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# Exploring a blind spot in comparative pension reform research: long-term trends in non-contributory pensions in Europe

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## **Abstract**

Over the past two decades, pension reforms have been high on the agenda of social policy makers in Europe. In many countries, these reforms have resulted in less generous public pensions. At the same time, minimum income protection for older adults has received attention from policy makers, but much less so from social policy researchers. Therefore, this study explores how benefit levels of non-contributory minimum income schemes for older adults evolved from 1992 to 2012 in 13 ‘old’ EU member states. Building on two cross-national longitudinal datasets with comparative data on minimum income protection in Europe, it shows that over the past 20 years the erosion of the principal safety net of last resort for older persons has been limited. Moreover, a substantial number of European countries have pursued a deliberate policy of considerable increases in minimum income benefits.

## **Introduction**

Over the past 20 to 30 years, current and projected increases in public pension spending have led to the implementation of widely documented pension reforms in the North, East, South and West of Europe (see e.g. Bonoli & Palier, 1998, 2007; Ebbinghaus, 2011; Fultz, 2004; Hinrichs, 2000; Holzmann, MackKellar, & Repanšek, 2009; Immergut, Anderson, & Schulze, 2007; Kangas, Lundberg, & Ploug, 2010; Müller, 2002; Natali, 2008). In general, these reforms have led to less generous contributory pensions and shifted more risks towards individuals, with a more restrictive redistribution towards persons living on low incomes (cf. Grech, 2015; Zaidi, Marin, & Fuchs, 2006).

In Europe, comparative researchers have focused mainly on the politics of these pension reforms and their results in terms of changes to the main public pension scheme and the public–private mix in old-age provision. Even though reforms to minimum income protection schemes for older people are not entirely neglected in case study research (e.g. Augris & Bac,

2009; Capucha et al., 2005; Kangas et al., 2010; Kapteyn & de Vos, 1999; Immergut et al., 2007; Monacelli, 2007), they are generally overlooked in comprehensive comparative studies (an exception is Pearson & Whitehouse, 2009).

A focus on minimum income guarantees is justified for an interrelated set of reasons. First, it is an important element in alleviating poverty in old age. The provision of adequate levels of retirement incomes that ensure that older people do not risk falling into poverty should be one of the core objectives of pension policy, as has been emphasised at the Laeken European Council in 2001 and confirmed in 2006 and 2012 in the European Commission's White paper on pensions (cf. Eckardt, 2005; European Commission, 2006, 2010, 2012)<sup>1</sup>. Minimum income guarantees are a crucial part of old-age income provision in terms of alleviating poverty in old age, especially for persons with 'incomplete' careers or low earnings throughout their working lives (e.g. European Commission, 2006). Therefore, a good understanding of the dynamics of minimum income protection is not only relevant for evaluating whether pension policy invests sufficiently in meeting one of its core objectives, but also for explaining cross-national differences and trends in old-age poverty.

Second, in a substantial number of countries, minimum income guarantees for older adults are likely to become more important in the future. There is a tendency in recent pension reforms to re-strengthen the link between contributions and benefits, inter alia evident in a growing reliance on defined-contribution (private) pensions. This leads to a projected fall in public pension replacement rates in many of the EU member states. In addition, more and more countries are relying on price indexation rather than indexation to wage growth (e.g. European Commission, 2005, 2009; Meyer, Bridgen, & Riedmüller, 2007; Monacelli, 2007; OECD, 2009; Whitehouse, D'Addio, Chomik, & Reilly, 2009; Zaidi et al., 2006). In combination with the current growth in the number of persons with non-standard working

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<sup>1</sup> Of course, the importance of this goal has varied over time and across countries, Germany is a case in point. See Berner, 2005.

careers, non-contributory pensions may well become even more important in the future (see also Ebbinghaus, 2012).

Third, there are good reasons to assume that the reform dynamics of non-contributory minimum income protection schemes are different from those of contributory earnings-related pension schemes. This is not only because both types of schemes tend to serve a different purpose (crudely poverty avoidance, respectively income maintenance), but also because reforms to minimum income benefits generally affect current pensioners whereas reforms to contributory schemes tend to be implemented with long phase-in periods on the basis of so-called grandfather clauses, and thus affect a different group of voters. Hence, there is no reason to assume that changes to minimum income protection schemes have gone in the same direction as overall pension reforms.

For these reasons, in this study we tracked the changes to non-contributory minimum income schemes in 13 'old' EU member states, focusing mainly on those aspects that tend to most directly affect the poverty-reducing capacity of minimum income benefits – the mode of access and the level of benefits. We focused on trends since the early 1990s. By then, under the pressure of fiscal imbalances and population ageing, in nearly all EU-15 countries the trend towards extending pension rights had come to an end. At the same time, improving the financial sustainability of pension schemes became the principal purpose of pension reform (e.g. Hinrichs, 2000). This article offers one of the first systematic comparative reviews of long-term trends in non-contributory minimum income schemes for older people in Western Europe (see also Pearson & Whitehouse, 2009). Its main complementary value vis-à-vis the above mentioned case studies lies in the construction of quantitative indicators that are comparable both across time and across countries. This allows for a detailed mapping of the reforms that have taken place and how these are associated with trends in benefit levels and beneficiary numbers. This article shows that the erosion of non-contributory schemes has

been limited in the large majority of ‘old’ EU Member States. This stands in sharp contrast to many of the cost-containing pension reforms (cf. Hinrichs, 2000) and the erosion of social assistance for able-bodied persons at active age (Nelson, 2008, 2010, 2013; Van Mechelen & Marchal, 2013) observed over the past 20 years.

The outline of the article is as follows. First, we propose a terminological clarification with regard to different types of non-contributory minimum income schemes for older people and discuss the development of non-contributory pensions in Western Europe. Second, we briefly introduce the datasets used. Third, we document developments in minimum income schemes targeted at older adults over the past 20 years. Fourth, we devote specific attention to the most recent trends following the onset of the financial and economic crisis. Lastly, we introduce several hypotheses which might help explaining the observed trends, and then conclude.

### **The development of non-contributory pensions in ‘old’ Europe**

In the literature, there is quite some ambiguity in the concepts used for denoting different types of minimum income protection schemes for older persons. In the present study, we followed the categorisation of minimum income schemes for older people introduced in Goedemé (2013). This categorisation was based on two important eligibility criteria.

A first distinction relates to the difference between contributory and non-contributory provisions, that is, whether or not eligibility to a minimum income in old age depends on the contributions one has made during his or her working life. This study looked exclusively at non-contributory minimum income provisions in old age, as these are a right for all citizens – not solely for those with working careers – and constitute the principal final safety net for older people. A second distinction relates to whether or not eligibility to a minimum income guarantee is tested against certain types of income. Both contributory and non-contributory

minimum provisions show large variations in means tests. As regards the non-contributory income protection provisions, we distinguished between a non means-tested basic pension, a pension-tested conditional basic pension, and a social pension with a broader means test (see Table 1).

