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Labour Market Flexibility & Pension Reforms

Turin, 5 March 2012

Flexible Today, Secure Tomorrow?

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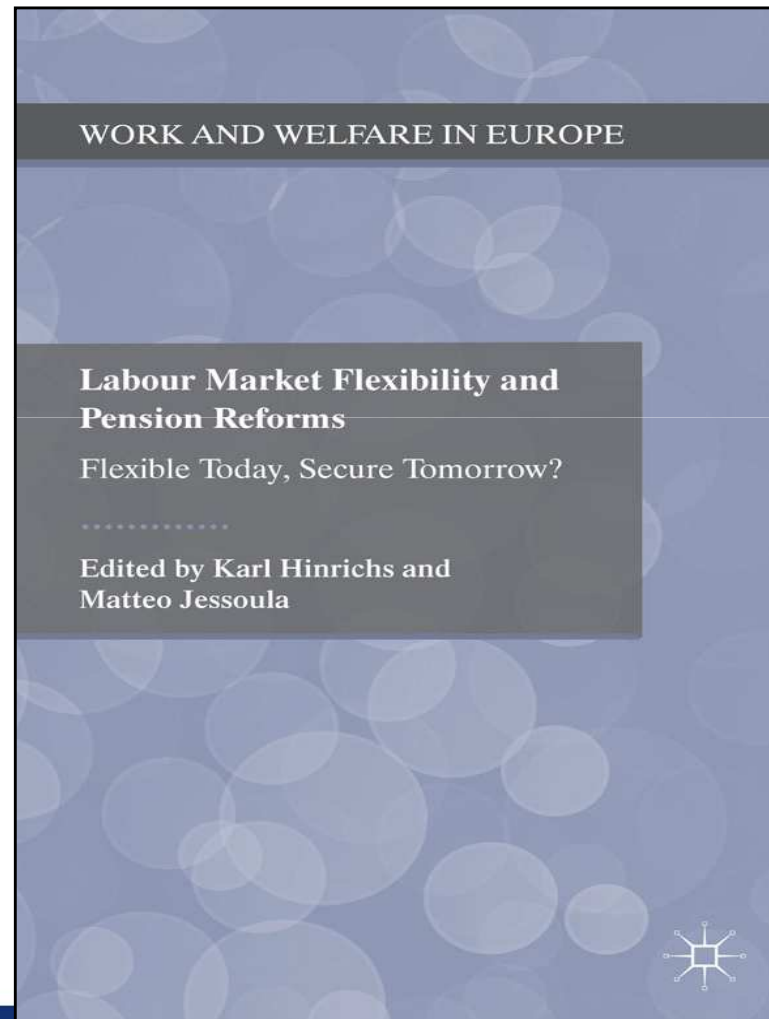
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K. Hinrichs & M. Jessoula
Labour Market Flexibility & Pension Reforms
Palgrave, 2012



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Download sample chapter

<http://www.palgrave.com/PDFs/9780230290068.pdf>

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Structure of the presentation

- Focus of the book, research questions, case selection
- The empirical background
- Framing the analysis
- Main comparative findings
- Some flashes from the country studies



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Focus of the book & research questions

- The volume analyzes the **flexibility-security nexus** by focusing on the **post-retirement phase**
- Whether, and to what extent, the **interplay** between **pension reforms** and the spread of “**atypical**” **employment patterns and fragmented careers** negatively influences economic security in old age?
- **Do reforms of public and private pension schemes compensate or aggravate** the risks of increasingly flexible labor markets and atypical employment careers after retirement?
- **The same analytical framework** is employed to analyze developments in 7 European countries with different labor market arrangements and various degree of flexibility, as well as diverse pension systems.
- Denmark, Germany, Italy, Netherlands, Poland, Switzerland, UK



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Case selection

Traditional single-pillar
countries

New multipillar
countries

Traditional multipillar
countries

Germany

Poland

Netherlands

Italy

Switzerland

UK



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What do we mean by ATYPICAL?

