



Jan-Erik Johanson and Ville-Pekka Sorsa

# **Pension Governance in Finland**

A Case Study on Public and Private Logics  
of Governance in Pension Provision

Finnish Centre for Pensions, Reports 2010:2

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## FOREWORD

Due to ageing populations and concerns over economic growth and employment, many countries are planning and implementing reforms that aim to make pensions systems more sustainable. One key issue in the reform debates has been the extent of public responsibility, and many existing pension puzzles have been solved by increasing private responsibility, for instance by supporting private pension savings. However, the boundaries between public and private responsibility are hardly clear-cut. Many public schemes involve private elements. On the other hand, private solutions are often backed by public arrangements, for instance in the form of fiscal policy. Instead of black and white, public or private pension arrangements, we thus have a multitude of pension systems that contain public and private responsibility, in different shades of grey. Consequently, instead of a privatization of pension schemes, one could talk of increasing public/private mixes. What is interesting is that combining public and private features in a pension system generates a need to create new types of operational frameworks for running the system. There is very little research on this issue in pension studies internationally.

The Finnish earnings-related pension scheme provides a very good basis for a case study, as it has a half-century long history as a public-private partnership. The Finnish TyEL scheme is categorized as a first-pillar scheme and often depicted as part of public responsibility, because it is a mandatory defined benefit scheme that covers close to 100% of the private-sector employees' old-age, disability and surviving spouse's pensions, on equal terms. Interestingly, it is partially funded and financed by employer and employee contributions that are collected by private pension funds or companies that also manage the funds. In other words, the scheme is executed by private pension providers and there is no role for tax financing. Although established already in the 1960s, it apparently contains many of the elements emerging in re-formed pension systems of today.

This research examines the governance of the Finnish TyEL pension scheme from an institutionalist perspective, and focuses on the interplay between public and private modes of governance and interests. The research investigates the roles and relationships of different actors by analysing governance and coordination mechanisms in the scheme, as well as matters related to the implementation of the scheme. One of the findings is that public-private partnership structures and

processes are evident everywhere and that the running of the scheme is inherently based on different patterns of negotiation and clearing. This is why I believe the report could be interesting, not only in Finland, but also in a great number of other countries that are increasingly facing the question of how to combine public and private elements in pension systems. The research has been funded by the Academy of Finland and a few Finnish foundations. The Finnish Centre for Pensions has not taken part in the research process and its role is limited to making the research available to a wider audience.

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## ABBREVIATIONS

Most abbreviations on the institutions used in this study are based on common abbreviations in Finnish.

CA	<i>Kilpailuvirasto</i> , the Competition Authority
ETK	<i>Eläketurvakeskus</i> , the Finnish Centre for Pensions
FIN-FSA	<i>Finanssivalvonta</i> , the Financial Supervisory Authority
LEL	The earnings-related pension scheme for short-term private sector workers (1961–2006)
KELA	<i>Kansaneläkelaitos</i> , the Social Insurance Institution of Finland
PAYG	Pay-as-you-go
PIC	Pension Insurance Company ( <i>työeläkevakuutusyhtiö</i> )
STM	<i>Sosiaali- ja terveystieteiden ministeriö</i> , the Ministry of Social Affairs and Health
TaEL	The earnings-related pension scheme for artists (1986–2006)
TEL	The earnings-related pension scheme for private sector workers (1962–2006)
TELA	<i>Työeläkevakuuttajat</i> , the Finnish Pension Alliance
TyEL	The earnings-related pension scheme for private sector workers (replacing TEL, LEL and TaEL, 2007–)
TUPO	<i>Tulopoliittinen kokonaisratkaisu</i> , the Finnish tripartite economic policy-setting arena between central labour market organisations and the state
VM	<i>Valtiovarainministeriö</i> , the Ministry of Finance
YEL	The earnings-related pension scheme for the self-employed



## ABSTRACT

One of the key trends in European pension reforms has been the introduction of private elements to first-pillar public pension schemes. However, the administrative logics of these public private partnerships (PPPs) have not been yet studied systematically. This study develops a theoretical framework for studying the governance institutions of PPP type organisation fields in context of pension provision, and applies this framework to a case study on the Finnish TyEL scheme. The Finnish case illustrates a mature field combining different modes of governance and revealing tensions that can be managed if not necessarily solved in PPP type pension provision.