**[Table 1 about here]**

A *basic pension* is a universal benefit or demogrant (cf. Deleeck & Cantillon, 1986; Perrin, 1967). It is granted to all citizens above a certain age, regardless of other sources of income. However, other conditions – especially with regard to residence history – may apply, both for establishing eligibility and defining the benefit level. A *conditional basic pension* tops up pension income to a pre-defined level. Other income sources are not taken into account for defining the benefit level, although in some countries the residence record is relevant for both eligibility and the level of the benefit. *Social pensions* are the most common type of non-contributory minimum income protection for older people in Western Europe. Eligibility depends on a means test which includes not only public pension income, but also other income sources. Sometimes a minimum residence record of several years before submitting the claim is required. Administratively, social pensions may be part of a general social assistance scheme or of the public pension system.

In some countries, there is no non-contributory minimum income guarantee targeted at older people. In these countries, those not qualifying for a contributory pension are catered for by the general social assistance scheme. Although this has been the case throughout history in a number of Western European countries, in 2012 only Luxembourg had no special provisions for older people. In Austria, older persons are covered by the recently introduced national general social assistance scheme, yet they receive additional top ups. At the start of the 1990s, also older persons in the United Kingdom and Germany had to rely on the general social assistance scheme. However, with the introduction of the *Minimum Income Guarantee* in the

United Kingdom in 1999, and the *Mindestsicherung im Elter und bei Erwerbsverminderung* in Germany in 2003, also the latter two countries shifted to categorical minimum income protection provisions targeted at older people (Atkinson, 1991; Eardley, Bradshaw, Ditch, Gough, & Whiteford, 1996; National Statistics, 2005).

In the remaining *social pension* countries (see Table 1), categorical social assistance for older persons was from the onset a separate scheme, with its own institutional design (cf. Augris & Bac, 2009; Cantillon, Peeters, & De Ridder, 1987; Deleeck, Berghman, Van Heddegem, & Vereycken, 1980; Denaeyer, 1969; Eardley et al., 1996; Horusitzky, Julienne, & Lelièvre, 2005; Immergut et al., 2007; Matsaganis, Ferrera, Capucha, & Moreno, 2003; Nauze-Fichet, 2008; Overbye, 1997; Sacchi & Bastagli, 2005). These minimum income guarantees in old age were introduced in the course of the 20th century, and generally well before the working age population was covered by a general social assistance scheme..

Of the old EU-15 countries, only Sweden, Denmark, Finland and the Netherlands have a (conditional) basic pension as their main non-contributory minimum income scheme for older people. These countries all introduced a *basic pension* in the 1940s and 1950s, replacing their former universal means-tested pensions. The new basic pensions became the cornerstone of their public pension systems (Kapteyn & de Vos, 1999; Myles, 1984; Overbye, 1997; Palme, 1990). Later on, Denmark incorporated some elements of means testing in parts of its basic pension and Finland and Sweden converted their basic pension into a conditional basic pension (cf. *infra*), leaving the Netherlands as the only country providing a ‘pure’ basic pension in old age. In all four countries (with the exception of Finland since the 2011 reform), entitlement to and the level of the benefit strongly depend on the number of years of residence, implying that especially for migrants either the general social assistance scheme or a separate social pension remained the safety net of last resort.



Although we focused in the study on non-contributory pensions, it should be kept in mind that also contributory schemes foresee minimum income arrangements, such as minimum pensions and pension supplements. In addition, many contributory pension schemes incorporate other redistributive elements, for instance by equalising periods of unemployment or child care with periods of work. Yet, these forms of income protection are available only to those who have contributed during working life. In many cases, a minimum contribution record applies (cf. Goedemé, 2013; Goedemé & Van Lancker, 2009).

## **Two recent data sources**

We focused on trends in generosity and caseloads of the main non-contributory minimum income protection scheme in each country. Trends in generosity were captured through trends in gross and net benefit levels in constant prices and relative to average gross wages. The indicators we used were derived from the expert-sourced Centre for Social Policy Minimum Income Protection Indicators dataset (CSB-MIPI). CSB-MIPI contains standardised institutional indicators relating to the main non-contributory minimum income schemes for the older adults in the EU-15 (see Table 2 for an overview). In particular, it contains gross benefits and simulated disposable income packages for 1992 until 2012. Gross benefit levels refer to ‘maximum’ gross benefit amounts for older couples, that is, the level of the non-contributory pension that older couples would receive if they had no other source of income. In addition, when relevant, it was assumed that beneficiaries have a complete residence record. Net incomes were based on model family simulations of non-discretionary income components for a hypothetical family (an older single person and a married couple), taking account of the applicable tax-benefit rules. The simulations of net incomes included non-discretionary housing benefits and heating allowances, as well as taxes and social insurance contributions (if applicable). Unless specified otherwise, simulations of housing benefit levels

built on an assumption of housing costs equal to two-thirds of the median rent (two-thirds of the average rent for 1992 and 2001). In Greece only, the model families were assumed to be owner-occupiers rather than tenants. Importantly, the family members were assumed to have reached the minimum pensionable age, to be ineligible for full contributory benefits, and not to have had any accumulated savings. Simulations refer to tax-benefit regulations at specific moments during the year (31 May 1992, 30 June 2001, 30 June 2009 and 1 January 2012).

These assumptions were self-evidently more relevant in some countries than in others (e.g. the share of the older population living in single or couple households ranged from around 90% in Denmark to around 54% in Spain, see Van Mechelen, Marchal, Goedemé, Marx, & Cantillon, 2011). However, model family simulations do not serve to describe the social outcomes of minimum income schemes; rather they serve as cross-nationally comparable *policy* indicators of the generosity and the functioning of minimum income schemes in the national tax-benefit context. A more detailed description of CSB-MIPI, with a discussion of the advantages and limitations of this type of information is provided in Van Mechelen et al. (2011).

**[Table 2 about here]**

Data on the number of beneficiaries of the main non-contributory minimum income scheme were extracted from the Dataset on Minimum Income Protection in Europe (EuMin), developed by the Mannheim Centre for European Social Research (MZES) (Bahle, Hubl, & Pfeifer, 2011), and extended and updated to 2012 by the authors. For the Nordic countries, the Netherlands, Italy and Greece, we built on administrative sources to complete the database. The number of beneficiaries usually refers to the situation on 31 December each year.

Table 2 provides a detailed overview of the schemes included in the analysis.

Luxembourg and Austria were not included in the analysis, because special provisions for

older people either do not exist or are regionalised<sup>2</sup> (for more information, see e.g. Goedemé, 2013; Van Mechelen & Marchal, 2013). In some cases, newly introduced minimum income schemes apply only to new beneficiaries entering the scheme. In these cases, gross benefit levels refer to the new scheme, whereas caseloads refer to the total number of beneficiaries of both the old and the new non-contributory minimum income scheme. In the next section, we distinguish between trends in countries where the main rights-based non-contributory minimum income guarantee for older people consists of a (conditional) basic pension, and those countries where the main non-contributory minimum income guarantee for older people is a social pension.

## **Trends in non-contributory pensions**

### *(Conditional) basic pension countries*

At the start of the 1990s, Denmark, Finland, the Netherlands and Sweden all had a basic pension as the principal source of non-contributory income protection in old age. Table 3 clearly illustrates the universal character of these basic pensions: In the early 1990s, the basic pensions were received by nearly all persons above the official retirement age. In contrast, social pensions are generally received by only a fraction of the older population. Changes to the mode of access, level and structure of basic pensions over the past 20 years hence affected substantially more persons than the changes to the social pensions discussed further.

