REGINA Staatliche Regulierung der privaten und betrieblichen Alterssicherung DFG
Ein Forschungsprojekt der Deutschen Forschungsgemeinschaft
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Mapping the Welfare Mix. Whither Pillar Models of Old-Age Security? The Case of the German Pension Reforms of 2001/2004

REGINA – Arbeitspapier Nr. 11

(September 2005)

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September 2005

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Pillar models are common ways of mapping the welfare mix in old-age security. The paper makes a theoretical argument about the use of pillar concepts as rationalised models of social welfare and, by taking the case of Germany, also provides an analysis of the German pension reforms of 2001/2004 under the Schröder government which mark the most significant paradigm shift in German retirement policy since Adenauer's great reform act of 1957. We argue that recent changes in pension policy are undermining ingrained notions of order in the social organisation of welfare. We aim to show that recent changes in the welfare mix often described as privatisation are not just a shift of emphasis between pillars of old-age security – from public to private - but involve a transformation of 'private' pensions, both occupational and personal: The German pension reforms of 2001/2004 have created 'hybrid' pensions in which public and private constituents are inextricably intertwined. The paper is in three parts. First, we analyse to which ends pillar models in old-age security are commonly used. Second, we show that the reforms of 2001/2004 have introduced new public policies of private pensions – fiscal policies, legal policies, new policy goals, new actors – that lead to the emergence of hybrid pensions. Third, we conclude that the distinction between public and private is increasingly blurred and that under these conditions the imagery of pillars is no longer instructive for institution building in social welfare. However, the distinction public – private continues to be relevant as a political binary code that frames contestations about the boundaries between public and private, i.e. about the desirable scope of government responsibility.

1. The pension mix – what is changing and how to map it?

The idea that welfare emerges from the interplay of a multitude of formal and informal providers or settings has a long tradition in social policy research (for a theoretical foundation see Pinker 1979). 'Welfare mix', 'welfare pluralism' or 'mixed economy of welfare' are commonly used terms in research and politics (e.g. in the German research community from the 1980ies, Zapf 1984, Evers/Olk 1996). Pension reforms that took place in Western countries since the 1990s have often been described as changes in the welfare mix or, using the language of 'pillars', as shifting the balance between the pillars of old-age security: cutting public pensions (usually called the first pillar) while extending the scope for private, funded schemes (the second and third pillars) (see e.g. the contributions in Clark and Whiteside 2003). Commentators often refer to such reforms as privatisation (e.g. Ellison 2003).

This paper, taking the pension reforms in Germany 2001/2004 as a case, argues that recent changes in the welfare mix are not just a shift of emphasis between pillars of old-age security – from public to private - but involve a transformation of 'private' pensions, both occupational and personal,[1] and of the overall institutional arrangement of security in old age. We maintain that the reforms of 2001/2004 have created 'hybrid' pensions in which public and private constituents are inextricably intertwined. The imagery of pillars, we hold, cannot account for this type of change in the social production of welfare. However, we argue that pillar models have a role

[1] In this article we use 'private pension' to cover occupational as well as personal pensions.

to play as social constructions used in public debates to define the contested boundary public/private and other boundaries according to preferences of interested parties.

So this article combines a theoretical argument – about changes in the pension mix and about the political language used to map the mix ('pillars') - with an analysis of recent pension reforms in one country. There is evidence that in many countries recent reforms are changing the relationship (and not just the balance) between the public and the private sphere. This article emerges from an ongoing comparative study that includes Sweden (where a related pension reform was enacted in 1998) and the United Kingdom (see note 1).

Like reforms in other countries, the German pension reform of 2001 is usually interpreted as a step towards privatisation. Studies of the German reform have focused on legal provisions of the act, on the political process (Anderson and Meyer 2003; Lamping and Rüb 2004; Dünn and Fasshauer 2002), on the redistributive impact of the reform (Viebrok 2004), on gender aspects (Veil 2004) or on the question of continuity or discontinuity of the policy change (Hinrichs and Kangas 2003). We focus on the institutional outcome of the reforms and its import for the changing relationship between state and market, between the public and the private sphere. Unlike the other authors, we also take into account the second stage of the reform enacted in 2004 (effective from 1 January 2005; for an analysis of the legal provisions of the 2004 act see Schmähl 2005).

Besides the empirical evidence of ongoing change in the welfare mix, there are also theoretical reasons for inquiring into the nature of 'public' and 'private' in social welfare. A certain uneasiness about the distinction between public and private in old-age security can be found in the literature since the 1980s. Esping-Andersen concedes 'the difficulty of defining exactly what should be considered private or public' (1990: 81). Other authors equally realize that the boundary between public and private is not always clear-cut (e.g. O'Higgins 1986; Barr 2002; Hyde et al. 2003; Whiteside 2003). The International Social Security Association asks 'how free and private are private pension schemes?' (ISSA 2004: 12). The recent developments in the German pension system suggest that the solution to this conceptual problem cannot be found in refining the definition of public and private. Instead, we have to acknowledge that some institutions cut across these conventional categories. More generally, we are led to ask to what ends rationalised models of social welfare like pillar models can be used.

In the next section we look at the forms and functions of the political notion of pillars of old-age security. We then outline the German pension reforms of 2001/2004 (third section). This includes an identification of three instruments of the new public policies of private pensions – fiscal policies, legal policies and institutional policies - that lead to the emergence of hybrid pensions both in the realm of occupational and personal pensions. In the fourth section, the paper aims to theorize the new pension mix, discussing ways of conceptualizing the institutional hybridisation in old-age pensions and analysing how the pension mix is mapped in public discourse, focusing on the political use and disuse of pillar models in the face of the blurring of the distinction public/private.

2. Mapping the welfare mix: pillar models of old-age security

Applied to pensions, the idea of a welfare mix usually assumes the form of pillar models: security in old age is likened to an edifice resting on several pillars each of which represents a type of pension scheme. It is a reassuring image that conveys solidity and order. Sometimes the terms 'tiers' or 'layers' are used instead of 'pillars'. Pillar models are used both in social science and politics. Social scientists can use such models to describe and compare national pension systems empirically (as e.g. Döring 2002 has done in a sophisticated way). Politicians can use pillar models as broad guidelines for the institutional design of old-age security.

But pillar models can also serve wider political ends, above all legitimising privatisation. On a global scale the key document to push for a pillar concept of old-age security is the World Bank's Averting the Old Age Crisis (1994). Paradoxically, while exposing the plurality of welfare producing institutions, pillar models are used to canvas rather narrow concepts of old-age security with an emphasis on private provision. The 'international financial institutions have pushed for welfare pluralism (read private sector development) in social services in the 1990s ... ' (Mehrotra 2004: 1). Mehrotra and Lamonica see the idea of welfare pluralism as a key element of the Washington Consensus which began to shape welfare policies outside the pension field as early as the 1980s. Here, the pillar image expresses a principled belief, a sort of mission statement for policy regardless of details of institutional design.

The origin of pillar models seems to lie in Switzerland with its strong tradition of occupational pensions. There the term 'three pillars' *(drei Säulen)* already appeared at the beginning of the 1960ies. In 1972, the term was even introduced in the Swiss federal constitution (Widmer 2003). In Germany, it was the life insurance industry that started to use the three-pillar concept later in the 1960ies, with the intention to raise the status of and the demand for life insurance products (Blumrath 1987). The concept became popular from the 1980ies on, when the political pressure to consolidate the statutory pension insurance scheme increased. In the international pension policy community the use of the three-pillar image spread considerably in the 1990ies, after the World Bank initiated a controversy about the appropriate design and reform of pension systems (World Bank 1994; Beatty and McGillivray 1995). Other international agencies, especially the International Labour Organisation (ILO) (see Gillion et al. 2000) and the EU have also espoused pillar models.

Sociologically, pillar models are ways of reducing the empirical diversity of pension schemes. Pillar models imply that the house of pensions can be resolved into a small number of distinct constituents - usually three, sometimes four or five distinct pillars or tiers. At the same time it is assumed that only the joint operation of all pillars or tiers can achieve the objectives of pension policy – a kind of division of labour. In this way, pillar models are often presented as guidelines for policy makers, identifying basic choices of constituents of the welfare mix and their integration to a whole. Pillar models have up to four dimensions that define their potential uses for institution building:

- Mode of *coordination* (control): pillar models mainly distinguish between public and private pillars, often also between occupational and personal pensions.
- Welfare *goals* or type of provision: pillar models mainly distinguish between basic and supplementary provision. If a pillar model is primarily patterned on the goal or provision dimension, the term tiers which suggests a vertical order is preferred to the term pillar. Distinct tiers or layers are often thought of as implementing distinct policy goals - poverty prevention and basic security/equality in the bottom tiers and merit/inequality, status maintenance and choice in the higher tiers.
- *Function:* the three-pillar model of the World Bank (1994) defines three functions of pension systems – redistribution, insurance and saving – and allocates these functions to certain pillars. Redistribution is to be achieved by the first pillar (mandatory public pension), saving by the the second and the third pillars (mandatory and voluntary private pensions respectively) and insurance by all three pillars. While redistribution and insurance can be attributed to the goal dimension of pillar models, the function of saving goes beyound traditional social policy goals because it concerns external effects of pensions on the economy. Further functional aspects of the three-pillar model include spreading risks to different types of pension management.
- *Stratification*. Titmuss's essay on the 'social division of welfare' (1956) focused on the impact of the pension mix on social inequality. Titmuss was concerned that the tiers of old-age security might mirror and reinforce social stratification, with the basic state tiers geared to the poor and the higher occupational and personal tiers (subsidized through fiscal welfare) geared to the better-off. The common dimension mandatory – voluntary also relates to stratification because mandatory schemes extend to all citizens while voluntary schemes enable selective take-up by the better-off.