- **JOBS**

non full-time, permanent contracts
fixed term, part-time,
economically dependent workers (project workers)
(self-employed)

- **EMPLOYMENT**

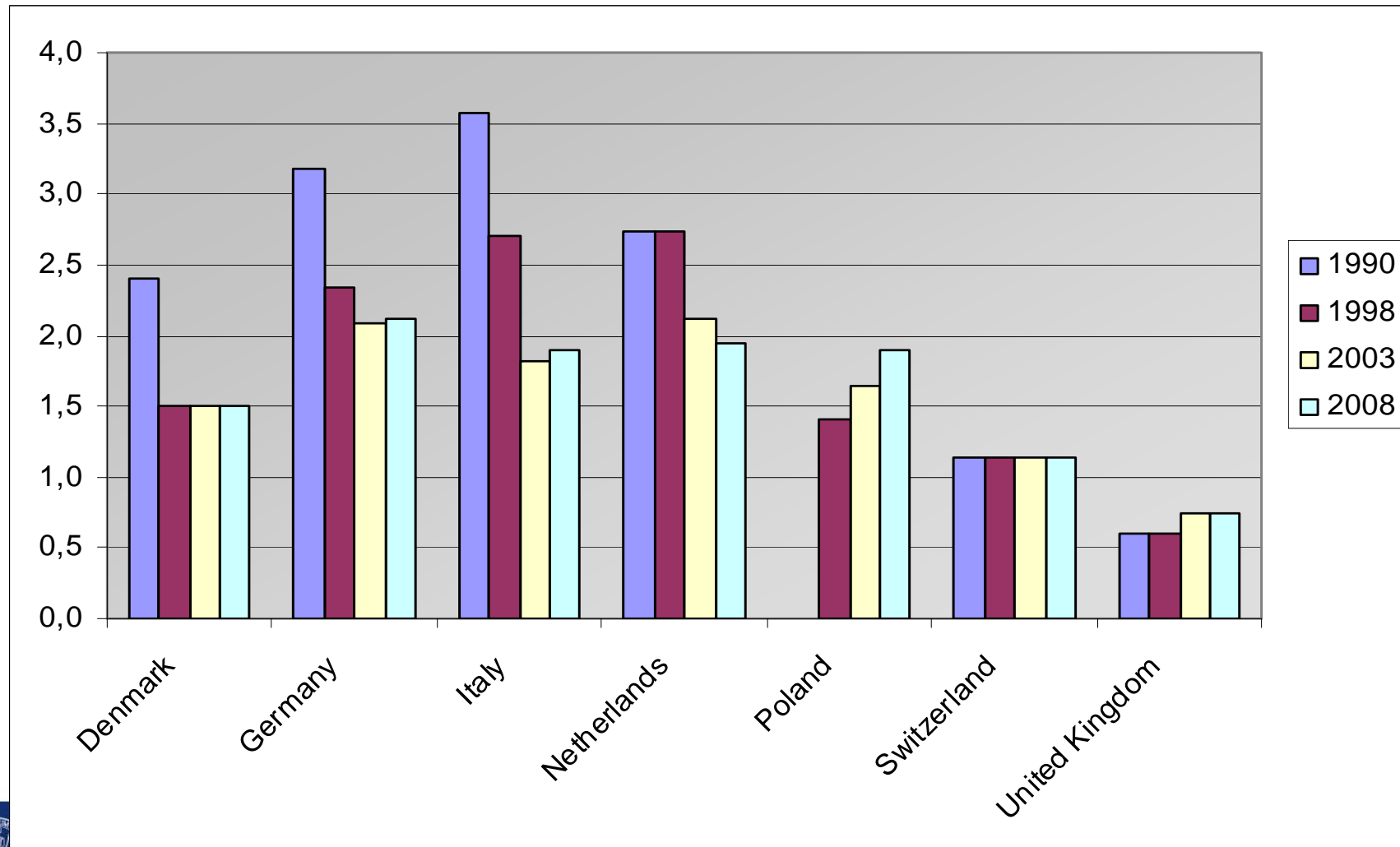
interrupted – fragmented careers
with several spells of unemployment and/or
non-employment (e.g. for childcare)