### **[Table 3 about here]**

Over the period 1992 to 2012, the most radical changes occurred in Finland and Sweden. Finland was the first country to convert its basic pension into a conditional basic pension. Since 1996, with a phase-out period until 2001, the national pension is tested against other public pension income (Social Insurance Institution, 2002). Consequently, beneficiary

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<sup>2</sup> Minimum income protection is a regional responsibility in Austria. In 2010, a harmonised national scheme was introduced, but regional differences remain possible.

rates in Finland suddenly dropped from about 100 per cent to 65 per cent of the older population in 2001. While access to the conditional basic pension was restricted, the level of the benefit was increased gradually during the first decade of the 2000s. This increase is remarkable, given that until 2000 benefit levels were in real terms still at the level of the mid-1960s (Kangas, 2007). Yet, the increases were insufficient to keep benefits in line with trends in average wages (Table 4). In March 2011, Finland introduced a new conditional basic pension, the so-called ‘Guarantee Pension’ (*Takuueläke*). This new conditional basic pension co-exists with the original conditional basic pension (*Kansaneläke*). Although the pension test is far more strict (the Guarantee Pension decreases one to one with other pension income), it is more generous than the *Kansaneläke* in the sense that it does not depend on the residence history of applicants and that it provides a higher benefit level (Kela, 2011). In fact, if we factor in the introduction of the Guarantee Pension, the guaranteed minimum income for older couples without other resources increased by over 35 percentage points in real terms (see Figure 1), bringing the gross benefit level back in the range of its relative 1992 value, at 43 per cent of the average gross wage. Figure 4 shows an equally substantial increase in net benefits for couples. Increases for singles were somewhat more limited.

Also in Sweden the basic pension has been replaced with a conditional basic pension (the *Garantipension*), leading to a sudden drop in the percentage of older people receiving a benefit in 2003 (see Table 3). In addition, its gross level was increased in order to compensate for the abolishment of a tax allowance. Consequently, in net terms, real benefit levels increased much less (see Figure 4). In addition, both before and after this increase, gross benefit levels eroded substantially relative to trends in gross average wages.

**[Figure 1 about here]**

Less radical changes have taken place in Denmark and the Netherlands, although also in these two countries we find traces of attempts to contain the cost of the basic pension

schemes. In the early 1990s Denmark increased the weight of the means-tested component of the basic pension by slightly raising the means-tested part and decreasing the basic amount of the basic pension as well as by re-introducing a ‘high-earnings test’ in 1994 (Overbye, 1997). Similar to what happened in Sweden in the early 2000s, in 1994 the basic pension became taxable, and gross benefit levels were increased as a compensatory measure. Hence, as in Sweden, gross benefit levels increased, although net benefit levels did not. Ten years later, the basic pension scheme was somewhat expanded. First, in 2003 a means-tested supplementary benefit (the so-called pensioners’ cheque) was introduced (OECD, 2009). Subsequently, in 2004, the retirement age was lowered from 67 to 65, which led to an articulated increase in the number of beneficiaries (e.g. Green-Pedersen (2007), see also Table 3)<sup>3</sup>.

In the Netherlands, reforms of the basic pension were limited to the individualisation of benefits in 1994 (Kapteyn & de Vos, 1999). Gross benefit levels held their ground relative to average wages in the Netherlands, be it in the context of relatively low real average wage growth. Figures 1 and 4 show that in the 1990s net incomes of basic pension beneficiaries increased substantially despite relatively flat gross benefits, as pensioners became eligible for local tax exemptions and decreased tax liabilities in the personal income tax system. In contrast, both gross and net basic pensions remained quite constant in real terms in the 2000s.

**[Table 4 about here]**

### *Social pensions*

In contrast to (conditional) basic pensions, changes to social pensions affect far fewer people, even though there are strong variations in relative caseloads (see Table 3). Remarkably, also trends in benefit levels are much more diverse. Figure 2 presents real trends in gross social pensions for a couple. For ease of presentation we distinguish between countries with more moderate real increases or standstills in benefit levels (Germany, France, Italy and Spain) and

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<sup>3</sup> As in most Western European countries, the retirement age will be raised again in the near future.

countries where large increases took place (Belgium, Greece, Ireland, Portugal and the United Kingdom).

Germany stands out as the only country where the gross social pension decreased in real terms since the 1990s – at least for older persons living in the old *Länder*. This was the result of an important restructuring of the composition of the minimum income guarantee in 1996. Until 1995, West German older social assistance beneficiaries were entitled to supplements for old age within the general social assistance scheme. In East Germany, where only in 1990 a modern social assistance scheme was introduced, such supplements were lacking. The 1996 reform abolished this important difference between both parts of the country by limiting the supplements in West Germany to the ill and disabled. As a result, the gross minimum income benefit for West German older people lost 20 per cent of its value in real terms (Hanesch et al., 1994; Willing, 2008). In 2003, a new means-tested minimum income scheme was implemented specifically for older people and disabled, with a different, less stringent means test. This resulted in a substantial increase in the number of beneficiaries, although the caseload remained low in comparison with other European countries (see Table 3). In 2005, benefit levels were raised again, but remained below the West German level of the early 1990s. However, for older persons living in the new German states, minimum income protection improved markedly: given that they were never entitled to the old-age supplements in the first place, means-tested benefits were at the end of the 2000s well above their real level in 1992. Net benefits closely followed the development of gross benefits in the 1990s (see Figure 4). In contrast, the modest increase of real gross benefits in the 2000s did not translate into rising net disposable incomes due to the abolishment of supplements for one-off expenses such as clothing or household facilities.

In contrast, in France real benefit levels have remained more or less constant over the past 20 years, although in 2007 the old *minimum vieillesse* was replaced with a new,

integrated means-tested benefit. In contrast to the old scheme, non-married partners were now treated as a couple, but this did not substantially affect the overall caseload of the scheme. At the same time, the modest increase in real gross and net benefit levels that was realised in the mid-1990s, was completely undone between 2007 and 2012, at least for couples. In contrast, for singles, net benefit rates were deliberately raised in this period (cf. Figure 4). Remarkably, the number of beneficiaries of the French social pension has, since its introduction in the mid-1950s, continuously declined as a result of improved coverage by social insurance schemes (Augris & Bac, 2009). This trend continued over the next two decades, but slowed down since the early 2000s.

Spain implemented a proper social pension only in 1991 (Chuliá, 2007). Since 1995, benefit levels are linked to the level of social security benefits and indexed to prices. Apart from gradual increases from 1999 onwards, the *Pensión de jubilación no contributiva* was not reformed in the past 20 years. Nonetheless, gross as well as net minimum income protection for older people improved slightly in real terms. Also in Italy the social pension<sup>4</sup> retained its real value over the past 20 years. In fact, it increased by 10 per cent. In contrast to the Spanish social pension, this development was not the result of continuous indexing combined with discretionary increases, but rather reflects a number of reforms introduced in the second half of the 1990s. In the first half of the 1990s, gross benefit levels decreased in real terms by lack of indexation of the so-called social top ups to the basic amount (i.e., the *maggiorazioni sociali*). In addition, in 1993 the means test of the social pension was changed from an individual to a couple basis, which meant that especially women suffered a reduction in entitlements if their husband's income was too high for them to qualify (Eardley et al., 1996). The minimum income protection scheme was further reformed in 1995 as part of the Dini pension reform, when the *pensione sociale* was replaced with the *assegno sociale* for all new

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<sup>4</sup> Gross social pension amounts for Italy correspond to the *pensione sociale* including pension supplements for persons below the age of 70 and from 1996 onwards to the *assegno sociale*.

entrants to the scheme. Benefits were higher than the *pensione sociale*, but supplements were abolished and a stricter means test was introduced, leading to a further decrease in gross benefit levels and a modest decline in the number of beneficiaries. Remarkably, in the aftermath of the Prodi reform of 1997, benefit levels were strongly raised between 1999 and 2001, to remain more or less constant in real terms until the end of the 2000s. In addition, since 2002, persons aged 70 and over can benefit from increased supplements (Ferrera & Jessoula, 2007; Monacelli, 2007; Sacchi & Bastagli, 2005). It is noteworthy that the limited real increases of gross social pensions in Italy and Spain sufficed to keep benefits in line with trends in average wages. This was, however, not the case for Germany and France, where the relative value of the social pension as compared to the average wage eroded (at least for couples).