**Keywords:** corporate governance, Finnish pension system, organisation fields, pension policy, pension provision, public administration

## ABSTRAKTI

Lukuisiin eurooppalaisiin ensimmäisen pilarin julkisiin eläkejärjestelmiin on viime vuosina yhdistetty yksityisiä elementtejä. Näiden julkisyksityisten kumppanuuksien hallinnollista logiikkaa ei ole kuitenkaan vielä tutkittu järjestelmällisesti. Tämän tutkimuksen tarkoituksena on kehittää teoreettinen viitekehys julkisyksityisten eläkejärjestelmien hallinnollisten instituutioiden tutkimukseen. Suomen lakisääteinen työeläkejärjestelmä toimii tämän lähestymistavan empiirisenä tutkimuskohteena. Tapaus TyEL tarjoaa kypsänä organisaatiokenttänä lukuisia esimerkkejä siitä, miten erilaisia hallintomalleja voidaan yhdistää sekä yhdistämisen tuottavia jännitteitä hallita.

**Asiasanat:** eläkejärjestelmät, eläkepolitiikka, julkishallinto, organisaatiokentät, työeläkejärjestelmä, yhtiön hallinto



## EXECUTIVE SUMMARY

The redrawing of public and private responsibilities and management has been one of the key issues in debates over pension provision in the beginning of the 21st century. In recent years, public-private partnerships (PPPs) have become very common in traditionally publicly executed first pillar European pension systems, as first pillar schemes are now executed by private entities in over a dozen countries. Yet there is very little academic knowledge on how the different logics of public administration, corporate governance and other forms of governance penetrate these arrangements and what kinds of power systems and dynamics different combinations of these logics create.

The purpose of this study is to develop a theoretical-methodological framework for studying the logics of governance in PPP type pension provision, and to apply it in an empirical case study. It is argued that governance logics in pension provision can be here best approached by studying the institutional relationships between key actors in organisation fields of pension provision related to a specified pension policy. The developed framework is based on agency and action process centred version of new institutional theory that highlights constant maintenance and renewal of different institutional forms central in defining the institutional life of governance. The framework combines the general ideal type institutional field-level logics of governance in public administration and corporate governance with more particular hypotheses arising from different strands of academic literature on pension governance and European pension provision.

The theoretical framework is applied in a theory-driven case analysis based on multiple sources of data. The unit of analysis is here the organisation field of the Finnish TyEL scheme: a mandatory, earnings-related, partially funded, defined benefit, employer and employee co-sponsored pension scheme covering old-age, disability and widow's pensions for almost all Finnish private sector workers, which is executed by private pension providers. The scheme has been a PPP since its birth in 1962, which is why studying this mature organisation field provides valuable information on how different logics of governance have been and can be asserted together in the future in which these kinds of partially funded public-private mixes are more likely to be increased than decreased in number in Europe.

In order to highlight the relationship between an organisation field and a pension policy, the narrative of the research report is divided according to the conventional institutional policy process model. The original formation process of the TyEL field continues to explain a number of today's governance issues, most importantly those related to the decentralisation of implementation in the nationally mandatory scheme. Among other things, formation includes significant institutional boundaries like the EU rules and elimination of state authority, and divides the logics of governance to decentralised private power over assets generated by and to labour market party driven, politically selective centralised power over the benefits and contributions related to the scheme. The coordination structure of the field is based on centralised omnipresence of key actors in networked ad hoc groups. The implementation is based on private actors, with a variety of organisational forms, that compete and cooperate in limited and in various ways problematic terms, whilst the control of pension provision is in great parts in hands of public bodies in the field.

The empirical case study results suggest that the typical issues and relationships between key actors that in fact predominate PPP type pension governance cannot be captured with the currently dominant theoretical frameworks and ideal type models. Moreover, the empirical case study shows that the combination of a number of ideal type factors can happen in ways that blur the distinction between public and private modes of governance and their conceptual validity. This suggests that empirical studies on PPP type pension governance rooted in institutional organisation field analysis can result in more accurate and analytically rigorous descriptions of governance than the mainstream theoretical frameworks classifying pension schemes that in contrast tend to ignore such descriptions.

However, the case study also reveals that the combination of features belonging to different ideal type modes of governance may cause elastic tensions in pension governance, which confirms the importance of studying the public and private characteristics in pension governance, and the need for further studies on tensions in PPP type pension governance. Whilst some of these tensions might improve the innovation capabilities of the field, some of them remain problematic in practice especially for the field insiders. This suggests that the need for further research is not only academic but practical as well. In order to highlight the practical relevance of the study, the book ends with some insights and future points of references for debates on Finnish governance that emerged during the research process.