Some pillar models are primarily patterned on the coordination dimension, others on the provision or goal dimension. Some combine two or more dimensions, e.g. the 1994 World Bank model combines all four. There seems to be a recent tendency to relax the public-private dimension in favour of the goal dimension, e.g. to allow for both private and public pensions in one tiers, e.g. in a new five-tiers model of the World Bank (Holzer and Hinz 2005) and in models devised for Germany by Schmähl and by Rürup (see next section).

3. German pension reforms 2001/2004: from public pensions to a regulated pension mix

In Germany the statutory old-age insurance scheme *(gesetzliche Rentenversicherung, GRV)* dates back to Bismarck in 1889 and, since the great pension reform act of 1957, has dominated provision for old age. Postwar Germany comes closest to the World Bank's assertion in Averting the Old Age Crisis (1994) that Western countries have long relied on a kind of one-pillar system (i.e. on the public pillar). However, the original Bismarckian scheme was designed only to provide supplementary income in old age. At the time of Bismarck, wage labour was still seen as the mainstay of living in old age. Labour is a 'pillar' not accounted for in postwar pillar models of old-age security though this may change in the 21st century.

Only the reform act of 1957 under Chancellor Adenauer turned public pensions into the main source of living in old age. The 1957 reform was a means of social integration in the process of nation (re)building in post-Nazi Germany. Today, in the formerly communist East Germany even 99% of retirement income flows from the statutory scheme since private provision had been eradicated under communism.

But on closer examination, in Germany as in other countries, there is more diversity of income sources in old age than just one pension scheme. Even the three pillar models common in Germany – public, occupational and private (personal) pensions - turns out to be a metaphor that oversimplifies reality (see Schmähl 2004). For example, in addition to the well-known Bismarckian scheme for workers and employees there are substantial basic public schemes for civil servants, farmers and self-employed professionals respectively.

3.1 The 2001 and 2004 pension reforms

But pension legislation in 2001 and 2004 has made the fabric of the welfare mix even more complex. The Schröder government pushed through a major pension reform that thoroughly stirred up the pillar structure of the German system. The reform shifted the emphasis in the pension mix towards the private pillar, to both personal and occupational pensions. Retrenchment in the public pillar was compensated by an expansion of the private pillars. Above all – as we argue in this paper – transformed the private (personal) and occupational pillars themselves. In the public debate, the reform is called „Riester-Reform" after the Federal Minister of Labour and Social Affairs in office who carried the reform, Walter Riester. The 2001 reform was further developed by two acts in 2004 (table 1).

- table 1 -

For political reasons, the reform of 2001 was split into two acts. The first act, the Supplementary Act on Assets in Old Age *(Altersvermögensergänzungsgesetz)*, aimed at consolidating the statutory pension insurance scheme. The second act of 2001, the Act on Assets in Old Age (*Altersvermögensgesetz*), introduced a new system of subsidies for private pension provision. The principal aim of the pension reform of 2001 was to control and to contain the future rise of the contribution rate in the statutory schemes, which at the time amounted to 19.1 per cent of the gross wage (today: 19.5 %). The government set a target: The contribution rate should not exceed 20 per cent in 2020 and 22 per cent in 2030. To reach that aim, the formula for benefit adjustment was changed, with the effect that the replacement rate (net standard pension level, *Nettorentenniveau*) was projected to decrease from 69.5 per cent in 2000 to 64 per cent in 2030.

However, in 2003 it became clear that the assumptions about future life expectancy and the future work force that had entered the projection of target contribution rates for 2020 and 2030 had been too optimistic. Therefore, another pension act, the Pension Insurance Sustainability Act *(Rentenversicherungs-Nachhaltigkeitsgesetz)*, was passed in 2004 with more measures to reduce the future replacement rate, above all the introduction of the so-called sustainability factor *(Nachhaltigkeitsfaktor)* designed to adjust (normally reduce) pension benefits according to changing demographic parameters (rise of the ratio pensioners/contributors). All in all, the replacement rate is projected to go down from around 70 per cent (before the reform act of 2001) to 58.5 per cent in 2030 (see table 1). This need not imply a decrease in the real value of the pension benefits. In the same year a second act was passed, the Act on Income in Old Age *(Alterseinkünftegesetz)*, which reduced the projected replacement rate further, but this time by way of changes in taxation (see the section below), not by cuts in benefits. Table 1 shows that the bulk of the reduction of the replacement rate was only achieved in the acts of 2004, not in the better known acts of 2001.

The reforms of 2001/2004 broke with (at least) two key principles of postwar pension policy that were established in 1957 and upheld till the 1990s: First, the Adenauerian reform of 1957 had established security as the key objective of public pensions – defined as securing to the aged the standard of living they had enjoyed during working life (status maintenance). Second, private pensions were not considered to fall into the domain of social policy. Income security in old age was defined as a task for public pension policy, to be effected by the statutory pension insurance. Occupational and personal private pensions did exist but they had a limited scope and had lives of their own, separate from the public scheme (just as Titmuss 1956 had noted for Britain), with separate acts of parliament, separate policy communities and separate groups of experts. A contribution assessment basis *(Beitragsbemessungsgrenze)* was established as a 'peace boundary' between the two worlds, leaving scope for the private insurance industry.

The 2001/2004 reforms broke with both principles. First, the objective of securing the standard of living in old age through public pensions was given up. Containing the contribution rate became an objective of pension policy in its own right, and the replacement rate is now considered an instrumental variable to reach this objective. This was a "shift from an 'expenditure-oriented revenue policy' towards a 'revenue-oriented expenditure policy" (Schmähl 2004: 183). Commentators spoke of a paradigmatic or systemic change of the statutory pension insurance that is transforming the institution (Schmähl 2004: 191; Hinrichs 2002: 27ff.; Reimann 2004: 320). The driving force was the concern about excessive non-wage labour cost as a major cause of persisting high unemployment (De Deken 2002). In Germany, social insurance contributions amount to 41% of a worker's gross wage.

Second, the reforms 2001/2004 changed the domain of pension policy (Hinrichs 2000) occupational and personal pensions were now for the first time seen as falling into the domain of social policy. Income security was to be effected not only by public pensions but jointly by all pillars of old-age security. Private pensions brought new actors, new institutions, new instruments and new goals into the arena of social policy-making. The new integrated three-pillar-model showed in various ways. The reform of 2001 was the first piece of legislation that jointly dealt with public and private pensions. Selected private pension schemes were subjected to elaborate regulations to make sure that their operation met basic 'social' requirements hitherto only found in public pensions. Moreover, the new pension mix as a whole, the ensemble of the three pillars, was seen as an object of policy-making, to be geared to 'social' outcomes: public and private pensions were to be coordinated to make sure that the overall income package of future pensioners secured the standard of living he or she had enjoyed during working life. The security goal was thus transferred from the shrinking statutory pensions to the entire pension mix – a policy of an integrated welfare mix. In this way the Social Democratic (plus Green) government could reconcile the move towards private pensions with their pro-welfare state social democratic convictions.

Looking back, the postwar pension consensus eroded during the 1990s and was eventually broken in the legislation of 2001/2004. The new consensus relies more on private pensions and a public–private pension mix, albeit 'socially' regulated by government. Since government activity has created new types of private pensions, these new pensions have assumed the names of the politicians who initiated or shaped the relevant legislation:

- the *Riester* pension *(Riester-Rente)* is named after Walter Riester who carried the initial reform of 2001 (which as a whole is referred to as *Riester* reform);
- the *Eichel* pension *(Eichel-Rente)*, a variety of fiscal welfare, is named after the Minister of Finance, Hans Eichel; and
- the *Rürup* pension *(Rürup-Rente)* is named after Bert Rürup, the chairman of the Advisory Board of the Department of Labour and Social Affairs and chairman of the influentious Economic Expert Council of the Federal Government.

Each of these three types of pensions comprises a variety of pension plans that comply with the respective regulations so it is more appropriate to speak of Riester pensions (and Eichel/Rürup pensions) in plural. Eichel pensions only include occupational pension whereas Riester and Rürup pensions include occupational and (mostly) personal pensions.

We now turn to the three new policies introduced under the 2001/2004 reforms that are, so we argue, instrumental in transforming the private pension market: new public subsidies to private pension plans (fiscal welfare); state certification of private pension plans (regulation); and the individualisation and corporatisation of occupational pensions.

3.2 The new public policy of private pensions I: public subsidies

The key incentive to make citizens go private are subsidies by government, both direct subsidies and tax deductions. Private pension and insurance markets have always relied on public subsidies but the reforms marked a leap both in quantitative and qualitative terms. Participation in the new private pension plans is voluntary. Making participation mandatory had been considered when drafting the 2001 reform bill and it is a recurrent debate till the present day. Mandatory participation would seem logical in view of compensating for public pension retrenchment to secure the overall replacement rate. But in the face of voluntary participation incentives become a focus of concern. The system of subsidies is complicated. Basically, there are two types of subsidy, corresponding to the Riester pension and to the Eichel pension.

Riester pensions

The Riester subsidy can be claimed for contributions from *net* wage (i.e. from taxed income) paid into

- a funded occupational pension plan; the contribution is then called *net salary sacrifice,*
- or to a personal pension plan certified by the Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin)* (for the certification criteria see the next section).