**[Figure 2 about here]**

The other five social pension countries all showed substantial increases over the 1992–2012 period. In three of them (Portugal, the United Kingdom and Belgium), means-tested minimum income schemes were thoroughly reformed. Benefit increases were most spectacular in Greece and Portugal, where real gross benefit levels more than tripled. Benefit levels increased less spectacularly, but nonetheless remarkably, in the United Kingdom and Belgium. With benefit increases of about 100 per cent, Ireland lies somewhere in between. In Portugal, from the mid-1990s onwards, the government started to rapidly raise gross social pension benefits, which were generally recognised to be too low (Capucha, Bombal, Fernandes, & Matos, 2005; Chuliá & Asensio, 2007). This trend was further accelerated in 2006, when the Portuguese government aimed at increasing income protection for older people to the level of the European at-risk-of-poverty threshold (equal to 60% of the median equivalent disposable household income) through the gradual implementation of a new social pension. In 2006, the *Complemento Solidário para Idosos* was first implemented for persons



aged 80 and over. Subsequently, the age limit was gradually lowered to 65 years in 2009, while gross benefit levels were further raised, resulting in a sharp increase in the number of beneficiaries (cf. Table 3).

In contrast, the stark increase of benefit levels in Greece cannot be traced back to a far-reaching reform. Apart from the lowering of the eligible age from 68 to 65 in 1993, the structure of the Greek social pension remained unchanged (Eardley et al., 1996; Matsaganis, 2005). Nonetheless, benefit levels spectacularly increased and more than quadrupled in 20 years' time. In the same period, the number of beneficiaries more than doubled, even though the share of older people covered remained low from an international perspective (cf. Table 3).

In Ireland, the mid-1990s marked the start of a continuous increase in gross benefit levels. As part of the first National Anti-Poverty Strategy (1997–2007), both contributory and non-contributory pension levels were strongly increased (Russell, Maître, & Nolan, 2010). This was further reinforced with the introduction of the *State pension (Non-Contributory)* which replaced the *Old-Age pension (Non-Contributory)*. Although the benefit structure remained largely the same, the means test was reformed and benefit levels further increased, leading to a (temporary) increase in the number of beneficiaries in 2006. Similar to the situation in Greece and Portugal, also in Ireland benefit levels have grown faster than the average wage (cf. Table 4). In all three countries, net incomes of social pension beneficiaries followed similar trends.

In the United Kingdom and Belgium gross benefit levels increased less strongly. Nonetheless, also in these countries benefit levels grew faster than the average gross wage – at least during the 2000s. Until 1999, the United Kingdom did not provide a separate minimum income scheme targeted at older people, apart from the *Over 80 Pension* (or *Category D Retirement Pension*). Instead, general social assistance provided some additional

top ups for older people. It is noteworthy that these top-ups tended to increase faster than the basic social assistance rate. In 1999 the *Minimum Income Guarantee* was implemented, a categorical scheme for older people, which was administrated separately by the Pensions Agency. It retained most elements of *Income Support*, but gross benefit levels were further increased, while additional premiums for the very old were abolished. An even bigger change was implemented in 2003 with the introduction of the *Pension Credit*. The *Pension Credit* consists of two means-tested schemes. The first part, the *Guarantee Credit*, is available to all persons aged 60 and above and replaces the previous *Minimum Income Guarantee*<sup>5</sup>. In order to remove disincentives to saving, persons aged 65 and over can now – possibly on top of the *Guarantee Credit* – apply for the *Savings Credit* if they have some modest savings (Evans & Williams, 2009; Glennerster, 2007). Since November 2009, the means test disregards a higher level of savings. Figure 2 shows the gross level of the maximum benefit older persons could claim from respectively *Income Support*, the *Minimum Income Guarantee* and the *Guarantee Credit*. In 20 years' time, the real value of these minimum income guarantees has increased by about 60 per cent. In addition, the number of beneficiaries has grown by more than a third since the introduction of the *Guarantee Credit* (cf. Table 3).

In contrast, in Belgium the 1990s were characterised by constant real gross benefit levels. From 1996 onwards, the entitlement age for women was gradually raised from 60 years to 65 in 2009, in accordance with the increasing entitlement age for the public earnings-related pension schemes. Gross benefit levels started to improve only in 2001, when a new social pension was implemented. The new *Inkomensgarantie voor ouderen (IGO)* introduced a less strict means test. While in the 1990s benefit levels were equal to general social assistance levels, the new benefit was associated with large increases on top of price indexation, with the aim of raising it to the level of the at-risk-of-poverty threshold.

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<sup>5</sup> The pensionable age for the *Pension Credit* has been gradually increased from 2010 onwards (cf. <https://www.gov.uk/calculate-state-pension>, last accessed June 2014).

Moreover, from 2006 onwards, a 2-yearly evaluation of supplementary indexation on top of inflation became legally binding – even though the Government Agreement of 2011 scaled down the budget for these increases (Goedemé, De Vil, Van Mechelen, Fasquelle, & Bogaerts, 2012). Not surprisingly then, both in Belgium and the United Kingdom, during the 2000s benefit levels increased as a percentage of the average wage. Net benefit levels followed a similar trend.

### **Recent trends during the crisis**

It is interesting to assess whether these relatively favourable trends were maintained during the recent crisis. A large body of literature has by now appeared that describes and explains the impact of the crisis and crisis responses on different social policy fields (Clasen, Clegg, & Kvist, 2012; Dukelow, 2011; Farnsworth & Irving, 2011; Gauthier, 2010; Marchal, Marx, & Van Mechelen, 2013, 2014; Starke, Kaasch, & Van Hooren, 2013; Vis, van Kersbergen, & Hylands, 2011). However, to our knowledge, no such account currently exists as regards minimum income protection of older people. In earlier work (Marchal et al., 2013, 2014), we found that means-tested minimum income protection for the *working age population* was in the first crisis years actively reinforced in many countries. However, from 2010 onwards, austerity measures became more and more common. Generally, these were relatively hidden or technical changes, such as the skipping or changing of indexation. Nonetheless, some West European countries, most importantly Ireland and Portugal, did implement outright cuts in social assistance for the population at working age.

