the Czech Republic and Slovakia represent countries that have chosen different pension reform paths despite their similar institutional and legal legacies. The dissertation project 'A European Social Model? Structural Changes in Old-Age Pension Schemes in Central and Eastern European Countries' (working title) aims to identify and analyse the reasons for the different reform processes and outcomes in the four countries. For this purpose, country-specific demographic and economic factors as well as an array of national actors, including politicians, social partners, think tanks and academics, have to be considered. Furthermore, as actors that influence national politics, international organisations (e.g. the World Bank and the ILO) and the EU have to be taken into account. This paper gives an outline of my dissertation project 'A European Social Model? Structural Changes in Old-Age Pension Schemes in Central and Eastern European Countries', which is designed as a comparative case study. Since I have only just started my research, this paper will present the partial empirical findings on Lithuania gathered thus far. The three other cases as well as deeper analyses will constitute the content of my ongoing and future research.

1. Introduction

Under conditions like Europeanisation, globalisation and demographic challenges, many changes to existing pension schemes have been and surely will continue to be undertaken. But can we expect convergence towards a so-called European social model, i.e. towards harmonised pension schemes? A look at the Central and Eastern European countries (CEEC) reveals that multi-pillar approaches weighting public and private elements differently have taken shape since 1989/90. Lithuania and Estonia as well as the Czech Republic and Slovakia represent countries that have chosen different paths of reform, although as former parts of one country – the Soviet Union and Czechoslovakia, respectively – they faced the same starting conditions in 1989/90, i.e. the same legal situation and institutional legacy in the field of pensions. The dissertation project 'A European Social Model? Structural Changes in Old-Age Pension Schemes in CEEC' aims to analyse the reasons for the different reform paths utilising a comparative framework. Which actors influenced the reform processes after 1989/90? What role did the economic situation play? Can we expect harmonising steps in pension politics due to the countries' EU membership?

First, it is necessary to contextualise today's pension schemes in Lithuania, Estonia, the Czech Republic and Slovakia. For this purpose, it will be useful to introduce some pension models as reference points. On the basis of these models, I will be able to discern which direction the pension reforms have taken since 1989/90. The next step will be a detailed analysis of the pension reform processes themselves, taking into account demographic and economic conditions that provide the frame of action for the various actors – national-level politicians, interest groups and think tanks as well as external actors like the World Bank, ILO, and EU – involved in pension reforms. My aim is to explain why countries that once shared common conditions at the end of the 1980s went on to pursue strikingly different pension reforms.

2. A Glance at Different Pension Models

In order to classify the current pension schemes in the four case studies, it is necessary to have models that can be used as reference points. In this context, Esping-Andersen's typology can be considered as one of the most important in comparative welfare state research. I am going to use it in this paper as an ideal typology in the Weberian sense.[1] In his work 'The Three Worlds of Welfare Capitalism'[2], he presents three types of welfare states – (a) corporative/conservative, (b) social democratic and (c) liberal – under which he subsumes advanced capitalist democracies using three distinguishing features: de-commodification, stratification, and the role of state, market and family in the formation of welfare regimes.[3] Each of the three welfare regimes along with their specific pension regimes reflects a certain combination and interplay of the aforementioned features.

2.1. The Conservative Model and Its Corporative State-Dominated Insurance System

As a provider of social security, the market plays a subordinate role in conservative welfare states (e.g. Germany, France, Belgium and Austria); instead, it is the state that provides an insurance system, with social benefits depending on prior contributions and work. Social rights are connected with labour, which evokes medium-sized *de-commodifying effects*. Measures of *redistribution* are likewise of medium size, because the level of social benefits depends on one's prior income level. Thus, differences of status are preserved within conservative welfare programmes.

The corporative element in this group of welfare states is reflected in the involvement of interest groups – trade unions and employers' associations – in political decision-making processes. Additionally, the preservation of the traditional family plays an important role in conservative welfare states, reflected, among other things, in the principle of subsidiarity, which draws on the self-sustaining capacities of the *family*. The state will provide social security benefits only if family-based resources have been exhausted.

In the field of pensions, a *corporative state-dominated insurance system* is characteristic for conservative welfare states. In this context, status can be seen as a key element since '…social security tends to be highly occupationally segregated with particularly pronounced civil-servants' privileges…'.[4] Private pensions, and hence the market, are of little importance in conservative welfare regimes. The presence of collective actors within the self-administration of statutory pension insurances indicates a corporative element, although their decision-making power varies among conservative countries.

2.2. The Social Democratic Welfare State and Its Universalistic State-Dominated System

Among Esping-Andersen's welfare regimes, the social democratic one[5] shows the highest degree of *de-commodification* and aims for the highest degree of *equality* among its citizens. *Universalistic* programmes

1 Later on in my research, I will additionally apply more detailed features of pension schemes (like financing: pay-as-you-go (PAYG) vs. funded, contributions vs. tax-financed, defined-benefit vs. defined-contribution; benefits: earnings-related vs. flat-rate benefits; provision by state vs. market; voluntary vs. obligatory participation, indexation etc.) in order to be able to guarantee an in-depth comparison of the chosen countries.

2 Esping-Andersen, Gøsta: The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press, 1990. The following paragraphs primarily refer to this book as well as to Esping-Andersen, Gøsta: Zur Politischen Ökonomie des Wohlfahrtsstaates, in: Lessenich, Stephan/Ostner, Ilona (eds.): Welten des Wohlfahrtskapitalismus. Der Sozialstaat in vergleichender Perspektive, Frankfurt am Main: Campus Verlag, 1998, pp. 19–56.