The Riester-subsidy includes an allowance and a tax rebate. Any rightful claimant will at least get the basic allowance. For each child, the saver gets an extra child allowance. To get the full allowances, savers have to contribute 4 per cent of their gross wages into an eligible pension plan. If they contribute less, the subsidy will be reduced proportionately. If they contribute more, the subsidy will not rise. (The 4 per cent threshold relates to their gross wage even though the contribution will be taxed, i.e. has to be paid from taxed net wage).[2] The contribution rate has been set at 4% to reach an overall rate of contributions for public and private pensions of 26% in 2030 required to secure the replacement rate aimed at. This indicates a policy of an integrated welfare mix.

The basic allowance and the child allowance are lump-sum annual payments (€ 154 and € 185 resp.).[3] The allowances are channelled directly into the pension plan, so that the basic allowance plus the child allowances may make up a considerable share of the required 4 per cent of the gross income, leaving little to be contributed from own resources. The Riester-subsidy is therefore especially favourable for parents on a low income (see Viebrok et al. 2004: 131ff.).

Later, the savers can claim in their annual tax assessment that their contributions be deducted from their taxable income, i.e. they get a tax rebate for their contributions. The tax rebate for persons with high income may exceed the allowance they have

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[2] In fact, 4 per cent of the gross wage is the target contribution for 2008. The maximum contribution rate qualifying for a subsidy is rising in four steps (2002, 2004, 2006, 2008) from 1% to 4%.

[3] The maximum amount of the allowances rises in four steps from 2002 to 2008, parallel to the rise of recommended contributions (see note 4). The basic allowance starts from Euro 38 per year (in 2002) and rises to Euro 154 (in 2008). The additional allowance for each child rises from Euro 46 per year (in 2002) to Euro 185 (in 2008).

received in the first place. If this is the case, the allowance is deducted from their tax rebate. Only people with a tax rebate below the allowances profit from the redistributive effect of the allowances. For high earners whose tax rebate exceeds the allowance, the system is nothing more than an application of the principle of deferred taxation, since Riester pensions are liable to taxation (see von Rosen 2002: 48; Deutsche Bank Research 2001: 7).

According to some commentators deferred taxation is simply a principle of taxation, not a subsidy. High-earners, due to progressive taxation, profit from it only if their general income is lower during the benefit phase than during the contribution phase. Following this view, the Riester-subsidy consists only of the allowances, not of the tax rebates. The combination of an element of tax financed redistribution (the allowances) and of deferred taxation in the design of the Riester pension is basically a simple way of directing the allowances to people on a low income and with children without applying a means-test (i.e. a kind of self-targeting). So the Riester subsidy has a distinct 'social' edge: it favours needy families. In this way, personal and occupational pensions are made to serve social policy aims. This is fiscal welfare as Titmuss described it in a double sense: tax deductions geared to providing for old age and more specifically geared to a group defined as needy, low-income families.

Eichel pensions

In Germany occupational pensions are organized in five ways three of which are fully funded (these five modes only applies to private employers, not to the public sector which has its own system of occupational pensions). An unfunded way to provide occupational pensions are Direct Pension Commitments by the employer *(Direktzusage)*, covered by book reserves. Support Funds *(Unterstützungskassen)* are partly funded. The fully funded forms of occupational pensions include Direct Insurance *(Direktversicherung)*, Pension Insurance Funds *(Pensionskassen)* and Pension Funds *(Pensionsfonds)* (the latter were newly created under the 2001 reform act). In contrast to Pension Funds, Pension Insurance Funds have the same legal status as insurance companies and are subject to the same regulation and supervision. Participation in occupational pension schemes is voluntary for the employees, and has even become a right (see below).

An Eichel subsidy can be claimed for contributions that are paid into a fully funded occupational pension scheme. This applies both to private sector and public sector employees although the latter have as yet made little use of the subsidy). In Germany, contributions to occupational pension schemes are always paid by the employer, but the expenses can be covered in two ways. Either the employer offers to contribute to an occupational pension on top of the salary – this is the classical German version of occupational pensions (fringe welfare as Titmuss called it). Or the employee agrees to give up the right to receive part of his/her wage, and the employer agrees to feed this part of the wage directly into a pension plan (*salary sacrifice,* German *Entgeltumwandlung*). In many provision plans, fringe welfare and salary sacrifice are combined. Whatever the source of finance, contributions to a fully funded occupational pension scheme up to a certain ceiling are exempt from taxation.[4] In the case of salary sacrifice, the contributed amount is deducted from the taxable gross income of the employee. It is therefore called "gross salary sacrifice".

Contributions to occupational pension schemes from salary sacrifice are not only tax-free but (till 2008) also exempt from social insurance contributions, for both employee and employer. In the German social insurance state that relies heavily on contributions (in sum currently 41% of gross wage) the exemption is a major factor. The benefits that result from Eichel-subsidized pension plans are fully liable to taxation. Insofar, as for the Riester-subsidy, it is disputable whether the tax exemption part of the Eichel-subsidy is a genuine subsidy. The government calls it a subsidy, but some commentators consider it to be nothing more than deferred taxation. Seen this way, the Eichel-subsidy boils down to not having to pay social insurance contributions on income paid into an occupational pension.

In sum, the Eichel scheme is a classical case of fiscal welfare – tax deductions (including payroll taxes) to foster provision for of old age -, but it lacks additional 'social' sides like the family allowance provided in the Riester scheme. Compared to Riester pensions, Eichel pensions offer less both to low wage and high wage claimants because of the absence of an allowance and the fixed ceiling for deductible contributions respectively. Medium wage earners will profit most of the Eichel model. Moreover, employers profit as well.

3.3 The new public policy of private pensions II: certification

The government did not aim to subsidize all types of personal saving. Only savings clearly geared to providing for old age should be eligible to subsidies – fiscal *welfare* in a strict sense. Therefore criteria had to be developed to distinguish between unspecific saving on the one hand and earmarked provision for old age on the other hand. The government defined criteria in the 2001 Act on the Certification of Pension Contracts (formally an act within the Act on Assets in Old Age). Personal pension plans are only eligible to the Riester subsidy if they fulfil these requirements. Since such pension plans did not exist in the market, they had to be created by providers in response to the act. The act does not pertain to occupational pensions.

The financial service companies have to present their provision plans to the Federal Financial Supervisory Authority (Bafin), which checks if a contract meets the requirements and, if it does, awards a certificate. Personal pensions or personal saving plans (e.g. life insurances or bank saving plans) that were taken up before 2001 could be changed in order to meet the new conditions for certification and to become eligible to the Riester-subsidy. Most providers of financial services offered such contract changes without additional charges for the clients.

[4] The ceiling is defined as 4 per cent of the wage limit on which the assessment of contributions to the statutory pension insurance scheme is based *(Beitragsbemessungsgrundlage)*. In 2005, the ceiling amounts to 2,496 Euro. That is, persons with a low or medium wage (below the wage limit) can pay more than 4% of *their* wage tax-free into a pension plan, i.e. for them the Eichel subsidy is higher than the Riester subsidy.

The new regulation provides that personal pension plans only qualify for the Riester subsidy (and thus become 'Riester pensions') if

- pension benefits cannot be claimed before benefits of the statutory pension insurance scheme are paid or before the age of 60,
- benefits are calculated without regard for the sex of the saver (unisex contracts, effective from 2006),
- at least the total of the paid contributions (their nominal value) is available at the end of the contribution phase to be converted into an annuity (i.e. guaranteed non-negative returns),
- not more than 20 per cent (since 2005: 30%) of the accumulated capital will be paid out as a lump-sum at the beginning of the pension payment,
- benefit payments are continuous, monthly, constant or increasing until death (either a lifelong annuity or a capital drawdown plan up to the age of 85 with a subsequent annuity for the remaining life time),
- pension entitlements are protected against ceding and seizure,
- contribution payment can be interrupted and the contract can be cancelled or be transferred to another provider.
- the acquisition and marketing costs have to be paid off over a period of at least ten years (since 2005: five years) in equal annual amounts.[9]

Until 2001, earmarked personal pensions and non-earmarked personal saving were not clearly distinguished. Although contributions to a life insurance plan could be deducted from tax up to a certain limit, it was left to subjective interpretation if a personal saving plan was considered to be provision for old age or not. *The introduction of certification has institutionalised the distinction between saving for old age and other kinds of saving.* Riester subsidies can only be drawn for certified provision plans. Tax-deductions for non-earmarked saving and insurance plans will gradually be reduced. The consequences are tangible: the German life insurance market virtually collapsed on 1 January 2005 with the nullification of the ingrained tax privilege.

The differentiation of types of savings gives rise to a *differentiation of financial service markets:* a market for certified personal pension plans is emerging, distinct from the market segments for uncertified personal pensions as well as other kinds of personal saving. The former market segment is subsidized and highly regulated, with an orientation towards 'social' ends, while the latter is not or only marginally subsidized and subject only to a basic regulation without 'social' orientation. Certification and subsidization are recasting financial service markets – changing to financial products and also affecting the current reshuffle among the key financial branches insurance, banking and investment funds. Obviously, the financial service industry would have preferred subsidies for already existing products for pension provision and saving, without any certification. The list of requirements for certification was therefore one of the most disputed parts of the pension reform 2001, especially annuitisation. The government considered this a crucial requirement to secure pension income until the end of life, especially to prevent poverty in old age. Clearly, annuitisation is imperative for any pension policy pursuing 'social' aims.

The requirement of annuitisation alone changed the financial market since up to 2001 private pension plans with a lifelong annuity were only a fraction of the market.

The Direct Insurance, Pension Insurance Fund and Pension Fund schemes of occupational pension provision do not have to be certified in order to be eligible to the Riester- or the Eichel-subsidy. However, the legal prescription of the five modes of organising occupational pensions (see above) includes a quasi-certification. Even more than only certifying certain products, this legal prescription institutionalises occupational welfare.