#### **[Figure 3 about here]**

Figure 3 focuses more closely on trends in real benefit levels of non-contributory minimum income guarantees for older persons since the onset of the crisis. Right after the onset of the crisis, we see a limited surge in gross benefit levels. Contrary to trends in

minimum income protection for the working age population, which also benefited from one-off discretionary increases (Marchal et al., 2014), the small increase for older people reflects the lagged reaction of statutory indexation rules to soaring consumer prices before the onset of the crisis. On the other hand, when the austerity tide started to affect European minimum income protection for the working aged, social and basic pensions were left relatively untouched. Benefits remained more or less constant in real terms, as statutory indexation was generally maintained. Some exceptions apply. Finland and Germany both skipped statutory indexation in 2010 as it would have resulted in *lower* benefits following falling prices. In addition, Finland pursued a substantial revalorisation of its conditional basic pension through the introduction of the Guaranteed pension later on (cf. supra). Germany, on the other hand, changed the underlying uprating mechanism. Only three countries actually froze their benefits after 2009/2010, not surprisingly Ireland, Greece and Portugal. This should however be seen in the context of outright cuts in the minimum income protection provisions for the working age population (cf. Matsaganis & Leventi, 2014).

**[Figure 4 about here]**

These trends in gross benefit rates are largely reflected in trends in disposable income for older singles and couples throughout the crisis (see Figure 4), as the minimum income guarantee is often the sole important income component for needy older persons. In some countries, older singles and couples may be eligible for housing allowances. However, these have been generally left untouched. Only in Italy and Greece, trends in net incomes are substantially worse than trends in gross benefits in the crisis period. For Italy, this is caused by a decrease in the accessibility of regional housing benefits for older minimum income guarantee beneficiaries. In Greece, this is especially the case for owner-occupiers as a result of the introduction of an emergency property tax in 2011 (included in Figure 4).

## Discussion

Over the past 20 years, most Western European countries implemented important changes to their public pension systems. Earlier research argued that these reforms would likely lead to lower public pensions and a shift of risks towards future pensioners in many countries (e.g. European Commission, 2012; Grech, 2015; OECD, 2009; Zaidi et al., 2006). This observation stands in stark contrast to the relatively favourable trends in *non-contributory* pensions documented in this article. In our introduction, we argued that we should not *per se* expect similar trends for contributory pension systems and non-contributory minimum income provisions for older people, as they serve different purposes (roughly income maintenance, respectively poverty avoidance). In addition, reforms to minimum income benefits generally affect current pensioners, whereas reforms to contributory schemes tend to be implemented with long phase-in periods (so-called ‘grandfather clauses’). Yet this does not explain *why* non-contributory minimum income schemes generally experienced more favourable trends. Different explanations are plausible, and should be investigated in future research. When it comes to explaining trends in minimum income protection, we are convinced it is important to make a distinction between basic pension schemes and social pensions. As regards social pensions, we briefly highlight three types of explanations that may inform further research.

First, as argued by Pierson (1994), means-tested anti-poverty schemes may more easily be spared from retrenchment efforts, as their fiscal impact will be limited while social consequences may be dire. The budgetary impact of the social pensions discussed in this article is indeed relatively small, especially for countries with a relatively low number of beneficiaries such as Belgium, where expenditures on the social pension amount to less than 2 per cent of total expenditures on public pensions. While this could explain limited decline in benefits, it does not explain the notable increases in social pensions observed for a non-negligible group of countries.

Second, an alternative explanation is the use of social pensions in a strategy of division and obfuscation for carrying out broader pension reforms (see in particular Pierson, 1994, and for a recent appraisal Bonoli, 2012). Older people as a group might raise substantial political power. Increasing minimum income protection for current pensioners may have the implicit aim to appease an easy-to-rally group of voters, effectively dividing current and future pensioners, especially if combined with grandfather clauses. In addition, by doing so, politicians can intermingle information on future benefit cuts (with important budgetary consequences) with news on current benefit increases (with relatively small budgetary consequences), which should cushion the negative effects on those hit hardest by the pension reforms (cf. the Spanish reform in the first half of the 1980s, described in Chuliá, 2007).

Thirdly, politicians may be driven not only by blame-avoidance strategies, but also by considerations of credit-claiming and ‘good’ policy (Weaver, 1986). First, raising the minimum income floor for older people may have been facilitated by the Open Method of Coordination (OMC) on pensions and social inclusion (European Commission, 2005, 2012). The sharp increases of social pensions in, Belgium, Ireland and Portugal featured expressly in a national strategy to combat old-age poverty with reference to the commonly EU agreed at-risk-of-poverty threshold. These could be considered examples of ‘success’ of the OMC in the sense that the adoption of the EU social indicators may have contributed to legitimate the EU at-risk-of-poverty threshold as a valid target level of minimum income benefits. Second, a more fundamental mechanism may be that due to demographic changes, policy makers are forced to strengthen the link between contributions and pensions and to increase the required contribution record for receiving a full pension. However, both people’s possibility to work longer and their life expectancy are unevenly distributed among the population. Hence, a policy of raising contributory requirements leads to an uneven distribution of the risk of a low pension, especially for those with breaks in their working career. Policy makers may thus

conclude that this should be corrected (e.g. Commissie Pensioenhervorming 2020–2040, 2014). This can only be done by strengthening minimum income entitlements, either through minimum pensions or social pensions. In other words, on the basis of this hypothesis, we would expect that the more governments strengthen the link between contributions and pensions, the more generous (residual) social pensions will be made. Of course, also other factors could be relevant, and future research should shed light on the likelihood of these hypotheses for explaining past trends and the cross-national differences observed in this article.

For (conditional) basic pensions, the explanation of recent trends may be somewhat different, as reforms to basic pensions affect many more persons and have stronger budgetary repercussions. Overbye (1997) pointed to the importance of both popular demand and budgetary pressures to the development of basic pensions. He posited that as soon as an earnings-related second public pillar complemented the basic pension, demands for a high flat rate minimum became less pressing while budgetary costs surged. Hence, it became necessary to reduce the tax-financed national pension at least by a proportion of the income from the new second-tier pension schemes, or to replace the national pension with various types of means-tested pension supplements, which are cheaper ways to provide a minimum pension guarantee. Especially for Finland and Sweden, we do indeed find evidence of such a cost-containing shift towards a conditional basic pension. The fact that in Denmark and the Netherlands the second pension pillar is occupational rather than public might explain why both countries have not gone so far in introducing cost-saving measures to their basic pensions.

In sum, the question remains as to what are the key drivers and conditions for reforms to these non-contributory pensions. We have offered several possible explanations, but further research is needed to disentangle the precise drivers of changing non-contributory pensions.

Given their expected increased importance for avoiding old-age poverty in the future, it is important to understand under what conditions their adequacy can be improved.

## **Conclusion**

This study set out to assess what has happened to the principal safety net for older persons in 13 ‘old’ EU countries. We show that there is no common trend towards less generous non-contributory minimum income schemes. On the contrary, in a substantial number of countries, generosity was strongly improved over the past 20 years. Except for West Germany, gross benefit levels have at least kept pace with inflation and often even with average wages, and have improved quite dramatically in Greece, Portugal, Ireland, the United Kingdom and Belgium. Net benefit levels have generally followed gross trends. These favourable trends stand in stark contrast to documented trends in recent pension reforms. We tentatively offered some possible explanations that may serve as an input to further research. In addition, for many countries, it is not very clear how and to what extent changes to non-contributory minimum income schemes have affected poverty rates. (Figari, Matsaganis, & Sutherland, 2008, 2013, provide a first comparative analysis.) Nonetheless, as in a number of countries, non-contributory minimum income schemes are likely to become more important in the future, a good understanding of their impact on poverty among older persons should be an equally important priority for further research.