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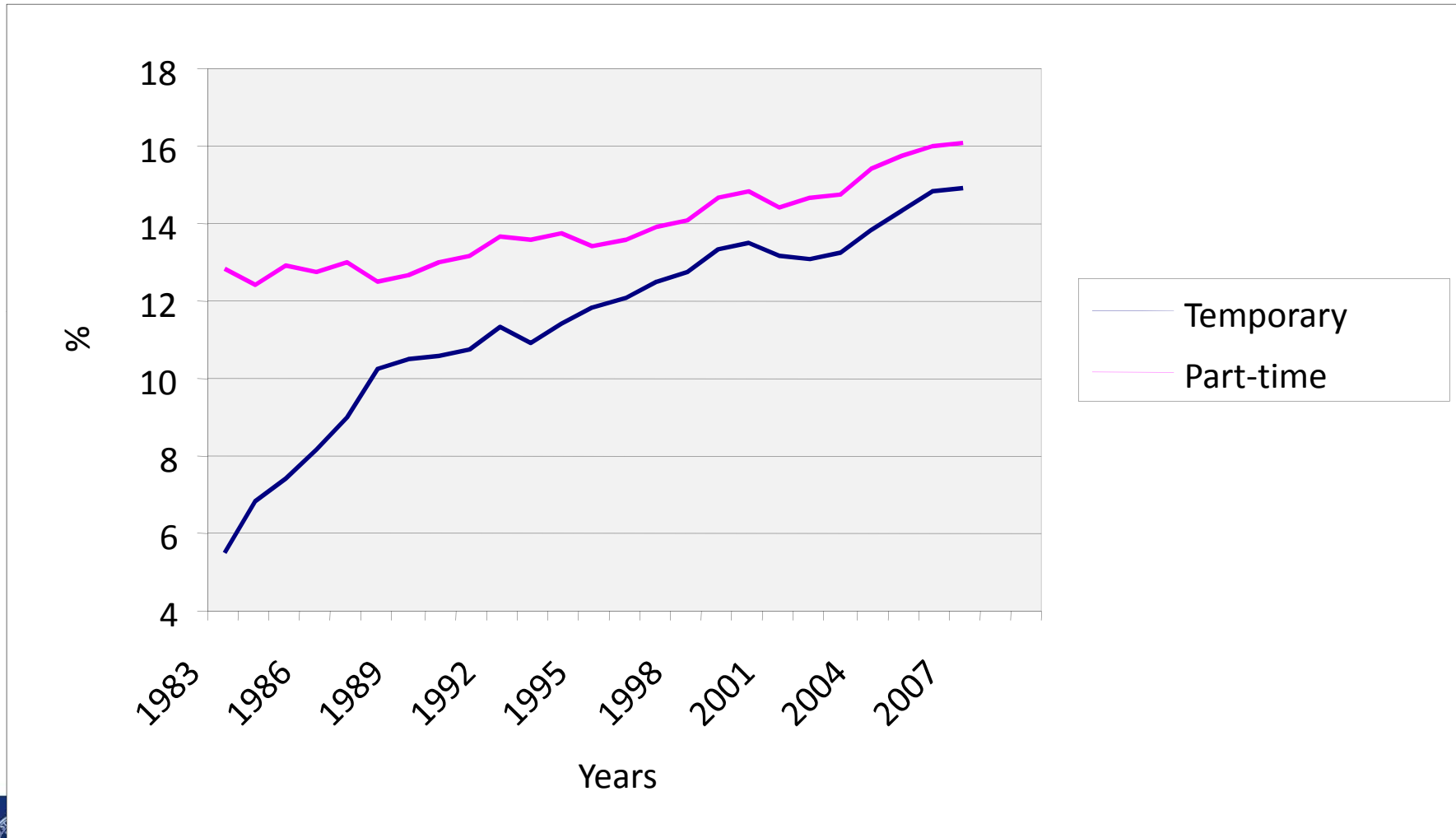
The empirical background
Labour market flexibility, EPL Overall 1990-2008



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Labour market flexibility, temporary and part-time employment in Europe, 1983-2008



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Parametric pension reforms in single-pillar countries

Strategies	Aims
1) Inducing later retirement/active ageing	<i>Financial sustainability</i>
2) Reducing benefits	<i>Financial sustainability</i>
3) Tightening contributions-benefits link	<i>Elimination distributive distortions / Financial sustainability</i>
4) Regulatory harmonization	<i>Elimination distributive distortions</i>
5) Extending targeted (minimum) pensions	<i>Recalibration / adaptation</i>

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Pension reforms, projected replacement rates %

	2007	2060	Percentage point change
Denmark	39	38	-1
Germany	51	42	-9
Italy	68	47	-21
Netherlands	44	41	-3
Poland	56	26	-30
UK	35	37	+2