3 *De-commodifcation* entails the release of an individual from his or her market dependence. 'De-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market.' Esping-Andersen, Gøsta: The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press, 1990, pp. 21f. With *stratification*, Esping-Andersen focuses on social policy's capacity to structure social relations, e.g. by balancing inequalities in income distribution. 'The welfare state is not just a mechanism that intervenes in, and possibly corrects, the structure of inequality; it is, in its own right, a system of stratification. It is an active force in the ordering of social relations.' Esping-Andersen, Gøsta: The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press, 1990, p. 23.

4 Esping-Andersen, Gøsta: The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press, 1990, p. 85f.

5 The social democratic model's representatives are situated in Northern Europe, namely countries like Sweden, Norway, Denmark and Finland.

that provide high benefits for all citizens are a key feature of this model. This in turn is linked with a high tax rate, because social benefits are financed by taxes rather than by contributions. The system also exhibits corporative elements: trade unions and employers' associations are involved in social policy, though the principle of self-administration is primarily limited to the field of labour market policy.

A *universalistic state-dominated pension system* is typical for social democratic welfare states. Population-wide pensions reduce the role of both markets and status privileges.[6] Although corporative elements are present and trade unions are of great importance in Scandinavian countries, there is no self-administration of pension insurance.[7]

2.3. The Residualist Pension Regime of the Liberal Welfare State

The cluster of liberal welfare regimes mainly consists of the Anglo-Saxon countries, whose systems are characterised by means-tested social assistance and modest social security benefits. Rules of entitlement to benefits are strict and the *market* plays a rather important role in providing social benefits: '…the state encourages the market, either passively – by guaranteeing only a minimum – or actively – by subsidizing private welfare schemes.'[8] *De-commodifying effects* are the lowest in this type of welfare state. The individual's responsibility is placed in the foreground.

In liberal welfare states, a *residualist pension regime* dominates. The market plays an important role in providing old-age provisions, as the state only provides modest pension benefits. Self-administration by social partners does not take place; the government alone administers insurance institutions.

2.4. The State Paternalistic Welfare State and Its State-Dominated Omnium Insurance – an Additional Model

At this point, an additional model should be introduced: the *state paternalistic welfare state along with its state-dominated omnium insurance*. The scholarly literature subsumes the former communist CEECs under this category, because their social security systems differed radically from the Western capitalist societies with regard to their structure. The authoritarian-paternalistic character of communist welfare states was linked to the system of a centrally planned economy and overarching social regulation. Götting describes state social security programmes along with occupational social policy and price subsidies[9] as one of three characteristic pillars[10] of this model. Eligibility for benefits was mainly linked to one's integration with the employment system. But due to full employment, which was largely realised in communist countries, almost every citizen was covered by the social security system. Social policy in the paternalistic welfare state was the state's sole responsibility and was not an independent but always an institutional

6 See Esping-Andersen, Gøsta: The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press, 1990, p. 86f.

7 State institutions, which are responsible for basic pensions, are administered by the government. However, collective agreements between social partners do exist for supplementary pension programmes (e.g. occupational pensions in Denmark). Generally stated: 'While on the continent self-administration by the social partners has been part of the Bismarckian social insurance tradition, this is not the case in the Beveridge-type welfare state.' See Ebbinghaus, Bernhard: Varieties of Social Governance: Comparing the Social Partners' Involvement in Pension and Employment Policies, BJIR Conference Politics of Employment Relations, 16.–17.09.2002, Windsor, GB, p. 11. See same for more information on the role of social partners in different countries' pension schemes.

8 Esping-Andersen, Gøsta: The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press, 1990, p. 26f.

9 Subsidies for basic goods and services (for example food, educational supplies, books and also cultural goods and services) are meant here. Their prices were so low that even low-income employees could afford them. See Götting, Ulrike: Transformation der Wohlfahrtsstaaten in Mittel- und Osteuropa: Eine Zwischenbilanz, Opladen: Leske+Budrich, 1998, p. 74.

10 According to Götting, the two other pillars are the state guarantee of employment and a work income securing one's livelihood and the informal economy, though the market's role as a welfare provider was only a marginal one. Götting, Ulrike: Transformation der Wohlfahrtsstaaten in Mittel- und Osteuropa: Eine Zwischenbilanz, Opladen: Leske+Budrich, 1998.

part of economic policy, and therefore the task of state-owned enterprises. In communist countries, these enterprises fulfilled important social political functions, subsidising recreational facilities and vacations, health care services, housing and child care, for instance. In Western countries, companies instead tend to concentrate on occupational retirement provision.

The *pension scheme* in state paternalistic welfare states was a fully developed, pay-as-you-go (PAYG) old-age security system, which was centrally operated and covered the whole population.[11] It was administered by trade unions, which were dependent on the state. The state omnium insurance was financed through contributions only paid by employers, which were state-owned enterprises, to the state budget. They were paid in a lump sum for all wages without individual links to the employees. Consequently, the link between individual contributions and pension entitlements was very weak. Furthermore, higher incomes were hardly considered for the calculation of benefits; however, non-contribution periods were generously taken into account. A strong interpersonal redistribution, and hence a strong effect of *stratification,* was a characteristic feature in state paternalistic welfare states.[12]

3. The Cases: Old-Age Pension Schemes in Lithuania, Estonia, the Czech Republic and Slovakia

Since the chosen countries more or less shared the same social political past, the state paternalistic welfare state can be seen as the common starting point of transformation and reform processes in the field of social security after 1989/90. However, although Lithuania and Estonia as well as the Czech Republic and Slovakia shared the same country-specific past as former parts of the Soviet Union and Czechoslovakia, respectively, they exhibit dramatically different pension schemes today. In each of the four case studies a three-pillar approach was adopted, whose first and second pillars are quite different in their design.

