

That criticism, combined with a desire for relying less heavily on the PAYG system, resulted in the introduction of a funded supplement to the state provision (the Riester Rente). Despite tax incentives, however, workers responded with trepidation. "Then the financial crisis broke out, prompting concerns about the funded system, as well," Ebbinghaus says. "The Riester pension has to contend with high costs because it guarantees payout of at least the level of the contributions. In addition, investment yields were low due to the financial crisis."

He believes it is essential to formulate a long-term policy that does not change every few years. "Pension reforms will have repercussions for the next several decades. If you modify things in the intervening years, it fosters mistrust. The trick is to develop a vision that enjoys broad support. Then you give people an opportunity to become accustomed to the changes and prepare for them," he stresses. As an example of wavering policy, Ebbinghaus points to the easing of the restrictions on the higher retirement age. "The decision to soften the rules for raising the retirement age works out well for certain groups, but it sends mixed signals. People then ask themselves whether the government will actually continue along the path that has been laid out. That increases mistrust," he says.

Despite the similarities in terms of their social economic models, the Netherlands and Germany face different challenges. "In the Netherlands, with its strong second

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pillar, the discussion revolves around the degree of solidarity in those company plans. The first pillar is not really up for discussion. In Germany, there is a great deal of debate about solidarity in the first pillar," Ebbinghaus point out.

Unlike Dutch social security (AOW), the German state pension is linked to contributions paid over a working life. That means that women who left the workforce temporarily to raise children receive less. "Even the trade unions do not want to simply abandon the link between contributions paid-in and pension received," he muses. These structural differences in old-age provisions mean that independent contractors, too, are in a different position in Germany than in the Netherlands. "AOW is available to everyone who has lived in the Netherlands," he points out. "This helps prevent poverty among the elderly. An independent contractor knows that, in any event, he will receive AOW benefits. In Germany, the growing number of self-employed do not even have that security, because they do not contribute to the state pension system."

Despite the many obstacles, Ebbinghaus remains hopeful that reforms will get off the ground in Germany, eventually leading to a more sustainable pension system. "The economy is doing well in Germany. Some PAYG plans even have surpluses. This is a good time to institute reforms," he says.

The Dutch desire to redesign its pension system meets with surprise in other countries. "You have a solidarity-based system in which almost all workers participate. In the second-pillar DB plans, the social partners are being confronted to some extent with the same problems we face in our first pillar. Who is going to be responsible for possible shortages: the employers, the employees, the government, or future generations? I do not know the ideal solution, but with such a fundamental change, you have to look for a balanced solution and reach consensus. Once that direction is chosen, you have to allow time for implementing those changes. Confidence in change requires confidence in the institutions, along with institutions that do not betray that confidence by focusing on the short term or constantly change course," he concludes.

When people are grouped according to social-economic characteristics, it represents only one facet of reality. The pension industry must also be mindful of cultural aspects, argues Cok Vrooman, head of the Employment and Social Security Research Sector at the Netherlands Institute for Social Research (SCP).

Cok Vrooman

"MINDING THE BLIND SPOTS IN THE PENSION DEBATE"

"Everyone expects to eventually receive a pension," he contends. "That is what makes pensions different from unemployment and disability insurance. Moreover, there is no alternative to retiring. At some point, you will be unable to keep working." In other words, the importance of adequate retirement provisions cannot be underestimated. "We need to remember that for many people, the first and second pillars constitute a whole. Their income provisions are made up of social security (AOW) and a supplemental pension, so from the citizen's perspective, you cannot address one without addressing the other. In addition, for seniors on the margins of society, the lion's share of their income comes from social security," says Vrooman, who is also a professor of Social Security and Participation by special appointment at Utrecht University.

A Frightened Public

"In the policy debate, you encounter varying suppositions about how the public views pensions. Vocal citizens want to make their own retirement decisions and are capable of doing so. Rational citizens maximize their benefits across their entire life course and will therefore

make wise choices, as long as they are given the freedom to do so. Ignorant citizens are focused on the short term and lack the knowledge needed for rational retirement planning; they need to be paternalistically guided or coerced. Citizens with a strong sense of solidarity want the government to guarantee a reasonable income for the disadvantaged in their old age. Frightened citizens want certainty and have lost faith in the market and pension funds. The – often implicit – policy visions of the public tend to influence the solutions people choose in the pension debate," Vrooman points out.