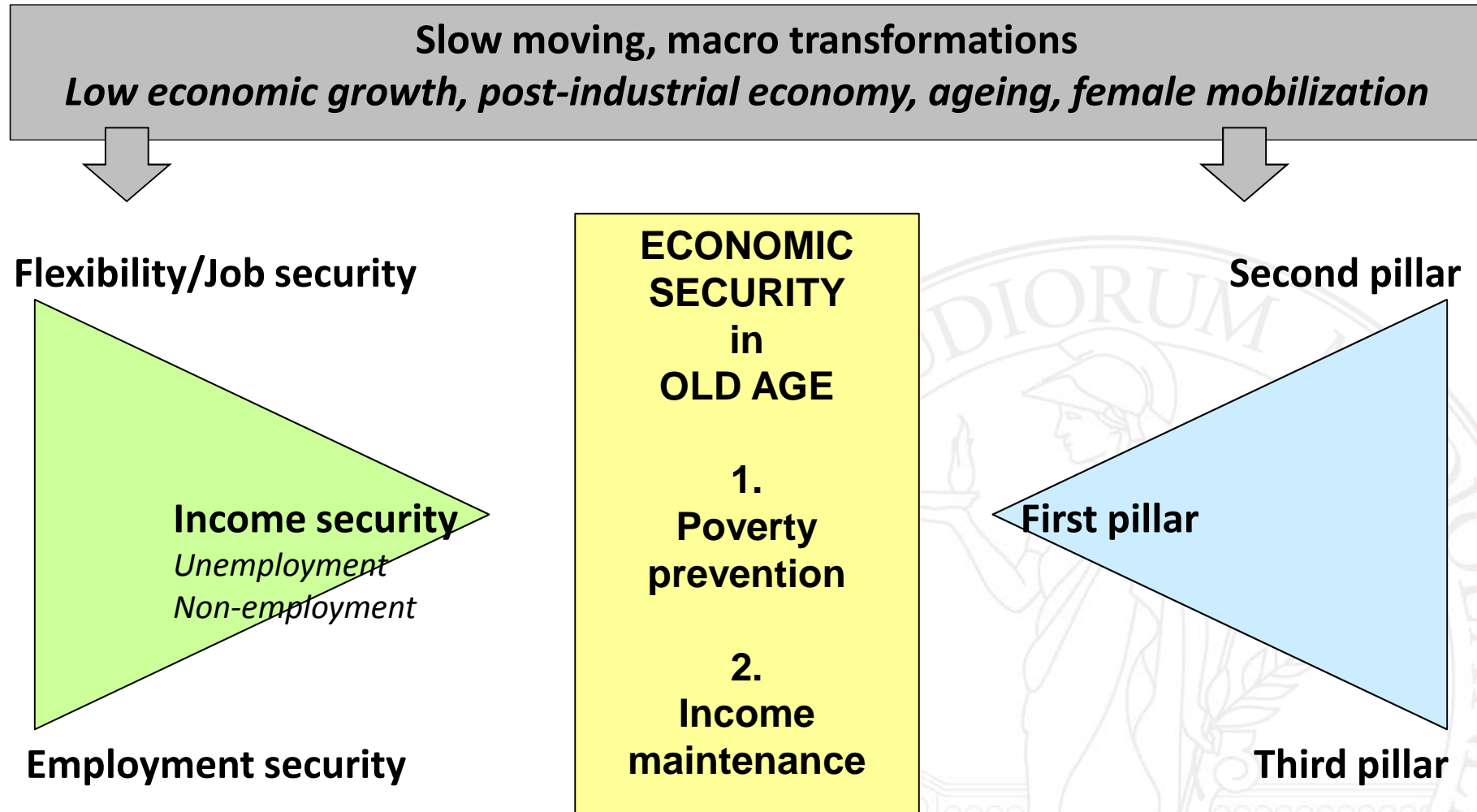
Source: European Commission 2009



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Framing the analysis



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**Incidence of fixed-term employment
(% of dependent employment), 1983-2009**

Time	1987	1995	2003	2007	2009
Denmark	11.1	12.1	9.6	9.1	8.9
Germany	11.6	10.4	12.2	14.2	14.5
Italy	5.4	7.2	9.5	13.4	12.5
Netherlands	9.4	10.9	14.5	18.0	18.3
Poland			19.4	28.2	26.5
Switzerland			12.1	12.9	13.2
UK	6.3	7.0	5.9	5.8	5.7
EU15	9.0	11.4	13.1	14.8	13.7