3.1. Lithuania and Estonia

In *Lithuania* the first pillar comprises mandatory, state social insurance pensions of the PAYG (defined-benefit) type financed through contributions (employer: 23.7%, employee: 2.5%) and covering the active population. The social insurance pension consists of two parts: the basic, flat-rate pension and the supplementary, earnings-related part. 'The basic pension may not be lower than 110% of the minimum standard of living. At the moment, the basic pension is LTL 316.'[13] An insured person is entitled to the full basic amount if he/she fulfils the compulsory period of pension insurance (30 years). The supplementary sum is calculated according to the insured's income and to the years of contribution (at least 15 years). The retirement age is 62.5 years for men and 60 years for women. Voluntary, supplementary, funded pensions represent the second pillar. Part of the pension insurance contributions (5.5%) can be shifted to pension funds and life insurance companies as of 2004. The third, voluntary and private pillar is represented by voluntary savings for old-age to pension funds and insurance companies.

Concerning the above-described welfare state models with their pension regimes, the Lithuanian pension scheme can be positioned as depicted in Figure 1. It exhibits the most similarities to the conservative welfare state and its corporate insurance system. It is organised according to social insurance principles and covers only employed persons (rather than all residents). Furthermore, benefits are earnings-related, and therefore reproduce income structures (medium-sized stratification and de-commodification effects). A corporative element is also reflected in the tripartite Council of the State Social Insurance Fund, which is responsible for the pension insurance's administration. However, some liberal features (e.g. the flat-rate

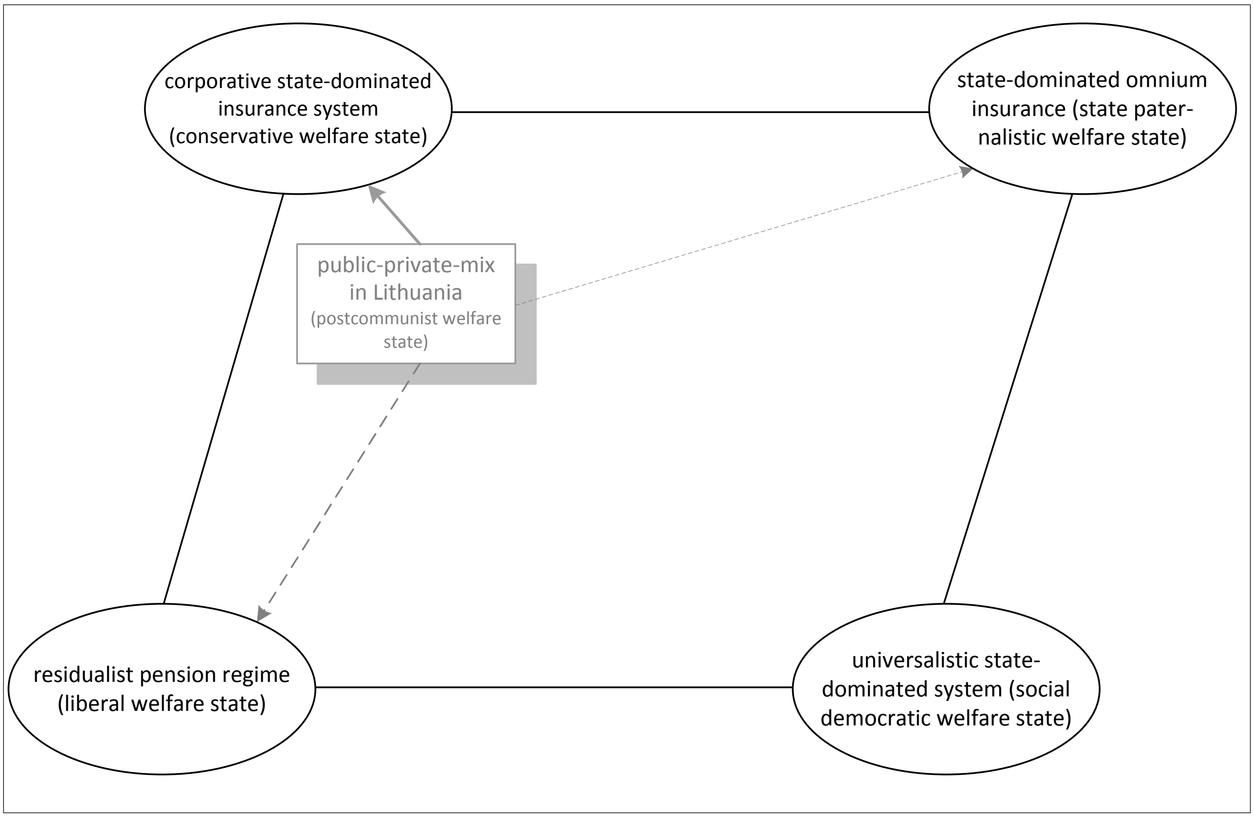
11 See Götting, Ulrike: Transformation der Wohlfahrtsstaaten in Mittel- und Osteuropa: Eine Zwischenbilanz, Opladen: Leske+Budrich, 1998, p. 156.

12 For a more detailed description of the state paternalistic welfare state, see Götting, Ulrike: Transformation der Wohlfahrtsstaaten in Mittel- und Osteuropa: Eine Zwischenbilanz, Opladen: Leske+Budrich, 1998, especially pp. 57–77.