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Table 1. Types of non-contributory minimum income guarantees for the elderly.

	<b>Type of means-test</b>	<b>Countries</b>
Basic pension (BP)	None	DK (partial), NL, FI (until 1996), SE (until 2003)
Conditional basic pension (CBP)	Pension income	SE (since 2003), FI (since 1996)
Social pension (SP)	Broader income/assets concept	BE, DE (since 2003), ES, FI (since 2002), FR, GR, IE, IT, PT, SE (since 2003), UK

Table 2. Overview of minimum income schemes included in the analysis.

	1990	1991	...	1995	1996	...	1999	...	2001	...	2003	...	2006	...	2011	2012
BE	Gewaarbordd Inkomen voor Bejaarden (SP)						Inkomensgarantie voor ouderen (SP)									
DE	Sozialhilfe: social assistance with top up for persons above legal retirement age (GSA)						Grundsicherung im Alter und bei Erwerbsminderung (SP)									
DK	Folkepension (BP+CBP)															
ES	Pensión de jubilación no contributiva (SP)															
FI	Kansaneläke (BP + CBP)				Kansaneläke (CBP)								Kansaneläke and Takuueläke (CBP)			
FR	Minimum Vieillesse (SP)												Allocation de solidarité aux personnes âgées (SP)			
GR	OGA (SP)															
IE	Old-Age Pension (Non-Contributory) (SP)												State Pension (Non-Contributory) (SP)			
IT	pensione sociale (SP)				Assegno sociale (SP)											
NL	Algemene Ouderdomswet (BP)															
PT	Pensão social de velhice (SP)												Complemento Solidário para Idosos (SP)			
SE	Folkpension (BP) + Pensionstillskott (CBP)										Garantipension (CPB)					
UK	Income Support (GSA)						Minimum Income Guarantee (SP)				Pension Credit (SP)					

*Note:* SP: Social pension; BP: basic pension; CBP: conditional basic pension; GSA: general social assistance. Only reform years included.

Table 3. Caseloads of the most relevant old-age non-contributory minimum income schemes as a percentage of the population aged 65 and over, 1992–2012.

	'92	'95	'98	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12
<i>Basic pension countries</i>																
DK	88	89	90	89	90	90	90	93	99	102	102	102	101	102	102	m
NL	107	107	108	108	109	109	110	111	112	112	113	113	114	114	116	115
FI	103	104	103	101	65	64	62	60	58	57	54	56	54	53	51	49
SE	101	103	104	105	105	105	58	56	54	53	51	48	46	46	47	m
<i>Social pension countries</i>																
BE	7	7	6	5	5	6	6	5	5	5	5	5	5	5	5	5
DE	1	1	1	1	1	1	2	2	2	2	2	2	2	2	2	2
EL	m	2	2	2	2	3	3	3	3	3	3	3	3	3	m	m
ES	1	3	3	3	4	4	4	4	4	4	4	4	3	3	3	3
FR	13	11	9	8	7	7	6	6	6	6	6	5	5	5	5	m
IE	28	25	23	21	21	20	20	19	18	21	21	20	20	17	18	18
IT	8	8	7	6	m/b	7	7	7	7	7	7	7	7	7	m	m
PT	9	6	4	3	3	3	3	2	2	3	5	11	14	14	14	14
UK <sup>a</sup>	13	15	14	13	13	14	14	19	20	20	19	19	19	19	18	16

*Note:* m = missing, b = break in series. In the basic pension countries the ratio may be higher than 100 per cent due to early retirement pensioners (FI), beneficiaries living abroad, or younger partners receiving a supplement (NL) being included in the numerator. <sup>a</sup> UK: number of beneficiaries aged 60 and over as a percentage of all persons aged 60 and over. Only beneficiaries in Great Britain taken into account.

*Source:* EuMin (Bahle, Hubl, & Pfeifer, 2011); NOSOSCO (2011, various years); Centraal Bureau voor de Statistiek (2014); Kela (2014); Pensionsmyndigheten (2014); ISTAT (2002); INPS & ISTAT (2012).

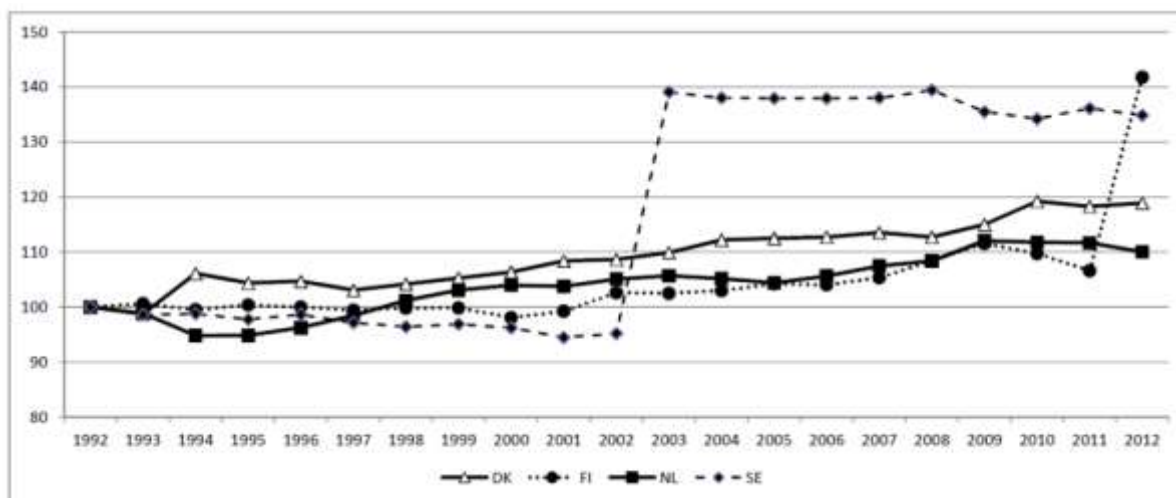
Table 4. Gross non-contributory benefit for an older couple as a percentage of the average gross wage.

	'92	'94	'96	'98	'00	'02	'04	'06	'08	'10	'11	'12
<i>Basic pension countries</i>												
DK	53	58	55	53	53	53	52	51	50	52	52	52
NL	45	42	43	47	46	46	46	45	46	46	47	47
FI	42	42	39	38	36	37	35	34	34	33	32	43
SE	49	47	44	41	39	38	53	51	50	47	47	46
<i>Social pension countries</i>												
BE	31	29	29	29	26	28	28	29	33	36	35	35
DE	28	28	22	22	21	21	21	24	23	23	23	23
EL	12	19	18	20	26	28 <sup>b</sup>	32	33	44	48	49	51
ES	31	29	30	30	31	32	32	32	32	31	31	32
FR	46	47	48	47	46	45	44	42	42	41	40	40
IE	37	36	35	37	40	39 <sup>a</sup>	40	43	45	47	47	47
IT	38	36	34	33	40	42	41	40	39	39	39	40
PT	36	35	24 <sup>b</sup>	24	24	25	26	58	61	60	61	63
UK	29	30	30	28	28	32	33	33	33	34	35	35

<sup>a</sup> 2003 amount; b: break in series.