3.4 The new public policy of private pensions III: individualisation and corporatisation of occupational pensions

For a long time, occupational pensions in Germany were paid for exclusively by the employer, on top of the individual salary. The employers were free to offer occupational pension provision, and if an employer chose to do so, he/she covered the expenses for the contributions. Such pension arrangements were usually defined benefit plans, based on the last wage or on average lifetime earnings. This is the classical form of German occupational pensions.

In the 1980ies the situation changed. Salary sacrifice – employees paying into pension plans from their salaries - appeared as a way of financing occupational pensions. For some years it was contested whether pensions based on salary sacrifice were to be regarded as personal pensions or as occupational pensions. In 1990, the Federal Labour Court ruled that entitlements to pensions that result from salary sacrifice have indeed the legal status of occupational pensions (Steinmeyer 1992). From the 1990ies onwards, salary sacrifice spread: In 2001, the provision plans in 53 per cent of all companies with occupational pension provision schemes were financed exclusively or partly by the employees (table 2).

- table 2 -

The reform of 2001 triggered a boom of occupational pension that combined the classical way of financing (by the employer) with salary sacrifice (by the employee). The classical company pension is on the retreat (see table 2). Most of the occupational pension plans that have been taken up since 2002 are partly or exclusively financed by Eichel-subsidized salary sacrifice (table 2).

The spread of occupational pension provision with salary sacrifice is mainly due to two features of the pension reform of 2001. First, the employees are now entitled to demand from their employer the chance of sacrificing their salary (although in most cases employers take the initiative; but they need not establish a salary sacrifice based pension scheme if none of their staff asks for it). In this way, *occupational pensions are institutionalised as individual social right*. Second, the Act on Assets in Old Age includes allows the sacrifice of tariff standard wage only if it is allowed by the tariff agreements. The government has included this clause with the intention of stimulating the employers associations and the trade unions to negotiate favourable pension arrangements. Indeed, after the pension reform was passed, the social partners of many industries negotiated new forms of occupational pensions. Currently, such tariff agreements cover 20 million employees, i.e. 80 per cent of the work force (see Bundesministerium für Gesundheit und Soziale Sicherung 2004). In this way the ingrained *German corporatism is facing an unexpected revival*.

As mentioned earlier, sacrificed salary under Eichel regulation is exempt from social security contributions. Since in Germany social insurance contributions are shared in equal parts by employers and employees (with the exception of industrial injury insurance), each side saves c. 20 per cent of the sacrificed salary. Employers therefore have a strong incentive to offer occupational pensions and to motivate the employees to sacrifice salary. Some of the new tariff agreements on occupational pensions provide that the employer passes on a part of his/her savings to the employee to be paid into the pension plan as a kind of employer's contribution to a provision plan. The employer can thus contribute up to half of the total contribution with no additional costs. Other tariff agreements provide that the employees converts existing forms of fringe welfare (e.g. tax-free employer contributions for capital formation) in exchange for supplements to their sacrificed salary paid by the employer. Since the employers' contributions agreed upon in tariff negotiations are only released if the employees sacrifice salary, the employees have a further incentive – in addition to the Eichel subsidy - to take up an Eichel pension.

Moreover, the spreading of salary sacrifice has entailed a development away from defined benefit plans, a tendency that can be observed in many countries (Döring 2002). In Germany, the defined benefit principle was weakened in two steps. In 1999, the legislator laid down that occupational pension plans may assume the form of so-called contribution-oriented defined benefit plans. In these plans, the guaranteed benefits result from the contributions that the employer agrees to pay, similar to guaranteed minimum returns in life insurance. The pension reform of 2001 introduced the so-called defined contribution plan with a minimum benefit. This means that the employer agrees to pay contributions but has to guarantee only that at the end of the contribution phase at least the sum of the contributions is available (i.e. non-negative returns). From a legal perspective, the defined contribution plan with a minimum benefit is nearer to a defined benefit plan than to a defined contribution plan (Langohr-Plato and Teslau 2003). However, this line of development, if further pursued, might end up in defined contribution plans proper. This step is currently discussed but the debate is controversial (Steinmeyer 2005).

The policy of occupational pension since the 1990ies, and especially the pension reform of 2001, has led to a *differentiation within occupational pension* (figure 1). On the one hand, there is the classical company pension with employer-sponsored, defined benefit plans, which is on the decline. It will most likely continue to exist as an instrument of personnel policy regarding the recruitment of high potentials, and as an instrument of cash flow management and internal financing of the company. On the other hand, occupational pension provision plans that are financed either exclusively or partly by salary sacrifice are booming. Most of these new plans are defined contribution plans with a minimum benefit, which means that the employees carry not all but a good deal of the risk of low returns. If the employers contribute as well, their contributions have a different character than in case of classical company plans: their contributions serve as an incentive for employees to choose salary sacrifice, in addition to the incentives provided by the state (Eichel-subsidy).

- figure 1 -

The take-up of the two types of subsidized pensions, Riester and Eichel, differs markedly. Riester pensions have spread much less than expected. By contrast, the Eichel pensions have been taken up enthusiastically, not least because they provide incentives both for employees and employers and because, unlike Riester, they are attractive beyond low income families.

3.5 The institutional outcome of the new public policy of private pensions: differentiation and hybridisation in the private pension sector

As we have argued in the previous sections, the pension reforms of 2001 and 2004 entailed a double process of differentiation: the personal and the occupational pillars of the pension mix each fall into two segments. In the realm of personal pensions, the new certified and subsidized pensions (Riester, Rürup) have emerged, distinct from the traditional uncertified personal pensions and other kinds of personal saving. In the realm of occupational pensions, new individualized and corporatised occupational pension (Eichel) departs from the classical company pension. This separation of two kinds of occupational pensions is mainly due to the spread of defined contribution plans financed with salary sacrifice, subsidized by the state and in many cases further promoted and subsidized by the employer as a result of corporatist negotiations.

The two processes of differentiation challenge conventional pillar models that we described in the first section. The simple trichotomy public-occupational-personal seems inadequate to map the welfare mix. Processes of differentiation within a pillar do not necessarily undermine the idea of pillars. But in this case, the new pension in each realm or pillar – Eichel pension in the occupational pillar and Riester/Rürup pension in the personal pillar – transcend the confines of their respective pillars. The Eichel pension brings in elements of both public and personal pensions into the realm of occupational pensions, and the Riester pension brings in elements of public pensions into the realm of personal pensions. That is, both new pensions are *hybrid pensions*, cutting across the conventional pillar models. The distinction public vs. private is blurred, as is the distinction occupational vs. personal. The latter finding confirms Schmähl's (2004: 159) general assertion that the boundary between occupational and personal pensions is increasingly blurred. Table 3 summarises in which ways the new public policies of private pensions have produced hybrid pensions. The table shows that the new policies have changed the very nature of private pensions with regard to all key dimensions – finance, legal foundation, goals and organizational actors. Figure 2 charts the outcome, the new German pension landscape.

- table 3 -

4. Theorizing the new pension mix

In this paper we have analysed the ongoing change in the pension mix, inquiring into the nature of the change and into the adequacy of the concepts commonly used to describe the change – 'privatisation' and 'pillars' of old-age security. Are we witnessing a privatisation of German old-age security, a shift of emphasis from the public pillar to the private pillar?

4.1 Conceptualizing institutional hybridization

The first conclusion of our analysis is: yes, there is a move towards privatisation. The German pensions reform of 2001/2004, effective from 2002 and 2005 respectively, have established a new mode of calculating benefits that has set off a gradual but substantial decline in the replacement rate over the next decades, cushioned only by the introduction of minimum benefits – actually only preferential social assistance – for low income pensioners. In addition, invalidity pensions have been drastically cut in 2000, indicating a more explicit surrender of the goal of securing to pensioners the standard of living they attained during working life (status maintenance). This goal had been established in the great reform act of 1957. Moreover, the reform of occupational pensions in the 2001 and 2004 acts has launched a move away from defined benefits to commitments somewhere between defined benefits and defined contributions.

All in all, these changes can be referred to as *passive privatisation:* reducing public pensions with the effect of creating pressure on the employees to increase private provision for old age. In a way, the decline of the classical German occupational pension (which is neither funded nor pay-as-you-go but mostly paid out of book reserves of the company) also indicates passive privatisation, namely a retreat from company-based collectivist provision for old age. While the pension reform that the Christian Democratic and Liberal Kohl government legislated in 1997 (to become effective in 1999, suspended by Schröder in 1998) was passive privatisation only, the Social Democratic and Green Schröder government (1998-2005) added *active privatisation* by actively promoting private pension schemes that we have analysed in this paper.

However, our analysis has revealed that what looks like active privatisation is not just a shift from public to private ('privatisation') but amounts to a *transformation* of *private pensions*, both personal and occupational. Private pensions are turned into *hybrid pension* in which public and private elements are inseparably intertwined. The *new public policies of private pensions* analysed in this paper have introduced public elements into private pensions (table 3). As O'Higgins suggested as early as 1986, 'privatisation' is a misnomer, it is more appropriate to speak of *hybridisation.*

To switch from ‘privatisation’ to ‘hybridisation’ is more than a change of words. Hybridisation implies institution building. State and private financial providers cooperate in creating new products and a new environment for hybrid pensions such as new regulatory powers and consumer protection (see table 3, right hand column). If privatisation is meant to solve problems of the welfare state then hybridisation creates new problems not accounted for in neoliberal, free-marketeer policy visions.