13 See Ministry of Social Security and Labour in Lithuania: http://www.socmin.lt/index.php?1127366606. (LTL 316 ≙ ca. EUR 92).

part of the statutory pension, the second pillar) have been implemented and few features from the communist past can be found (e.g. low contribution rate for employees).

Figure 1: The Lithuanian Pension Scheme in Context of the Four Welfare State Models with Their Pension Regimes



The Lithuanian reform process can be divided into two phases. The first one embraces the first years after the restoration of independence from 1990 until 1995. The years 1990–1994 were mainly characterised by institutional continuity; the Soviet pension law from 1956 was still in force and only a few improvements[14] were made. In 1995, the first pension reform took place and several new pension laws[15] came into force. These introduced a new pension formula and employee contribution, strengthened the contribution-benefit-link, increased the retirement age, etc. In the second phase, starting after the 1995 reform, pension privatisation was a much-debated issue and further institutional changes were adopted. With the passage of the Law on Pension Funds in 2000, the third pillar, namely voluntary, private, funded pensions (pension funds and life insurances), was established. In 2002, the Law on Pension Scheme Reform introduced the second pillar with voluntary, privately managed, funded pensions financed through contributions as a percentage of pension insurance contributions.

In contrast, the *Estonian* old-age pension scheme weights its three pillars differently. The first state and mandatory pillar is on a PAYG basis (defined-benefit) and consists of two tiers. The first tier is a residence-based (at least 5 years of residence) national pension with universal, flat-rate benefits[16] financed through general taxation. It is supposed to guarantee benefits for people who are not entitled to old-age benefits and also reflects the basic part of the second tier, which is employment-related. This second tier covers

14 Law on Pension System Improvement, 1990.

15 Law on State Social Insurance Pensions, Law on State Pensions, Law on State Pensions for the Internal Affairs, Law on State Security, Country Defence and Prosecutor's Department Officials and Servicemen, Law on Social Pensions, the Provisional Law on State Pensions for Scientists.

16 In 2008 the flate-rate benefits are EEK 1699.94 (ca. EUR 108).

the active population and is financed by employers' contributions paid as the so-called social tax for every employee.[17] The second pillar entails mandatory, fully funded, contribution-defined pensions and was first introduced in 2002. Participation is obligatory for people born in 1983 and later. They have to pay 2% of their gross salary as contributions to the pension funds. Additionally, the state pays '4% out of the current social tax […] and retains 29% (13% is for health insurance and 16% is for the pensions of today's pensioners)'.[18] The compulsory participation in the second pillar reflects a rather more liberal element than we find in the Lithuanian pension scheme. The third pillar comprises, similar to Lithuania, supplementary, voluntary, privately managed pensions.[19]

Though a multi-pillar approach was chosen in these two countries, the short description shows that the weighting and design of its single elements is different. A similar picture can be drawn for the Czech Republic and Slovakia.

3.2. The Czech Republic and Slovakia

In the *Czech Republic*, the first pillar also comprises PAYG-based old-age benefits and is financed through contributions (employer: 21.5%, employee: 6.5%). It covers the active population only. Like the Lithuanian and Estonian first pillar, the Czech statutory pension also has a dual structure consisting of a basic flat-rate part and an earnings-related component. The former is the same for all types of pensions regardless of the insurance period and earnings achieved; the latter, however, is based on earnings and insured years.[20] The second pillar is supplementary, private and voluntary, represented by fully funded pension funds run by private institutions but supervised by the state. Parallels to the Lithuanian second pillar can be drawn. The third pillar again comprises funded, voluntary, private pensions.[21]

Similar to the first group of countries, we can also find differences between the Czech and Slovak pension schemes. The Czech pension scheme is similar to Lithuania's, whereas the Slovak pension scheme has certain features in common with Estonia's. In *Slovakia*, the first pillar comprises mandatory, PAYG-based, defined-benefit, earnings-related pensions. The contribution rate is 18% of insurable earnings[22], 9% of which is retained in the first pillar. An additional 9% is used to finance privately managed, funded, defined-contribution pensions in the second pillar, which is compulsory for young people entering the labour market. Further individual and voluntary savings can be made under the third pillar.[23]

4. Explanatory Factors: Why Choose a Certain Reform Path?

Why did the Czech Republic choose a different reform path than Slovakia did or why did Estonia implement a rather liberal pension scheme compared to Lithuania's, even though these countries all faced a common institutional legacy? To answer that question, the following factors, which can be interdependent, can be seen as explanatory variables.

17 In total, the social tax is 33% of the salary, whereof 13% is paid for health insurance and 20% for pensions. For the calculation of benefits, the amount of social tax that has been paid since January 1999 is considered. For the time before, only the years of pensionable service acquired are taken into account. The retirement age is 63 for men and women, but this retirement age will not be enforced for women until 2016.