Source: CSB-MIPI version 3/2013 (Van Mechelen et al., 2011); average wages from OECD (2014) and from CSB-MIPI for EL and PT prior to 1999 and 1996.

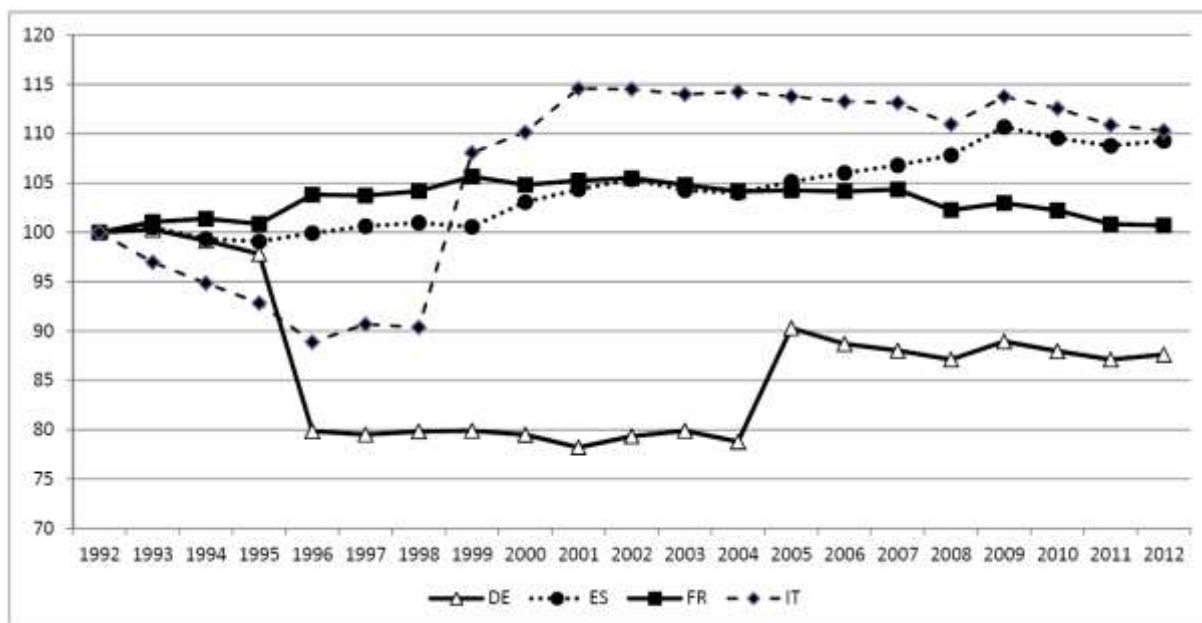
Figure 1. Trends in gross basic pension levels for couples, in constant prices, 1992–2012 (1992 = 100).



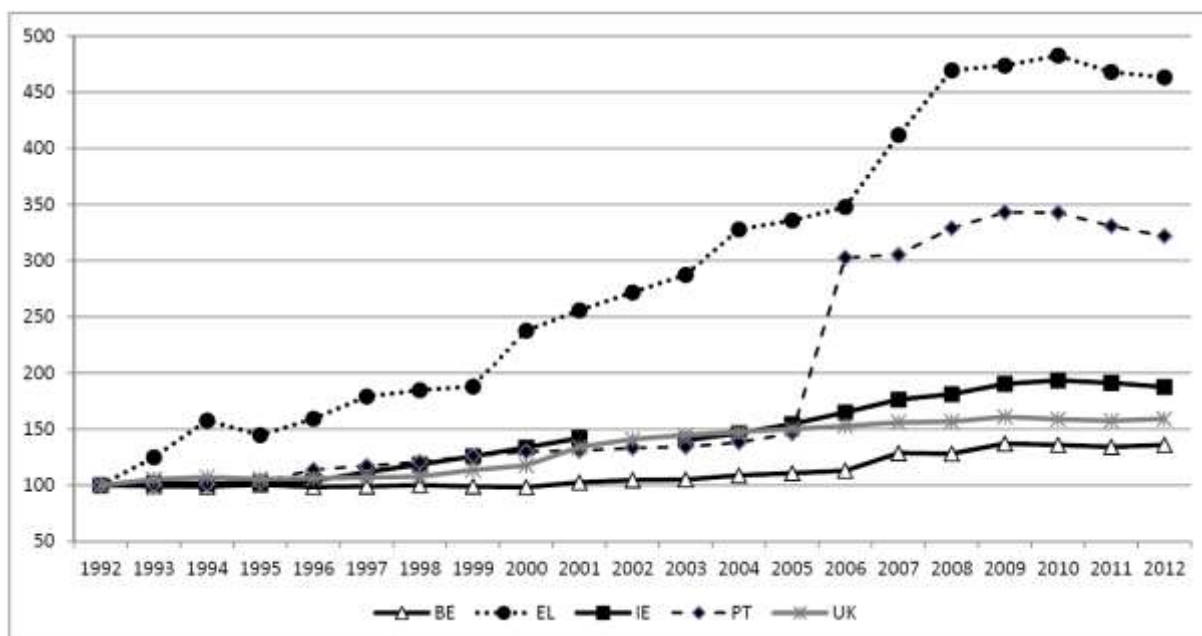
Source: CSB-MIPI version 3/2013 (Van Mechelen et al., 2011); before 1996 consumer price indices from ILO (2014), from 1996 onwards harmonised indices of consumer prices from Eurostat (2014); own adaptations and calculations.

Figure 2. Trends in gross social pension levels for couples, in constant prices, 1992–2012.

Panel A. No or moderate increases in social pensions.