The hybridisation of formerly private pensions blurs the distinction between public and private in old-age security – in all four dimensions of pension schemes considered in our analysis of hybridisation (table 3): finance, law, goals/normative principles and organisation. Table 4 shows how characteristics of pension schemes commonly attributed to public pensions travel to private pensions and vice versa. It is striking that virtually no characteristic of pensions is left that is exclusively ‘public’ or ‘private’.

- table 4 -

Hybridisation is not an entirely new process. Life insurance, for example, has always relied on state subsidies (tax deductions) and has always been subject to basic regulation by law and regulatory agencies. Life insurance can even be said to be constituted by the state as can be seen from the collapse of the demand for capital life insurance in Germany on 1st January 2005 when tax deductions were sharply reduced. But the pension reforms of 2001 and 2004 boosted the quantity and the quality of state intervention in private pensions. As summarised in table 3, the new public policy of private pensions has extended and differentiated the instruments of intervention as compared to earlier public policy, and the goals of the new public policy are more distinctly ‘social’ than before, transferring goals from public pensions to private pensions.

The institutional innovations brought about by the new public policy of private pensions also change the domain of pension policy and the nature of *pension politics*. Traditional pension politics that centred exclusively (especially in Germany) on public pensions while leaving private pension to other, unconnected policy communities has given way to a new, *integrated retirement policy* that attends to the entire pension mix and involves a broader range of actors and issues of conflict. In particular, issues of private pensions have moved to the centre stage of retirement policy for the first time. In conjunction new actors like private providers and their associations, regulatory authorities (above all Bafin), consumer protection services and the Ministry of Finance have become players at the forefront of retirement politics.

Remapping the pension mix: from pillar models to a multidimensional continuum

The finding of hybridisation in the pension sector creates a need to reconceptualise the welfare mix: ‘Welfare mix’ in old-age security is conventionally conceived as a mix *of* pillars but it should be extended to include mixes *within* and *across* pillars, as found in the hybrid Riester, Eichel and Rürup pensions. That is, the common concept of 'welfare mix' or 'welfare pluralism' which stipulates the co-existence of public and private welfare institutions is a macro concept that needs to be enriched by a micro concept of welfare mix to account for mixes *within* institutions (hybridisation, *micro welfare mix*).

As a consequence, the very idea of a pillar model of old-age security crumbles. Hybridisation is not just a shift to new pillars. There is no point in conceiving of the new hybrid types of pensions as new 'pillars'. The idea of pillars and pillar models is to map the organisation of welfare in view of models of social order. Earlier we identified four dimensions mapped by pillar models: mode of coordination (public vs. private), goals/type of provision (basic vs. supplementary provision), functions (redistribution, insurance, saving) and stratification. The pillars are supposed to represent different models of coordination, different set of goals and to indicate different social functions of pensions and links to the stratification of society. In this way pillar models are designed to inform and guide policy-makers. However, if the pillars are blurred by new differentiations within and across pillars then the message of pillar models is blurred likewise. Pillar models are no longer instructive in view of structuring the social production of welfare in society. The grand ideological models of social welfare, state and market, are no guides for policy-makers. The restructuration of the welfare state rather requires creativity in designing impure institutions tailored to the conditions and preferences in a given country at a given point in time.

Are there alternatives to pillar models? Or has the structure of social welfare become so diffuse as to elude mapping altogether? We can distinguish two ways of newly mapping the welfare mix, the one modifying the public/private distinction in a rather crude way, the other refining the distinction.

The first way is simply to categorize any pension as 'public' that is influenced by government in some major way. Esping-Andersen (1990: 81) seems to suggest this view when stating: 'We must consider all pensions under the rubric of 'public' a) if they are directly legislated and administered by the state, or b) if there exists a clear and explicit government mandate that the private sector provide a given type of pension'. However, following this definition, most private pension plans would have to be classified as public, leaving the considerable heterogeneity in the private pension sector unmapped.

The second way of mapping is to refine the binary distinction public/private as we and other authors have done, allowing for hybrid types of pensions, i.e. conceiving a *continuum* between purely private and core public. In conjunction, one would allow for several *dimensions* of the distinction public/private. Within a general theory of public and private administrations Schuppert (1988: 135), for example, has constructed a (one-dimensional) continuum of organizations between core state and purely private. Kangas and Palme (1991), referring to pensions, also conceive of a continuum public-private, but with several institutional dimensions of pension schemes. Similarly, our analysis (table 4) has suggested at least four basic dimensions – finance, law, goals, organization – of the distinction private/public.

All in all, notions of a multi-dimensional continuum of pensions reflect the empirical diversity of pension institutions but they leave us with no clear picture of the pension sector. Dozens or hundreds of pension types would have to be distinguished. Moreover, the problems associated with the distinction public/private persist even if in-between-states and several dimensions are allowed for. As table 4 has revealed, hardly any feature of pension schemes qualifies per se as being public of private. Features rather travel between 'public' and 'private'. Some authors came to a similar conclusion. ''Public' and 'private', 'politics' and 'markets', are interwoven and interdependent in a number of ways, and it apparently is not fruitful to draw sharp lines of distinction between them.' (Kangas and Palme 1991: 112). However, at this point the discussion usually stops. The pension mix is seen as highly diverse and simple models of mapping the mix like public/private or 'pillars' are rejected. The empirical diversity of pension types is presented in descriptive institutional terms such as finance, law and administration. However, this state of analysing the pension mix is theoretically not satisfactory.

Beyond the notion of a multidimensional continuum public/private

There are at least two reasons to go beyond the notion of a multidimensional continuum of pensions.

First, we want to positively *identify new modes of coordination* in the new pension mix rather than only stating the blurring of the old modes and a growing diversity of pensions. We may assume that the new modes of coordination, which cut across the distinction public/private, will have to be identified in a more abstract analytical way than the usual descriptive mapping of the public-private continuum. In particular, we may have to look for types of social relationships between actors, since the usual more technical look at finance, organization etc. has not lead us further. For such a new approach to the pension mix it may be necessary to tap more general theories hitherto not applied to issues of old-age security. Recent theories of *governance* and theories of the *public sector* address similar problems in a more general context as we are facing in the analysis of the new pension mix. Governments make extensive use of organizations that are neither governmental in a strict sense nor simply private. This type of organization, variably termed e.g. quasi-non-government organization (quango), para-state organization or para-government organization (PGO), 'is both ubiquitous and elusive' (Hood 1985: 184). We therefore hint at the potential use of theories of governance and the public sector for the study of pensions.

Second, pillar models and the distinction public/private are very much alive in politics, on the national, the world regional (EU) and the global level (see the first section). These normative and cognitive models are an essential part of pension politics. It would be beside the point to go and tell policy-makers that they should abandon the use of models that scholars found inadequate to map the institutional design of pension schemes. Pension research has to analyse pillar models also as a part of the political *discourse*. *In a constructivist vein we propose to view pillar models as 'rationalized social models' (Meyer et al. 1997) created and used by actors in pension politics irrespective of the ability of the models to map the real pension world.* That is, we have to supplement the functional analysis of pillar models by a constructivist analysis of the political process.

In the two final sections of this paper we explore the two new avenues that lead beyond the notion of a multidimensional continuum public/private: theories of governance/public sector and the analysis of the political (discursive) use of the contradistinction public/private.

4.2 New pension governance and the 'welfare sector'

The changing welfare mix is also a challenge for theory building. In this paper we can only hint at possible directions and new research agendas. A growing strand of research since the 1990s that addresses issues of coordination and politics in an age of a diversification of non-state actors is the literature on *governance*. This literature could be brought to bear on pension issues. To our knowledge the governance literature and research on old-age pensions have hitherto largely ignored each other.

Research on governance has attended to policy areas other than pensions, mostly even outside social policy. While pensions involve cash benefits and financial redistribution on a long-term basis and on a mass scale, the governance literature has focused on the provision of personal social services, on public utilities (infrastructure), on the financing of local or time-limited projects and on persuasion programs like global campaigns against poverty or diseases. Vice verse, the literature on pensions has, to our knowledge, normally ignored the governance debate. Identifying the modes of governance in the new pension mix should be put on the agenda of both research communities. Diverse concepts such as networks, public-private partnerships, public governance or soft law are waiting to be applied to the changing world of old-age security.

'Welfare mix' refers to institutional structure while a 'governance' perspective moves to the analysis of *social relationships between actors*. This includes the appearance of new actors in the domain of pension policy and the impact of actors' strategies on changes in the institutional pension mix. Older concepts like bargaining, corporation or para-government organization (PGO, Hood 1985) could also be usefully applied. Döhler and Manow (1996), for example, found that the relationship between public sickness funds (statutory health insurance) and private pharmaceutical providers in Germany has undergone a process of 'corporatisation'. That is, pharmaceutical markets have partially turned into institutionalised systems of negotiations similar to the corporatist structures between doctors and sickness funds and in industrial relations. Are similar pattern of relationship emerging between governments and actors in private pension markets?

Two concepts from the wider governance debate already address issues of the public-private relationship in a way relevant to pension issues and to social welfare at large: the concept of the *regulatory state* and the concept of *welfare markets.* Both are highly pertinent to the current changes in pensions but both have almost exclusively been applied to policy areas other than old-age security. The concept of the regulatory state (or simply of regulation), which has produced a fair amount of literature, is mostly used with regard to public utilities and science policy (for first hints at an application to pension policy see Leisering 2003/2005). The concept of welfare markets (Taylor-Gooby 1999, Bode 2005) is beginning to be used in old-age security (Nullmeier 2002, Berner 2004). Much theoretical and empirical work needs to be done for both concepts. Both terms – regulatory *state*, welfare *markets* – still carry the semantics of pure forms of coordination, reflecting the absence of new theoretical terms that would capture the new world of blurred boundaries and hybrid modes of coordination. Researchers will have to be careful not to be misled by the terminology: welfare markets challenge conventional theories of social welfare as well as market theories just because they tend to be not normal markets; and the regulatory activity of the state in the field of welfare may give rise to a new kind of statehood not adequately accounted for in conventional theories of the welfare state.