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**Incidence of part-time employment
(% of total employment), 1983-2009**

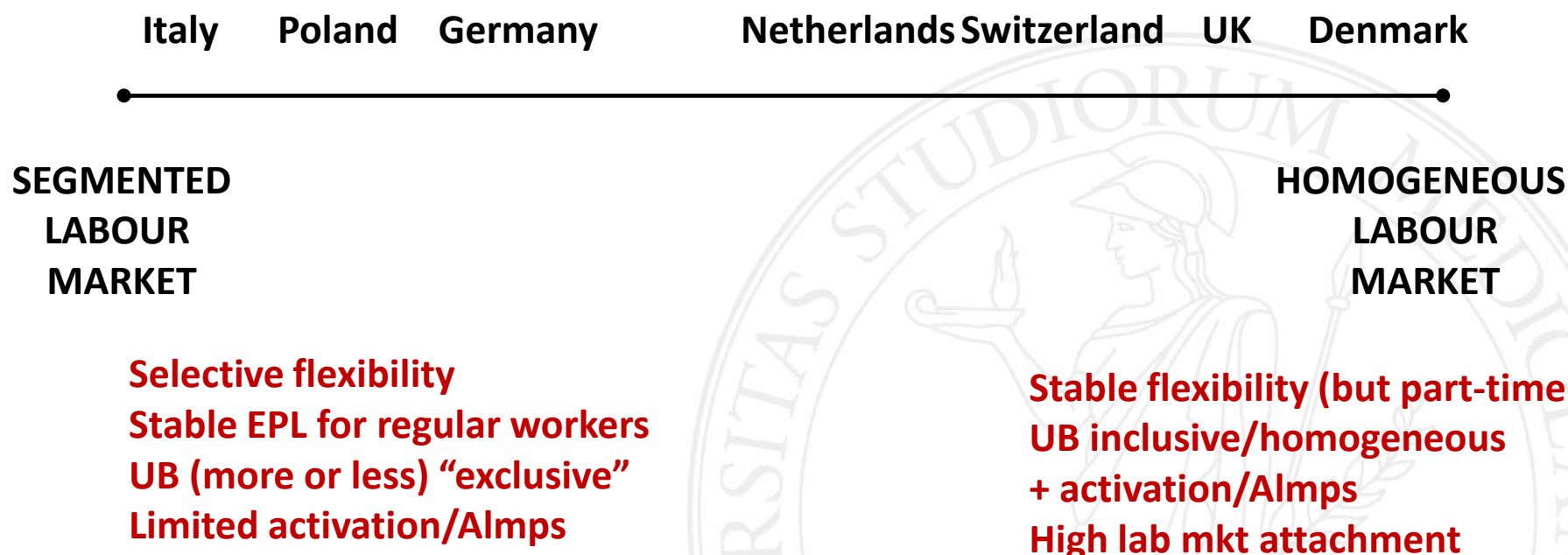
	1987	1995	2003	2007	2009
Denmark	19.9	16.9	15.7	17.7	18.9
Germany	11.0	14.2	19.6	22.2	21.9
Italy	8.5	10.5	12.0	15.1	15.8
Netherlands	26.4	29.4	34.6	36.1	36.7
Poland			11.5	10.1	8.7
Switzerland		22.9	25.1	25.4	26.2
UK	20.8	22.3	23.7	23.3	23.9
EU15	13.0	14.8	16.6	18.1	18.6



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Segmented vs homogenous
labour markets and employment policy models