18 The Estonian Pension System Information Portal: http://www.pensionikeskus.ee/?id=1782.

19 See the Estonian Pension System Information Portal: http://www.pensionikeskus.ee/.

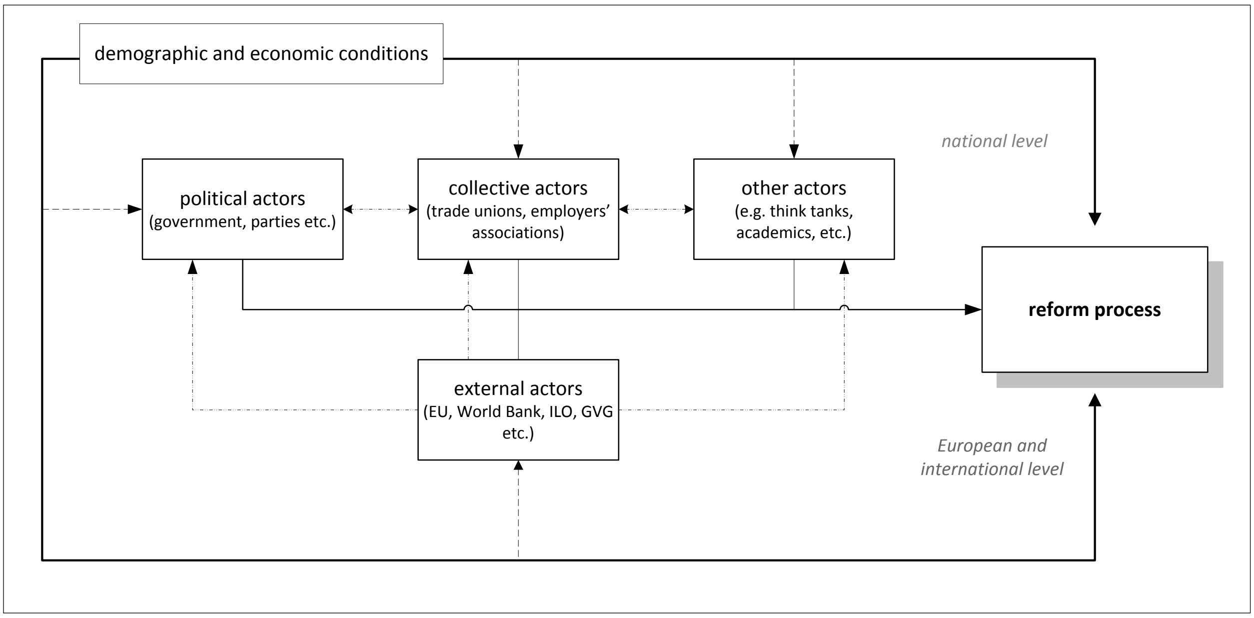
20 The Czech retirement age is 63 years for men and women, applicable to men born in 1953 and later and to women born in 1956 and later. But it should be noted that there is great leeway for women to retire earlier (ranging from 59 to 62 years) according to the number of children raised. This provision is a legacy of communist times.

21 See the Czech Ministry of Labour and Social Affairs: http://www.mpsv.cz/ and Ministry of Labour and Social Affairs: Actuarial Report on Social Insurance 2006, Prague: Ministry of Labour and Social Affairs, 2006, here pp. 13–16.

22 That means the employer pays 14% while the employee pays 4%. The retirement age for men and women is 62 years, but this retirement age will not take effect for women until 2014.

23 See the Ministry of Labour, Social Affairs and Family: http://www.employment.gov.sk.

Figure 2: Influences on Reform Processes – an Overview



4.1. Economic, Demographic Factors and Actors on the National Level

On the national level, I will differentiate between structural conditions like *demographic developments and the economic situation* on the one hand and various actors on the other. One can expect demographic developments in all four countries to show parallels and also pose similar challenges to the state PAYG system – increased longevity and a decline in the birth rate – to those faced in Western European countries. Concerning the economic situation, statistics like the GDP and debt development (foreign debts, public debts etc.) have to be taken into account, because information about the general economic situation as well as the actors' leeway can be deduced from them. Additionally, the development of the social insurance budget and of the rate of unemployment is of interest since it has implications for the financing of pension benefits.[24] Moreover, one can find hypotheses in the scholarly literature that postulate a relationship between the economic situation and the actors involved in reform processes. According to these hypotheses, high foreign debts would be likely to involve the World Bank as an external actor. Financial problems with the state and the social budget could also make national financial ministry involvement[25] possible. Both actors stand for a liberal reform policy pursuing paradigmatic changes.[26]

The actors on the national level can be divided into three main groups: (a) political elites, (b) collective actors and (c) other actors like think tanks, academics etc. These will be described in more detail below.

(a) Political actors can be seen as the most important group in this context since they are responsible for the implementation of any political pension decision. It can be expected that many changes of govern-

24 Increasing unemployment for instance diminishes pension revenues within state PAYG systems, which again can result in financing problems regarding current benefits.

25 'Working groups within Ministries of Social Protection, for example, often compete with the social affairs divisions in Ministries of Finance…' Gillion, Colin / Turner, John / Bailey, Clive / Latulippe, Denis (eds.): Social Security Pensions: Development and reform, Geneva: International Labour Office, 2000, p. 573.

26 See for instance Götting, Ulrike: Transformation der Wohlfahrtsstaaten in Mittel- und Osteuropa: Eine Zwischenbilanz, Opladen: Leske+Budrich, 1998, p. 31. *Paradigmatic reforms* mean that '…the logic of the previous system is irreversibly altered by the introduction of a mandatory funded pillar financed by social security contributions', compared to *parametric changes*, '…where the logic of the system is not altered, but where new opportunities with respect to pension funds participation are added to an existing system.' Rutkowski, Michal: Pensions in Europe: Paradigmatic and Parametric Reforms in EU Accession Countries in the Context of EU Pension Systems Changes, in: EMERGO-Journal of Transforming Economies and Societies, 2002, winter, Vol. 9, No. 1, pp. 2–26, here p. 2.

ment contribute to unstable politics and can cause shifts in direction in the field of social policy. Domestically 'strong' governments should have fewer problems implementing institutional reforms than coalition or minority governments. It should also be considered whether the Ministry of Social Affairs or the Ministry of Finance (MoF) played a key role in the reform processes. While the former stands for parametric changes, the latter pursues paradigmatic reforms.[27] Another relation refers to political parties and their agenda as it relates to social political objectives. Very generally, one can state that social democratic and left-wing parties are likely to try to preserve or even to extend social rights.