Theories of the *public sector*, too, may be helpful in mapping and analysing the new pension mix. Research on the 'public sector' developed from the late 1960s to the 1980s (for an innovative synthesis see Kaufmann 1990 and Kaufmann, Majone and Ostrom 1985) and has largely been absorbed by the more recent literature on governance. But analyses of the public sector can still inform current pension research.

The origin of the concept of public sector leads back to the issue of the blurring of public vs. private. The erosion of pillar models of old-age security points at a more general phenomenon, the blurring of the distinction between public and private not only in pensions but in modern societies at large (Kaufmann 1986, Schuppert 1988). The distinction between a public sphere and a private sphere is constitutive for modern liberal societies. Historically, the 'claim to privacy was a claim for political non-intervention.' (Kaufmann 1986: 133) The distinction public – private assumes different forms in the legal and political tradition of Anglo-Saxon counties ('government' tradition) as compared to the 'state' tradition of Continental European countries (Hood 1985/1990). But in both traditions there is a tendency that the boundary between public and private – or, in Continental European tradition, between 'state' and 'society' – blurs. 'In a democracy there is … no essential division between 'public' and 'private', rather men decide as citizens what becomes of public interest.' (Kaufmann 1986: 132).

As a consequence, Kaufmann (1986) moves from 'state' or 'government' to '*public sector*' as the key concept to analyse the operation of politico-administrative systems in advanced democracies. The term 'sector' is to indicate that the public sector is not a system with a clear-cut boundary public-private: The 'public sector is not to be conceived as a 'boundary maintaining' system like 'state' or 'government' … It includes those aspects of social reality which are related to actions of state and government, regardless of their formal public or private status.' (Kaufmann 1986: 131) Coordination in the public sector relies on a diversity of modes of control that operate less neatly but not necessarily less successful than the grand pure models state and market – the 'noisy public sector' (Kaufmann). The open term 'sector' indicates the fuzzy and changing character of the boundary of the public sphere and the lack of one pivotal mode of coordination. The public sector is an unwieldy structure typical of a mixed society, i.e. advanced democratic welfare capitalism.

By way of specification, Kaufmann (1997) speaks of the '*welfare sector*' (or 'social sector') to denote those areas of the public sector that are related to social services. In the same vein we propose the term '*pension sector*' (to be taken up below) to denote the changing domain of those old-age pensions that are seen as public in some way.

In fact, many welfare state institutions, especially in Continental European countries, have always had an in-between-character. Pillar models, if phrased in terms of public and private with public denoting 'government' , miss the core e.g. of the German welfare state. The term welfare *state* notwithstanding the bulk of social spending in Germany, including pensions, is not part of any governmental budget but derives from separate budgets of the branches of social insurance, which are para-state entities. Implementation of personal social services is predominantly para-state or intermediary likewise. Key modes of coordination are not 'state' in any sense. Old-age pension insurance is a self-regulating arrangement between workers, employers and pensioners (with a strong legislative framework and some state subsidies, though) – much more than just a system of pay-as-you-go finance.

More generally, according to Kaufmann (2000), the *public welfare sector is characterized by modes of coordination beyond state and market*. Kaufmann specifies two peculiarities of this arrangement: First, public welfare relies on modes of coordination that are more specific and less elegant than the great models of market or hierarchical bureaucracy. Modes of coordination in the public welfare sector include professionalism, voluntarism (voluntary welfare), collective self-organization (German workers' social insurance), corporatism, bargaining and institutionalised self help. Second, coordination relies on a combination of such modes of control rather than on one grand model.

An early yet still seminal example of a public sector approach is Hood (1985). Hood distinguishes three dimensions of para-government organizations (PGOs): formal status, principal resource and mode of creation. The dimension *formal status* retains conventional criteria of the distinction public/private like ownership or finance. But Hood emphasizes that even these criteria are all but well-defined and that at least two additional dimensions are needed to map the field between public and private. The second dimension, *principal resource,* denotes the main resource – in our terms: finance, authority, organization or information – on which an organization draws in its actual operation, irrespective of its formal status. The concept of principal resource aims to identify the core of the public or private character of a PGO – e.g. its principal link to government. In this way the diversity of PGOs is reduced in a meaningful way, compared to unweighted multi-dimensional classifications of pension schemes mentioned in the previous section. Hood's third dimension, the mode of *creation* of an organization, departs further from those classifications (which are based on descriptive institutional features of pension schemes) by highlighting the social process of the emergence of a PGO. Hood distinguishes three modes of creation: top-down, bottom-up and sideways-across. In this perspective, German statutory social insurance, especially health insurance (Hood 1985: 192), are bottom-up creatures, having emerged from locally-bound self-organized sickness funds of labourers. What today are bureaucratised public schemes originated in private or self-help schemes.

Applying Hood's classification to pension schemes, the new publicly fostered private pensions introduced in the German legislation of 2001/2004 appear as ambiguous. The new pensions use the organizational capacities of private providers – insurance companies, banks and investment funds – as a resource of their operation: actuarial capacities, financial investment capacities, marketing facilities and sales organization. In this respect the new German pensions are a case of bottom-up government and formally private. However, the new products – Riester, Eichel and Rürup pensions – have only been created by the private providers (and met with demand by consumers) in reaction to subsidies and certification requirements laid down by government. In this respect, the new pensions are a case of top-down government and formally public. The principal public resource they draw on is finance – and authority, conveyed by government to the private providers by canvassing these pensions as components of a well-designed and socially desirable pension mix. In case of mandatory private pensions, even more state authority would be conveyed to the private pension sector.

Hood's imaginative attempt at mapping the world of PGOs still produces a fairly high number of organizational types between public and private, namely a 'varied menagerie' of 24 'animals in the zoo' (Hood 1985: 188). The author stresses that more than his three dimensions of PGOs could be named producing even more 'animals'. However, Hood's conceptual analyses, especially the distinction of modes of creation of a PGO, could inform further analysis of governance in old-age security by bringing in agency. By exploring the social process of setting up – and we should add: of constantly reproducing and changing – a PGO we can hope to identify the type of relationships between actors that characterize the newly emerging 'pension governance'. Especially Hood's 'sideways-across' mode of creation of a PGO, characterized by the author as the creation of network organizations, deserves attention.

To conclude: from a governance and public sector perspective, the following research questions would have to be raised when analysing the newly evolving 'pension sector':

- What (new or old) modes of *coordination* operate? What combinations of modes of coordination, what patterns of governance, can be identified?
- What (new or old) *actors* are involved (or even newly created) in the pension sector? How do actors from different institutional backgrounds *interact* –

negotiate, compete, conflict, network etc. – in the constitution of the micro pension mix as defined above? What political and social relationships between actors arise in welfare markets and in the regulatory state?
- What new lines of *conflict*, what contestations of boundaries of the public welfare sector arise in the new pension politics?

The last question (third bullet point) leads to the concluding section on the political use of pillar models of old-age security.

4.3 Contested boundaries: the political use of pillar models

We have shown that the terms public and private are no longer useful – even 'meaningless' according to Kaufmann (1986: 134) – as concepts to denote distinct institutional domains. But this does not imply that the terms are irrelevant. 'The apparent vagueness of the distinction in our terms is a consequence of the very political character of the distinction.' (ibd. 132) The distinction public – private continues to be used by political actors to demarcate spheres. But the distinction tells us more about the actors and their interests than about spheres. 'If one accepts something as being public, one asserts that it is (at least virtually) subject to political intervention.' (ibd.) How the boundary between public and private is to be drawn is contested among political actors and is therefore subject to change. The political construction of the boundary between public and private is a strategy of politicisation or de-politicisation. In this final section, we therefore switch from an institutional concept of public/private to a political discursive one.

The contradistinction public – private can also be seen as a political code. According to Luhmann social systems, and the political system in particular, tend to represent themselves and their environment in terms of *binary codes* and *lead distinctions* like left and right, state and market or friend and foe. These are semantic simplifications of cognitive or social structures used to organize political discourses and action. Public vs. private – or, in the Continental European tradition, state vs. society – is one such binary code.

The distinction public/private is essential in many pillar modes of old-age security. But pillar models have more dimensions and usually involve three or more pillars. To analyse the discursive role of pillar models we can use a general concept developed by John W. Meyer. Meyer refers to concepts of international organisations as '*rationalized social models*' (Meyer et al. 1997). Rationalized social models are 'decoupled' (ibd.) from the social reality they refer to. But de-coupling does not render them irrelevant. They are categories of the global political discourse that influence policy-making. Pillar models of old-age security as advanced by key actors of global social politics are rationalized social models as defined by Meyer. Pillar models are decoupled since the pillars do not reflect actual distinctions between institutional domains. Global pillar models also miss the diversity of national welfare mixes in different countries.