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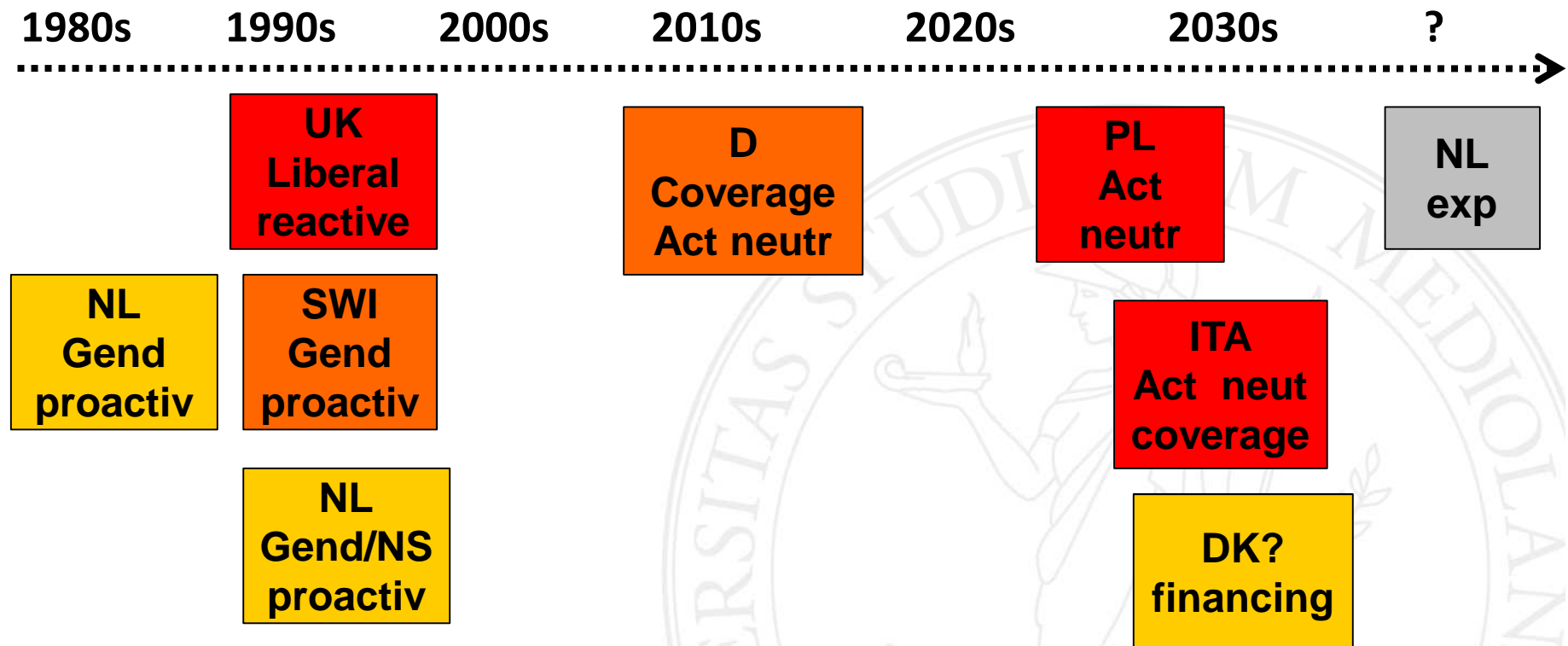
Pension reforms & atypical workers

- **Coverage gaps** **First pillar**
 Supplementary pillars
- **Equivalence principle & actuarial neutrality**
- **Contributions rates & benefits level**
- **Coverage of spells of unemployment and non-employment**



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Different context, different problems
TYPE & TIMING



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Different settings, different problems

The outcomes of the interplay between labour market and pension developments vary according to:

- Labour market models and patterns of flexibility:

Homogeneous LM (DK ... UK) *versus* Segmented LM (D, I, PL)

- The level of redistribution in the first pension pillar / ability to prevent poverty

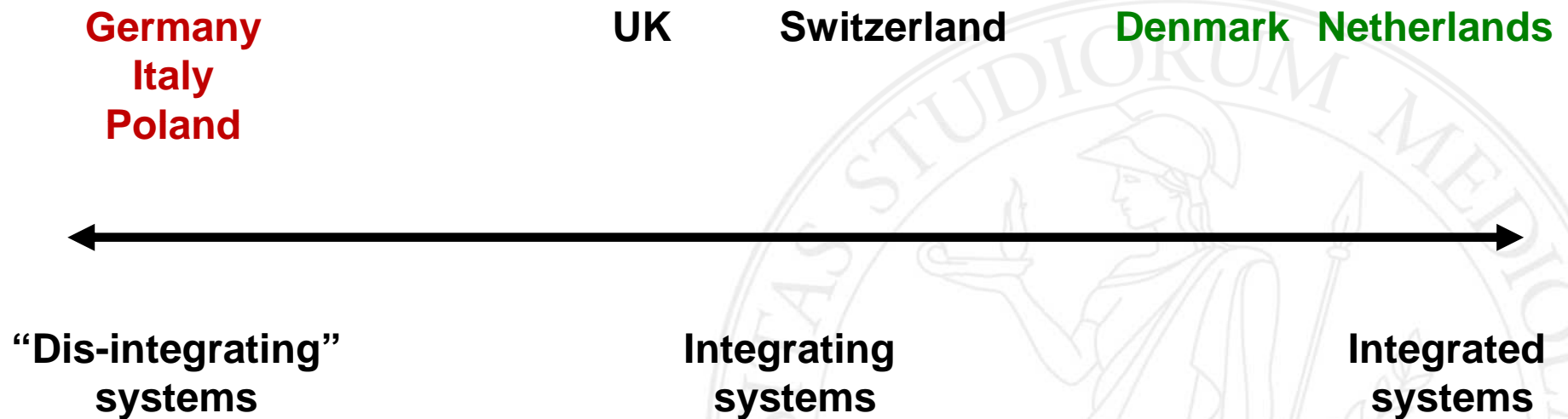
High (CH, DK, NL) Low to Medium (UK) Low (D, I, PL)