In Lithuania, the Ministry of Social Security and Labour (MoSSL) played the key role. The MoF was involved in 1999 only, when the creation of a fully funded private pillar was discussed. But it is important to mention that its involvement happened on behalf of the MoSSL, because financial aspects (e.g. transition costs) had to be considered. This corresponds to the above-mentioned hypothesis: The Lithuanian reform process, which was moderate rather than liberal or paradigmatic, was dominated by the MoSSL. The MoF supported the implementation of the second and third privately managed and funded pillars.

During the first reform phase, the Lithuanian Democratic Labour Party (LDDP) – the successor of the Communist Party of Lithuania[28] – was the strongest party in parliament and appointed the Prime Minister (1992–1996). As mentioned above, the first reform phase was characterised by parametric changes within the state's PAYG system. Also, under the LDDP government, a retirement age lower than originally envisaged (65 years for men and women) was adopted, as well as an earnings-related element for the calculation of the pensions. Medaiskis/Morkuniene believe that the latter especially reflects the communists' interests due to their modest earnings during Soviet times. An alternative to the earnings-related element would have been a benefits calculation based solely on the years of employment.

> *…it should be remembered, the Labour Party, led by former Communists, ruled the government. Because they once had quite decent salaries, the levelling of all pensions only by length of employment seemed unacceptable.*[29]

During the second reform phase, in which a paradigmatic approach was discussed and a partial privatisation was ultimately implemented, a centre-right government (1996–2000) was formed from the conservative Lithuanian Motherland Union/Lithuanian Conservatives (TS/LK) and the Christian Democratic Party of Lithuania (LKDP). Before the election, the TS/LK promised to collaborate with the employers' association 'Lithuanian Confederation of Industrialists', which proposed a privatisation focused on occupational pensions in 1995.[30] But another proposal favouring individual private pension funds was put forth by the Lithuanian Free Market Institute (see other actors). For three years, no compromise between the two proposals was reached and a new working group was established in 1999. After lengthy discussions, the conservative government adopted the Law on Pension Funds (third pillar) in 2000. Furthermore, the government conceptually prepared a second pillar ('Pension Reform Concept'), but after the 2000 election, a minority coalition of Liberals and Social Liberals (LLS and NSS) formed the government. Although the new government also pursued the plan to privatise pensions, there was no chance to realise it, because by July

27 For this hypothesis, see for instance Müller, Katharina: Die politische Ökonomie der Rentenreformen in Osteuropa, in: Internationale Revue für Soziale Sicherheit, 2001, 54, 2–3/2001, pp. 65–91 and Orenstein, Mitchell A.: How Politics and Institutions Affect Pension Reform in Three Postcommunist Countries, World Bank Policy Research Working Paper 2310, March 2000, http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469382&piPK=64165421&menuPK=64166093&entityID=000094946_00041906125784 (accessed 30 May 2008).

28 The Communist Party of Lithuania was the first communist party in the USSR to declare its independence from the parent party in December 1989. It stood for the realisation of Gorbachev's reform policy. See Gänzle, Stefan: Litauen, in: Edinger, Michael (ed.): Die Neuen. EU-Beitrittsstaaten im Profil, Landeszentrale für politische Bildung Thüringen: Erfurt, 2004, here p. 131. In 1999, the LDDP was united with the Social Democratic Party of Lithuania to the Lithuanian Social Democratic Party (LSDP).

29 Medaiskis, Teodoras / Morkuniene, Audrone: The Development of Private Pensions in Lithuania, in: OECD: Pension Reform in the Baltic Countries, Private Pension Series, 2004, No. 5, pp. 147–178, here p. 151.

30 See for example Medaiskis, Teodoras / Morkuniene, Audrone: The Development of Private Pensions in Lithuania, in: OECD: Pension Reform in the Baltic Countries, Private Pension Series, 2004, No. 5, pp. 147–178, here p. 153.

2001 (due to differences concerning the privatisation of the energy sector) this government was replaced by a coalition of the Social Democrats and the Social Liberals (LSDP; NSS). The Social Democrats opposed and blocked obligatory private pensions.

(b) By helping to reach consensus on pension reforms, *collective actors* like trade unions and employers' organisations can relieve and support state actors. On the other hand, they can block reforms or narrow the government's leeway by mobilising against planned reforms or by drafting their own reform proposals. In this context, the organisations' strength is decisive and can, for instance, be evaluated in terms of the level of union membership.

As for Lithuania, the social partners' role in reform processes was rather weak, whereas employers' organisations were slightly more involved and took a firmer stand than employees' organisations. In 1995, the Lithuanian Confederation of Industrialists (LPK), the biggest Lithuanian employers' organisation[31], launched a proposal to establish private pension funds subsidised by employers.[32] In this context, the trade unions' special role within the communist societies should not be forgotten. As former state instruments, they had to redefine their role and regain the employees' trust.[33] Besides, trade unions and employers' organisations are represented in the tripartite Council of the State Social Insurance Fund (SSIF), by five representatives each plus five government representatives. This can be interpreted as a typical feature of conservative welfare states.