Titmuss's path-breaking article on the Social Division of Welfare (1958/1956) had the explicit political purpose of pushing the boundaries of the term 'public' in social welfare beyond the governmental sphere of social services usually considered to constitute the welfare state. Titmuss argued that both liberal critics and orthodox advocates of the welfare state had failed to realise that there is a whole world of 'private' and occupational pensions that serve welfare ends just like the governmental social services – but serve them badly and should be geared to the true egalitarian ends of the welfare state. That is, Titmuss, without using the language of pillars, proposed to replace the one-pillar model which equated the welfare state with governmental social services by a multi-pillar model. Paradoxically, however, rather than advocating welfare pluralism (see Pinker's critique of Titmuss, Pinker 1971) Titmuss aimed to align the non-governmental pillars of social security to the welfare state ends of the first pillar. Still, Titmuss's article marks a major step towards the concept of welfare mix, especially in the Anglo-Saxon tradition which tends to conceive of the welfare state in terms of a list of governmental social services (welfare *state*). By contrast, the Continental European tradition tends to conceive of the welfare state as embodying the idea of the responsibility of the state for the welfare of its citizens (*welfare* state), leaving the ways of implementing this responsibility – the institutional shape of the 'welfare sector' – open (Kaufmann 2003: 184). In this sense, Continental welfare states are larger than Anglo-Saxon ones but less 'statist'.

The World Bank' Averting the Old-Age Crisis (1994) also highlighted pillar concepts of old-age security but, unlike Titmuss, with a view of shifting the boundary between public and private in favour of the private sphere. This concept of welfare pluralism was biased towards private conceptions of provision for old age while Titmuss's concept was biased towards welfare state goals.

The juxtaposition of Titmuss and the World Bank indicates: *Mapping the welfare mix by way of pillar models creates a common ground for political debates*, a shared frame of reference which extends to heterogeneous types of actors – European countries, the EU, the USA and international organizations – and to diverse political camps. Both free marketeers and advocates of state welfare can relate to pillar models. Pillar models expose the wide range of sources of welfare and, at the same time, represent the unity of social welfare. Pillar models, therefore, are useful for politics, despite of their vagueness and their inadequacy to account for the actual hybridisation of pensions – or rather *because* of their vagueness and their de-coupling from the real pension world. Divergent actors can embrace these models just because they leave a lot open. Today there is a virtually all-encompassing consensus that old-age security ought to be organized on 'multipillar' lines (a term already used by the World Bank in 1994). This consensus formula eclipses substantial divergence between, for example, the EU and the World Bank, between the World Bank and the ILO and others but it enables political communication and potential coalitions. *Pillar models have become a part of the global consensus culture* John W. Meyer has identified in his analyses of the world polity (Meyer et a. 1997). At the same time pillar models frame political battles about boundaries between public and private.

Three contested boundaries

The political use of pillar models leads back to the functions of pillar models outlined in the first section of the paper. Pillar models are social constructions of the welfare mix used by political actors to legitimise certain policies – in four dimensions: modes of *coordination* in old-age security, *goals* of pension policy, economic (and other) *functions* of pensions, and the impact of pensions on *stratification*. Up to this point the analysis has concentrated on the *coordination* dimension of pillar models which revolves around the lead distinction public/private or state/market. In the current restructuration of Western welfare states, pillar models are used by proponents to underpin their ideas of redrawing the public-private boundary or of new mixes public – private (see table 4).

But the other dimensions of pillar models – especially the *goal* dimension (or type of provision) that is reflected in different layers or tiers of old-age security – also invoke lead distinctions of the political discourse, especially 'social'/'non-social' and pension saving/non-pension saving. These lead distinctions correspond to the (moving) boundaries of the public welfare sector and the pension sector respectively. Struggles over the lead distinctions involve contestations of the boundaries of the respective sector. All in all, the use of pillar models in political discourses fuels contestation of three boundaries corresponding to three lead distinctions and three institutional 'sectors' (table 5). In the following we discuss the table.

- table 5 -

The second lead distinction (if public/private is taken to be the first) is *social/non-social*. Contestations about what is 'social' and about what aspects of social life should be organized according to 'social' criteria have a long history in industrial and post-industrial societies. The idea of the welfare state implies a 'social' responsibility of government for the well-being of its citizens. Unlike the public/private distinction, there seems to be no positive term to denote the other side of the social, the 'non-social'. The social may be opposed to the economic, as in conflicts between economic policy and social policy. The social may also be defined as collectivist to be juxtaposed with individualistic arrangements. In policy making, 'social' policy may also conflict e.g. with fiscal policy.

The debate about specific goals of pensions tends to be eclipsed by more general ideological debates over philosophies of coordination. But the distinctions state/market (coordination) and social/non-social (goals) do not necessarily coincide. The German Rürup pension described above, for example, is designed as a basic pension to meet basic social needs (bottom tiers) but is private whereas e.g. in the Swedish pension system the higher tiers that go beyond basic social needs include two public schemes. A key issue of goals is the 'basic' pension. The universal consensus on a multipillar structure of old-age security normally goes along with a consensus on a 'basic' bottom tier, which may legitimise less 'social' and/or less 'public' higher tiers. However, the suggestive term 'basic' leaves a lot open and lends itself to ideological use, e.g. to legitimise far-reaching privatisation by assuring that basic needs are met. Ideally the idea of a bottom tier may kindle a productive debate on policy goals.

The third lead distinction, *pension saving vs. non-pension saving*, has only come up more recently and is confined to pension policy. The full description of the distinction – saving for old-age vs. unspecific saving and capital investment – reads rather clumsy, but the distinction highlights a clear policy issue: What is a pension? If governments aim to foster private provision for old age – by tax deductions, subsidies and consumer protection legislation for certified products – they need criteria to distinguish between saving for old age and other kinds of saving. Table 3 (column 'new goals' and footnote) summarizes the ways in which recent German legislation earmarks savings as provision for old age. Since any legal earmarking interferes with financial markets, the boundary between pension saving and non-pension saving is highly contested. Goals like annuitisation, guaranteed minimum returns and non-tradability of pension savings may conflict with interests of financial providers to sell products that are flexible and promise high returns to buyers. Here another contested aspect of pension systems comes in, the effects of saving on the economy (functional dimension of pillar models).

The three boundaries and sectors we are discussing (table 5) are nested, each of them raising different issues that need to be tackled: How 'public' shall a publicly regulated pension be? And how 'social'? And how distinct from saving not geared to old age? These are multidimensional questions of values, interests and institutional design to be confronted by the new public policy of private pensions. A provision scheme, e.g., may be public and social in some sense but it can still be contested whether it is sufficiently geared to old age. The recent German debate on whether subsidised saving for a private home (e.g. via building societies) should qualify as saving for old age is a case in point. The new coalition government under Chancellor Merkel has announced to acknowledge saving for a private home under the Riester pension arrangement. Or a pension scheme may rely on public money and serve public ends but these ends may not be deemed 'social'. Titmuss (1956) , for example, had argued that conventional goals of tax policy are detrimental to genuine goals of social policy like need orientation and redistribution in favour of the lower strata of society. Titmuss, therefore, called for a 'social' reorientation of fiscal welfare (tax deductions) in occupational and personal pensions. The German reform have indeed strengthened the 'social' orientation of the public policy of private pensions. Only now have tax deductions for private provision for old age been designed in a way to become truly 'fiscal *welfare*' (table 3).

By way of conclusion: How can, how do policy makers and scholars map the changing welfare mix in old-age security? The key way of mapping the mix, the use of pillar models, has turned out to be ambivalent. On the one hand, we have argued that pillar models are increasingly inadequate to grasp the hybrid public-private fabric of the pension mix that is newly emerging in Germany and other countries. On the other hand, pillar models continue to be used and have even attained the status of a universally acclaimed frame of reference in national and international politics.

Some writers, e.g. Bönker (2005), have emphasized the spread of pillar models but it is important to see their simultaneous functional decline. We have explained the *discrepancy between increasing functional inadequacy and rising political use* by revealing the political nature of pillar models. Their functional inadequacy does not prevent their use in political discourse, to the contrary, inadequacy and vagueness may create a common ground for deliberation of political lead differences like public/private and social/non-social boundaries. So pillar models may be a positive political source, a source of consensus and contestation. But pillar models may also be a negative political source, eclipsing differences between parties: some actors – both neoliberals and socialdemocrats – have used pillar models to legimise welfare monism under the flag of welfare pluralism.

Luhmann (1980) conceives of ‚semantics of transition' *(Übergangssemantiken)* as major constituents of societal change: „ ... Übergangssemantik, deren eigene Funktion dadurch bedingt ist, dass sie noch nicht alles weiß. Sie sucht und ermöglicht Traditionsanschlüsse, die eine Weile vorhalten, sich dann aber als entbehrlich erweisen. Das ermöglicht es, Neuerungen schrittweise zu prozessieren und die Traditionszusammenhänge so zu variieren, daß schließlich eine sehr tiefgreifende Änderung der Bewußtseinslage ... entsteht.“ (1980: 83f.) Are pillar models semantics of transition? Will they give way to new concepts of mapping the welfare mix? Clearly, pillar models do not reflect the recent changes in the fabric of old-age security, the more towards hybrid, impure models, micro welfare mix and new blurred relationships between public and private actors. In highlighting the old contradistinctions state vs. market, pillar models fail to grasp the new issues a public policy of private pensions faces. Models of pillars or tiers of old-age security also fail to address the new questions of redefining the social that crop up despite – or, as we have argued, just as a consequence of – ‘privatisation’: new normative questions raised by an enabling rather than providing welfare state and by regulated welfare markets. But even more fundamental oversimplified lead distinctions like left and right or friend and foe continue to shape the democratic political discourse of our time, for good or for bad. Scholars, by contrast, may wish to seek new scientific concepts to capture new realities.

Notes

We thank Evelyne Huber, Ulrike Davy, Patrick Blömeke, Uwe Schwarze and Christian Marschallek for their comments on an early version of the paper.