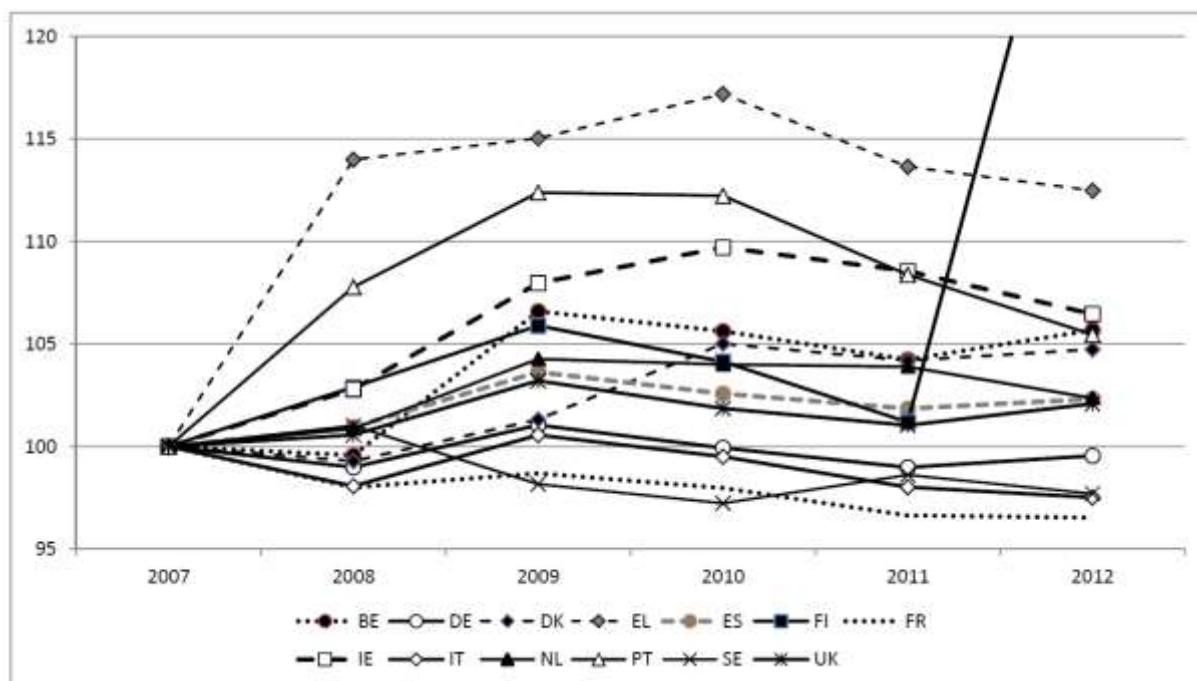


Panel B. Stark increases in social pensions.



Source: CSB-MIPI version 3/2013 (Van Mechelen et al., 2011); before 1996 consumer price indices from ILO (2014), from 1996 onwards harmonized indices of consumer prices from Eurostat (2014); own adaptations and calculations.

Figure 3. Real trends in gross benefit rates for an elderly couple, 2007 = 100.

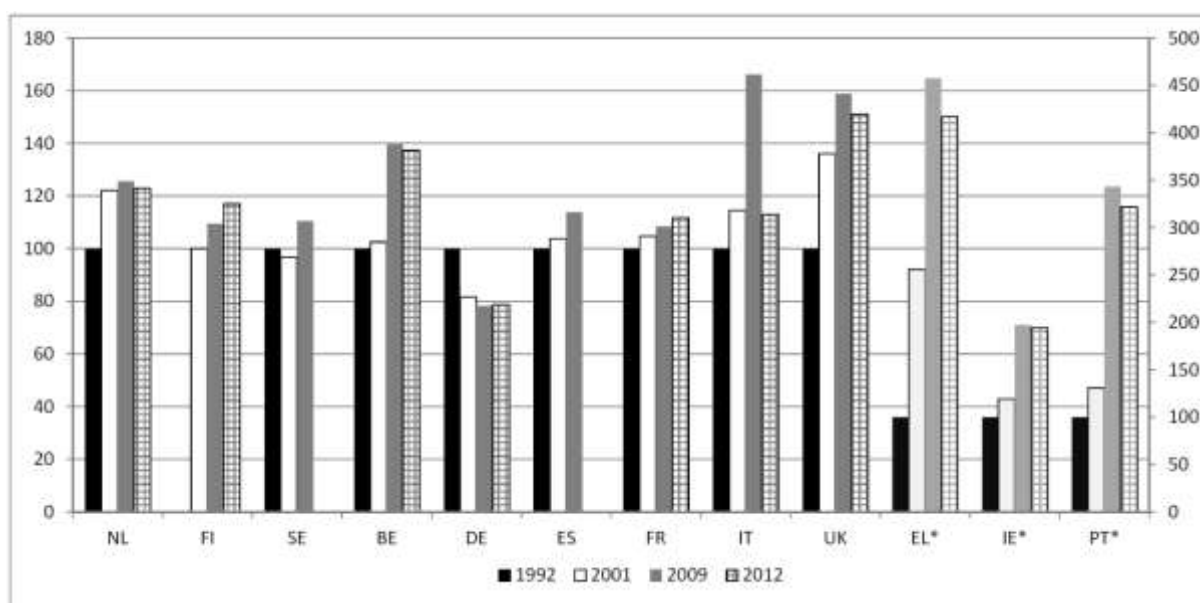


Note: 2012 value for Finland equals 142.

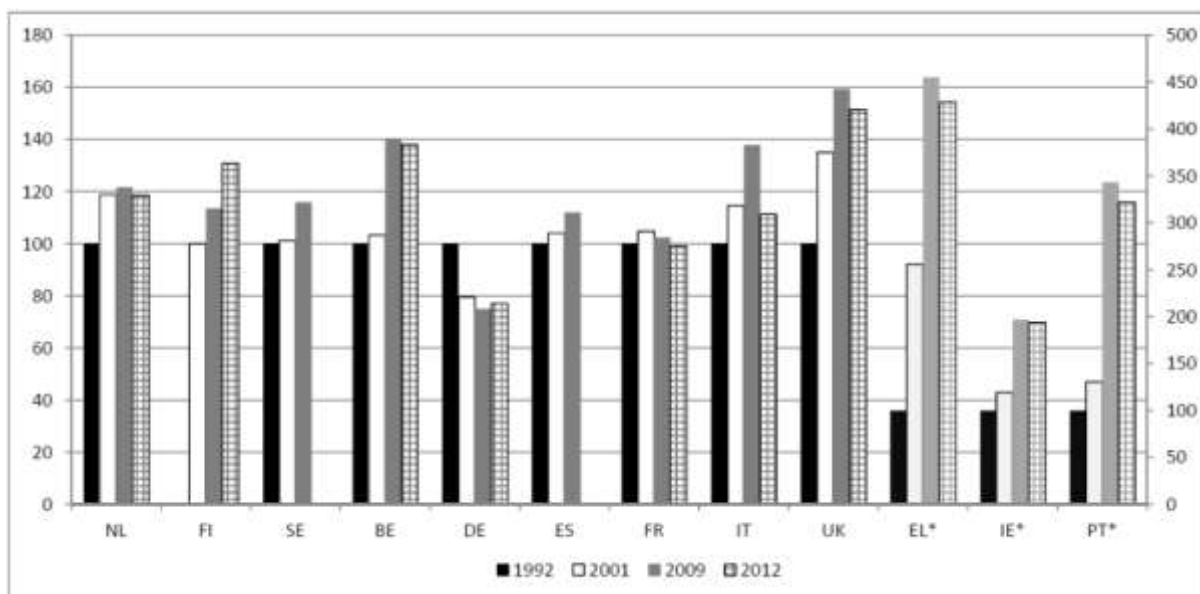
Source: CSB-MIPI version 3/2013 (Van Mechelen et al., 2011); harmonized indices of consumer prices from Eurostat (2014); own adaptations and calculations.

Figure 4. Real trends in net disposable income for a household relying on the main non-contributory minimum income guarantee for older persons, 1992–2012 (1992=100).

Panel A. Single-person household.



Panel B. Couple household.



Note: Not available for DK, for FI in 1992 (2001 = 100) and SE in 2012. No trends in housing allowances available for ES, FR and NL. Simulations for IT include the regional housing allowance in Milan (family types were only eligible in 2009). Age supplements are excluded. In DE and UK, older people relying on minimum income protection in principle saw their full housing costs recompensed throughout the entire period (hence housing allowance not included).

\*Values for Greece, Ireland and Portugal are depicted on the right-hand axis.



*Source:* CSB-MIPI Version 3/2013 (Van Mechelen et al., 2011), before 1996 consumer price indices from ILO (2014), from 1996 onwards harmonized indices of consumer prices from Eurostat (2014); own adaptations and calculations.