(c) As for *other actors*, academics or so-called think tanks can be counted among them. In Lithuania, the Lithuanian Free Market Institute (LFMI), which is a private, liberal-leaning non-government organisation, was deeply involved in reform processes. In 1995, parallel to the LPK's proposal, it proposed the establishment of individual private pension funds, which finally resulted in the 'Law on Pension Funds' in 2000 and implemented the third pillar – voluntary, funded, private pensions supplementary to the PAYG statutory pensions. It was favoured over the LPK's proposal because it was more transparent and protected the employees' interests. Furthermore, the LFMI pursued an active information policy in order to inform the public about private retirement provisions and international pension reforms.[34]

Whereas statistical data from national statistics agencies or from international organisations (e.g. ILO, Eurostat) can be evaluated for the analysis of demographic and economic developments, I will conduct expert interviews[35] to analyse the actors' constellation and interests. Additionally, reports from different actors (such as their reform proposals) should be taken into account.

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31 In Lithuania, there are two central employers' organisations: the Lithuanian Confederation of Industrialists (LPK) and the Lithuanian Business Employers' Confederation (LVDK). LPK is the bigger of the two, comprising eight regional and 38 branch associations. LVDK mainly represents small and medium-sized enterprises and has more than 1800 members (enterprises). See www.lpk.lt and www.lvdk.eu.

32 See Morkuniene, Audrone: The political Economy of Pension Reform in Lithuania or why Pension Reform in Lithuania has been debated so long?, 2002, OECD, Centre for Co-Operation with Non-Members, Directorate for Education, Employment, Labour and Social Affairs, CCNM/DEELSA(2002)7/Final, http://www.olis.oecd.org/olis/2002doc.nsf/LinkTo/NT00000F1A/$FILE/JT00129080.PDF (accessed 2 June 2008).

33 'The historical background of unions is completely different in the Baltic states than in western societies, while the political burden of Russian influence has meant that the unions have had to find their role since independence and re-establish their legitimacy. The low level of union membership must be understood in this special context.' Hietanen, Juha: Barometer examines Industrial Relations in the Baltic States, in: European Industrial Relations Observatory On-line, 28 December 1999, http://www.eurofound.europa.eu/eiro/1999/12/feature/fi9912129f.htm#contentpage (accessed 30 May 2008). Today there are three central trade unions in Lithuania: the biggest one is the Lithuanian Trade Union Confederation (LPSK), which comprises 26 branches of trade unions. The second biggest is the Lithuanian Trade Union 'Solidarumas' (LPS Solidarumas), which comprises 12 industrial trade union federations and 24 regional trade unions. The third largest is the Lithuanian Labour Federation (LDF), with about 20000 members. See www.lpsk.lt, www.lps.lt and www.ldf.lt.

34 See Morkuniene, Audrone: The political Economy of Pension Reform in Lithuania or why Pension Reform in Lithuania has been debated so long?, 2002, OECD, Centre for Co-Operation with Non-Members, Directorate for Education, Employment, Labour and Social Affairs, CCNM/DEELSA(2002)7/Final, http://www.olis.oecd.org/olis/2002doc.nsf/LinkTo/NT00000F1A/$FILE/JT00129080.PDF (accessed 2 June 2008).

35 In this context, I will apply the approach of semi-structured interviews. Experts can be seen involved actors, whether

5. External Actors on the International and European levels

5.1. International and National Organisations Like the World Bank, the ILO and the German GVG

As far as external actors are concerned, international organisations like the World Bank and ILO as well as national organisations like the German GVG have had a considerable impact. Both international organisations, the World Bank and the ILO, favour a multi-pillar approach as a solution to diversify risks by combining PAYG and funded systems. The World Bank has been particularly active in pension reform processes in CEEC (e.g. in Hungary, Poland). In its report 'Averting the Old Age Crisis' from 1994[36], it promoted a liberal model consisting of three pillars. The first obligatory pillar consists of a means-tested minimum pension[37]; the second pillar, also mandatory, comprises fully funded, privately managed pensions; and the third pillar is a supplementary voluntary one. The more social-oriented *ILO*, by comparison, promoted a less liberal model with four tiers.[38] When analysing the international organisations' influence, one has to consider the different tools available to them. For the World Bank, for instance, the instruments at its disposal range from adjustment lending and investment/technical assistance lending (TA) to analytical and advisory activities (AAA) and project preparation funding.[39] It is to be expected that a tool like the TA will have a stronger influence on national decisions than analytical and advisory activities. Whereas the first one is a loan that is given for specific purposes and procured against strict rules, the second one primarily entails knowledge transfer by conducting studies with or for the government.

The German *GVG (Association for Social Security Policy and Research)* acts as a policy forum and consultative body promoting the parallelism of statutory, compulsory PAYG systems to capital-funded occupational schemes and private insurance solutions.[40] It primarily uses tools like arranging international conferences and seminars but also took part in the EU's twinning programme. Therefore, it seems logical to consider the GVG as another external actor. Besides, it seems to have got involved due to the small geographical and cultural distance between Germany and the four case studies.

Already during the first years after the restoration of independence (1990–1994) in Lithuania, World Bank experts[41] were active and made suggestions to overhaul the Soviet pension principles that were still in effect. For instance, they advised a strict separation of social insurance principles and social assistance principles and various professional and political privileges; these suggestions were implemented in the 1995 reform. Social assistance pensions and state pensions were institutionally separated from social insurance pensions. Retirement age increase, however, represents an example of a World Bank suggestion that was not realised. The retirement age inherited from Soviet times was, with 60 years for men and

they come from the ministries, or are representatives of social partners, academics etc.

36 World Bank: Averting the Old Age Crisis. Policies to Protect the Old and Promote Growth, Oxford: Oxford University Press, 1994, here p. 15.