The opposition between young and old receives too much emphasis, in his opinion. Research shows that while there are conflicts of interest, there is no age war being waged as a whole. Several obvious reasons lie behind this. "First, there is an implicit bond between generations," he continues. "Everyone was either young once or hopes to become old, and most people interact with other generations in their family. Second, there are many interconnections: older people who are well educated have more in common with well-educated young people than with poorly educated older people.

Third, the values young people have do not differ measurably from those held by older people. That was not necessarily the case in the nineteen sixties and seventies."

Old and young people are surprisingly unified, for instance, on a variety of pension issues. "Their answers on questions about freedom of choice do not diverge very much. If the decisions are left up to the people themselves, they generally choose greater certainty, such as additional insurance and low-risk investments. Neither the young nor the old are pushing for riskier investments, for instance," Vrooman says, based on the results of an SCP survey. Another thing they have in common is that both groups feel underrepresented in politics. "The difference between young and old is played up in the media, but in reality it does not play such a big role. In fact, the topic scored low on a list of urgent issues that we (at the SCP) recently compiled," he says.

High Earners

The fact that we have so little grasp of the relevant characteristics of groups of the population raises the question of how they should be defined in terms of pension and retirement – and also what blind spots might be lurking for participants in the pension debate. Those questions were playing through Vrooman's head as he examined the SCP data more closely. His work expands on existing research that divides the Dutch population according to four variables: social, economic, personal, and cultural capital. A healthy, well-educated high earner with a great deal of self-confidence, an extensive network, and a facile knowledge of cultural codes scores high. A poorly educated, low-income individual, who knows very few people, suffers from health problems, does not dress according to the prevailing norms, and lacks digital skills has very little capital.

Six Groups

The SCP identified six reasonably homogenous groups: the established elite (no young people, no minorities, generally men), younger contenders (often live in the metropolises, lots of liberal voters), the working middle class (gainfully employed, own their own home), well-off retirees (good income, reasonably luxurious lifestyle, homes often paid off), intermittently employed

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(few permanent jobs, low self-confidence, relatively high number of women), and those in a precarious position (little income, unemployed and surrounded by unemployed, unhealthy, poor language skills, and few digital skills). The working middle class, which does not include any older people, is the largest group. Over a quarter of the population falls into this category. The other groups are all fairly similar in size, with the percentages varying from 13% (younger contenders) to 17% (well-off retirees).

Each of these groups has a very different perspective of pension and retirement issues. Within the groups, divisions exist according to age. For example, vast differences emerge with regard to the questions of who benefits most in the current system and whose interests the politicians represent. "The contenders under the age of 35 think that the system favors older people and that politicians primarily advocate for that group," says Vrooman. "Those in a precarious position and the well-off retirees do not think that is the case."

Certainty

"When I pause to consider this diversity and realize that large groups of people value certainty, I wonder whether the proposed changes are headed in the right direction. The trend is toward individual retirement savings and shifting the risk to participants. Individuals are being called upon to take more matters into their own hands. People do not always want, or are not always able, to do that," Vrooman explains.

A more fundamental point, according to him, is that we might be building a system that is primarily adapted to the ideal citizen. "That would mean that only those who work without interruption, live healthy, execute smart family planning, and invest in the long term would receive an adequate pension," he points out. "That ideal citizen contributes sufficiently to the system's financial tenability and can for that reason lay claim to the collective solidarity. Anyone who lives carelessly, is incompetent, or has bad luck – such as people belonging to the intermittently employed or precarious groups – easily falls by the wayside. The challenge in changing the system is to weigh everybody's interests in a manner that does justice to all the population

groups. If the non-ideal citizens can no longer count on adequate old-age provisions, it could eventually undermine the legitimacy of the entire pension system."



Cok Vrooman