- Pension system inclusiveness/Institutional adjustment to post-industrial lab. mkt.

High (CH, DK, NL, PL) Low (D, I, UK)

- Reforms aimed at counterbalancing flexibility in order to promote security in old age: NL, CH....UK





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**Adapting pensions to post-industrial labour markets:
a critical challenge, a major issue of concern**

Major issues of concern for Europeans (Eurobarometer)*

	Germany	Poland	Italy	UK	Denmark	Netherlands
Pensions	43%	39%	29%	25%	10%	10%
Unempl.	47%	53%	34%	13%	3%	5%

* Multiple responses allowed, total is not 100%



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**Basic (resource-tested and minimum) retirement benefits
as % of average earnings**

Denmark	36
Germany	19
Italy	22
Netherlands	31
Poland	24
Switzerland	24
United Kingdom	28

The importance
of
preventing
old age poverty?

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The Italian risky combination
Selective flexibility & defined contribution pensions

1997 TREU REFORM
2003 LAW 30/03

SELECTIVE FLEXIBILIZATION

- “At the margin”
- targeted to new entrants in the labour market

WITHOUT SECURITY

- Exclusive UB system
- Weak ALMPs

1995 DINI REFORM
SHIFT to NDC

- for the new entrants in the labour market

1992-2007

MULTI-PILLARIZATION

- Voluntary affiliation
- DC schemes only
- Possibility to convert pre-existent severance pay-TFR



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The risky Italian combination *Selective flexibility & defined contribution pensions*

- Coverage gaps
 - First pillar - NO, FULL COVERAGE
 - Supplementary pillars - LIMITED COVERAGE 30%
ATYPICAL GENERALLY NOT COVERED
- Contributions rates and benefits level - REGULATORY DIFFERENCES 1ST PILLAR
- Equivalence principle/actuarial neutrality - STRONG, ALL PILLARS (NDC + DC)
- Coverage of spells of unemployment and non-employment - LIMITED
- Labour market performance - MODEST



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The Dutch way to integration *flexicurity also in old age*

- Coverage gaps
 - First pillar
 - Supplementary pillars
 - Contributions rates and benefits level
 - Equivalence principle/actuarial neutrality
 - Coverage of spells of unemployment and non-employment
 - Labour market performance
- NO, UNIVERSALISTIC
 - HIGH COVERAGE 90%
 - REGULATORY CHANGES TO INCLUDE ATYPICAL WORKERS (PT/FT)
 - SOME VARIATION IN 2ND PILLAR
 - LOW, GENEROUS FLAT RATE 1ST PILLAR DB SUPPLEMENTARY SCHEMES
 -
 - STRONG



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Switzerland:
proactive policies for integrating atypical workers & old age security

- Coverage gaps
 - First pillar
 - NO (INCREASED GENDER FAIRNESS)
 - Supplementary pillars
 - EXPANDED COVERAGE (90%) THROUGH COMPULSION
 - REGULATORY CHANGES INCLUDED ATYPICAL WORKERS (pt/ft)
- Contributions rates and benefits level
 - SOME VARIATION IN 2ND PILLAR
- Equivalence principle/actuarial neutrality
 - MODEST, INCREASED REDISTRIBUTION 1ST PILLAR
 - DC 2ND PILLAR
- Coverage of spells of unemployment and non-employment
 - YES
- Labour market performance
 - STRONG