37 According to this model, the first pillar is tax-financed and publicly managed but regulated by the state

38 The first tier is a means-tested, public anti-poverty safety net financed by taxes. The second tier consists of a mandatory, publicly managed PAYG defined benefit scheme (or notional defined contribution scheme). It corresponds to the traditional PAYG social security system found in most countries. The third tier provides funded, defined-contribution based pensions which can be either mandatory or voluntary and public or private. The fourth tier is voluntary, supplementary and defined-contribution based including private savings, occupational pensions and/or individual pension accounts. See Jorens, Yves: Influence of International Organisations on Pensions: Some Introductory Comments, in: Jorens, Yves (ed.): The Influence of International Organization on National Social Security Law in the European Union, Baden-Baden: Nomos, 2002, pp. 9–24, here p. 19.

39 Rutkowski, Michal: Old-Age Pensions Reform in European Transition Economies and the Impact of the World Bank, in: Jorens, Yves (ed.): The Influence of International Organization on National Social Security Law in the European Union, Baden-Baden: Nomos, 2002, pp. 25–34, here p. 32f.

40 See http://www.gvg-koeln.de/.

41 The other actors' involvement is part of my ongoing research. As regards the World Bank's influence, only a few examples are mentioned in this paper.

55 years for women, very low. The World Bank insisted on a radical increase of retirement age (6 months per year) of up to 65 years for both men and women. At first, the Parliament agreed on the proposed 65 years for men and women but with a lower rate of increase: 4 months per year for women and 2 months per year for men.

> *In [a] very short time the Parliament changed [its] mind amending the future retirement age to 60 years for women and 62.5 years for men, but leaving the rate of increase. This decision (rate of increase, different and relatively low retirement age) was later criticised by all World Bank missions.*[42]

A third example reflects the pension formula, which was a much debated issue before the 1995 reform. An earnings-related approach was discussed mainly by local experts, while a flat-rate pension was proposed by the World Bank. Finally, a '…compromise was found with the World Bank experts by establishing [a two-part] pension formula: flat-rate basic part (not less than 110% of minimal subsistent level) and [an] earnings related supplementary part.'[43] But also during the second reform phase (after 1995), the World Bank was active in Lithuania by approving Structural Adjustment Loans connected with conditions like the creation of a funded pension scheme with voluntary participation, which was finally realised in 2000 and 2002.

To analyse this group of actors, I will conduct interviews with involved experts. In general, it can be expected that, for instance, the World Bank's role was more important in the beginning of reform processes, especially in the 1990s. But I would argue that after the transformation process and enactment of larger reforms, and especially since the countries under study here have acquired EU membership, the EU and other member states have become relatively more important.

5.2. The European Union and Its Instrument, the OMC

Since 2004, the chosen countries have been member states of the European Union, and thus have had to apply the open method of co-ordination (OMC) in the field of pension policy.[44] With the OMC, three common main objectives (on which the EU Council agreed in 2001) are pursued with respect to pensions: adequacy, financial sustainability and adaptability/modernisation. Ideally, quantitative and qualitative indicators and benchmarks are established to evaluate the realisation of the agreed-upon objectives. As a next step, the member states have to provide so-called National Strategy Reports (NSR) describing the national situation in pension policy, reform results, and their plans for the near future. 2005 was the first year that Lithuania, Estonia, the Czech Republic and Slovakia provided NSR. The next step is as follows:

> *The Commission compares these national reports, identifies best practices and assesses the efforts taken so far. Idealtypically, the Commission would formulate recommendations about what to do next for each member state. The results are laid down in a joint report which has to be approved by the European Council…*[45]

42 Medaiskis, Teodoras: The Viewpoint of Lithuania, in: Jorens, Yves (ed.): The Influence of International Organization on National Social Security Law in the European Union, Baden-Baden: Nomos, 2002, pp. 87–96, here p. 91.

43 Medaiskis, Teodoras: The Viewpoint of Lithuania, in: Jorens, Yves (ed.): The Influence of International Organization on National Social Security Law in the European Union, Baden-Baden: Nomos, 2002, pp. 87–96, here p. 90.

44 In 2000, the European Council of Lisbon introduced the OMC as a new policy instrument for politically sensitive areas like social inclusion, old-age security and health. It is supposed to be a tool for reaching the EU's objective – which was set at the Lisbon Summit in 2000 – 'to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion' by 2010. See European Council: Presidency Conclusions, Lisbon, 23 and 24 March 2000, http://www.europarl.europa.eu/summits/lis1_en.htm (accessed 2 June 2008).

45 Eckardt, Martina: The Open Method of Coordination on Pensions: An Economic Analysis of its Effects on Pension Reforms, in: Journal of European Social Policy, 2005, Vol. 15 (3), pp. 247–267, here p. 252.

Such a described cycle usually lasts three years; the current cycle will therefore end in 2008. This iterative process of periodic monitoring and peer review should lead to mutual learning and transfer of superior policy solutions.[46]

The question that arises in this context is whether EU membership and the application of the OMC have had any significant influence on the national pension politics in the chosen countries. Will there be a consolidation and thus continuity among the different pension schemes in CEEC, or will we face a harmonising process towards a European social model? Because the OMC is only a soft law instrument that does not involve any sanctions and given that national configurations play a very important role in pension politics, I would argue that the OMC has not had any significant or harmonising influence on national pension schemes.

To evaluate the OMC's influence, the NSR of the four chosen countries as well as the joint reports by the European Commission and the Council on adequate and sustainable pensions are important sources and will be analysed. Expert interviews will also be employed to gather detailed information.

In conclusion, this paper's aim was to outline my dissertation project. More in-depth analyses of the actors' constellations as well as of the differences among the four countries that have resulted in their differing approaches to reform are definitely necessary and will be addressed in my ongoing and future research.

46 Ibid., here p. 252.