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Table 1

Recent German pension reforms and their impact on the replacement rate

	Impact: projected replacement rate in 2030
Before 2001	70.0%
Pension reform act of 2001 (Act on Assets in Old Age, plus supplementary act; 'Riester reform')	64.0%
Statutory pension insurance: • Reform of invalidity pensions • More credits for child care • Reform of pensions for women and survivors • Improvements for young insured persons • New formula for pension adjustment formula (to reduce the future replacement rate and the rise of the contribution rate)	
Occupational pensions (mainly Eichel pensions, also Riester pensions): • Employees are entitled to occupational pension provision via salary sacrifice • Reduction of vesting periods • Introductions of 'pension funds' • Subsidies for funded occupational pensions ('Riester- and Eichel-Subsidy')	
Personal pensions (Riester pensions): • Subsidies for certified personal pensions ('Riester-Subsidy') • Certification	
Introduction of a means-tested basic income for the elderly	
Pension reform 1 of 2004 (Pension Insurance Sustainability Act)	58.5%
Statutory pension insurance: • Again changes of the formula for pension adjustment (to reduce the future replacement rate and the rise of the contribution rate) • Rise of the pension age for pensions after unemployment • Abolishment of credits for periods of schooling or in higher education	
Pension reform 2 of 2004 (Act on Income in Old Age)	52.2%
Private pensions (incl. Rürup pensions): • Transition to deferred taxation of all pensions • Changes of the certification requirements for personal pensions • Improvement of the portability of occupational pensions	

Adapted with modifications from Schmähl (2005); data for projected replacement rate from Hain et al. (2004)

Table 2

Financing occupational pensions in Germany

Source of finance	Companies using source of finance (in %) Dec 2001	March 2003
Employee (classical German occupational pensions)	54	47
Employer (salary scrifice)	26	26
Employee and employer combined	27	36
Total	107	110

Source: Kortmann and Haghiri 2003: 81

Random sample of 20,000 companies with at least one employee. Total exceeds 100 because some companies use more than one financing mode (e.g. for different groups of employees).

Table 3

The new public policy of private pensions in Germany (2001/2004 reforms)

Policy / *Hybrid pension*	*new instruments*		*new goals*	*new actors/ institutions*
	fiscal policy	legal policy	'social' goals for private pensions	
Riester pension (mostly personal pensions)	· tax deductions · allowances	· certification	· security in old age (earmarked saving[1]), annuitisation; guaranteed non-negative returns) · poverty prevention, family support (allowances for low-income families) · gender equality (unisex contracts) · consumer protection in financial markets as social goal	· new domain for regulatory authority (Bafin); growth of pension funds in financial markets · enhanced consumer protection
Eichel pension (occupational pensions)	· tax deductions (salary sacrifice) · also payroll tax deductions · payroll tax deductions also for employer	· institutionalisation (prescription of a range of five modes of finance and management, one newly created)	· Eichel pension as a right of employees · individualised contributions · poverty prevention (defined minimum benefit)	· new domain for corporatism (negotiations unions – employers associations) · growth of pension funds in financial markets
Rürup pension (mostly personal pensions)	· tax deductions	· certification	· security in old age (earmarked saving[1]), annuitisation)	./.

[1] Earmarking includes reduction of property rights (savings may not be alienated, encumbered or bequeathed) and simultaneous enhancement of property rights (protection of savings against ceding and seizure)

Table 4

The blurring of the distinction public vs. private in old-age security

	'public'	'private'
finance	taxes	capital funding
	pay-as-you-go	*tax deductions, subsidies*
	capital funding	
law	public law	private law
	social law	*regulatory law*
	mandatory	voluntary
		mandatory (debated for Riester pension)
	social rights	*consumer rights* on financial markets
		right to occupational pension (Eichel pension)
goals/principles	state responsibility (welfare state)	welfare pluralism
		state responsibility for the pension mix
	(social) security	returns
		guaranteed non-negative returns
	defined benefits	defined contributions
	notional defined benefits	*defined minimum benefits*
	need-orientation, equality, redistribution	achievement-orientation, inequality
		unisex contracts
	choice of capital investment by citizens	choice
	universalism	ability to pay 'basic universalism' (mandatory private provision; subsidies to the poor)
organisation	governmental	private ownership (providers, consumers/stakeholders), markets
	governmental capital investment in markets	*state regulated welfare markets*
	para-governmental/non-profit/corporatism/ self-organisation	profit
		corporatisation of occupational pensions (Eichel pension)
	democratic control	*consumer protection, transparency laws*

Arrows and italics denote processes of hybridisation (transfer of 'public' elements to 'private' pensions and vice versa) (dotted arrows: attenuated transfers).

Italicized elements in the 'private' column refer to the German pension reform of 2001/2004, those in the 'public' column apply to other cases e.g. to the Swedish reform of 1998.

Table 5

Contested boundaries in old-age security

sector	*contested boundary* (lead distinction)	*contested issues*	*dimension of pillar models*[1)]
public sector	public / private	What scope for government?	coordination
		What role for government? (law, finance, administration)[2)]	
		What public-private mix?	
welfare sector	'social' / non-'social'	What scope for the social responsibility of government?	goals; stratification
		What is 'social'? (policy goals)[2)]	
pension sector	pension saving/ non-pension saving	What scope for pension responsibility of government?	goals; functions
		What earmarking of saving for old age?[3)]	

[1)] See the four dimensions of pillar models in section 2.
[2)] See tables 3 and 4
[3)] See table 3, 'new goals'

Figure 1

Occupational pensions in Germany – classical and new variety

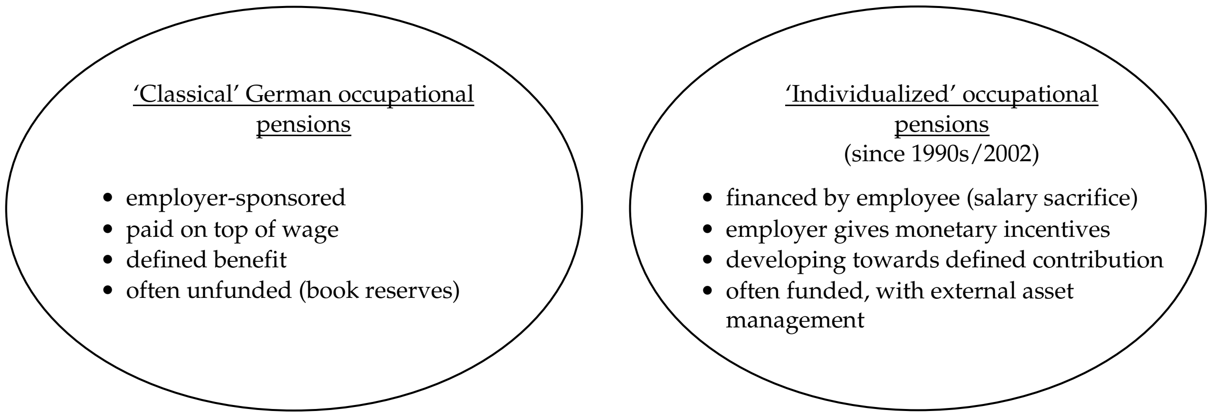
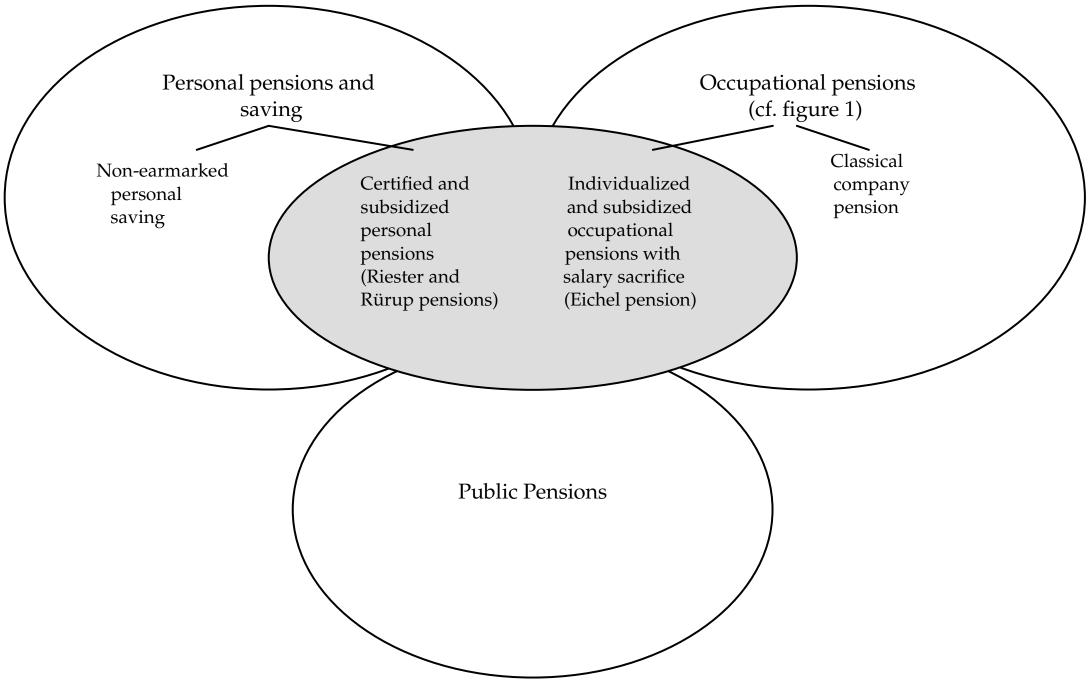


Figure 2

Differentiation and hybridisation in the German private pension sector
(since 2002/2005)



Differentiation: the two pairs of bifurcating lines
Hybridisation: grey zone