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# 1 Introduction

The redrawing of public and private responsibilities and control has been one of the key issues in academic debates over pension provision in the 21<sup>st</sup> century besides financial and social sustainability (see Clark & Whiteside 2005). The new analytical tools redefining the public-private-division and reclassifying pension schemes may increase our understanding on how different pension regimes are formed from a legal point of view, and more generally where public and private meet in the domain of pension provision. Yet, they tell us little or nothing about how exactly different kinds of schemes including division of labour between public and private domains actually work in terms of governance and administration. We have very little academic knowledge on how the different logics of public administration, corporate governance and other forms of governance penetrate these arrangements and what kinds of power systems and dynamics different combinations of these logics create. Put simply, the pension schemes including both public and private features are rarely analysed properly as public-private partnerships (PPP).

The purpose of this study is to provide knowledge on how different forms and logics of governance penetrate a nationally mandatory pension scheme that is executed by private entities. In recent years, PPPs have become more common in previously publicly executed first pillar systems. Currently traditional first pillar schemes are executed by private entities in Europe in Bulgaria, Denmark, Estonia, Finland, France, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Sweden, Switzerland and United Kingdom (Briganti 2008). These arrangements can be divided to at least three categories. They can be regarded as new kinds of schemes separate from both first and second pillar systems, second tiers of the first pillar systems or the legislated first tiers of the second pillar systems. Although this division might be essential from the European regulatory perspective for example, we argue it is less important in terms of governance: what matters is that there are at least two traditionally very different logics of government, public administration and corporate governance in play. Despite the differences in European public pension reform trajectories (see e.g. Vidlund 2006; Immergut, Anderson et al. 2007), the most common features in major reforms have been advancing of funding, private management, and individual defined contribution accounts (Thompson 2001) – all features potentially affecting the logic of governance in a significant scope.

As pension provision has not been analysed in terms of PPPs, an empirical study on it is necessarily theory-driven and exploratory. We argue that the logic of governance in these PPPs can be theoretically and methodologically best approached by studying the *organisation fields* of pension provision related to a specified pension policy. This approach rooted in middle-range theory has a few advantages. Firstly, the PPPs related to pension provision include many different kinds of relevant actors, practices, rules and schema that differ from one country to another. Whilst the dominant Anglo-American literature on governance of pension provision relies on rather micro-level analysis based on a plurality of schemes, on specific rules (i.e. so-called fiduciary duty) bringing specific decisions to the level of individual organisations, on specific types of actors (trust-based pension funds), and on their specific political-economic context, the European pension heterogeneity can be hardly inspected by simply introducing new parameters to these theoretical frameworks (compare Clark 2003 and 2000). Similarly, by approaching the issue by studying how different organisations operate and interact in the field pension provision, we can grasp a methodologically nuanced account on the everyday life of pension governance in PPPs without assuming too much on the micro-level consequences or mediation structures of macro-level European institutional frameworks, which has been the dominant scale in which European pension policy has been discussed (see e.g. Immergut, Anderson et al. 2007). We believe the middle-range field analysis provides an important approach that can cover some of the gaps between European and Anglo-American pension governance literature, and enables further comparative studies in pension governance especially in context of European pension systems.

Secondly, the approach avoids some established academic discursive theoretical frameworks such as pillars and tiers and more general theoretical accounts like Esping-Andersen's welfare regimes or the division to Beveridgian and Bismarckian pension regimes. This is important as even those pension policies that may illustrate similar social policy paradigms may at the same time illustrate great organisational differences – witness the mandates of organisations executing pension provision within Nordic pension regimes and within different corporatist European countries. Moreover, even the most detailed of these theoretical classifications, based for example on “institutional checklists” (Soede & Vrooman 2008), cannot produce empirically accurate actor-based descriptions on governance processes. The



institutional interplays in pension regimes are fundamental, almost trivial, yet ignored issue in understanding how pension provision exactly works in terms of governance. The framework developed in this study is based on agency and action process centred version of new institutional theory that highlights constant maintenance and renewal of a variety of institutional forms central in defining the institutional life of governance. Whilst the framework developed in this study provides some hypotheses based on combining the general ideal type institutional field-level logics of governance in public administration and corporate governance with particular hypotheses arising from different strands of academic literature on pension governance and European pension provision, it is argued that it is the elastic real-life contexts and practices that provide the more fertile ground for comparative studies on pension governance than any macro-level theoretical conceptualisation.

The relevance of this theoretical framework is tested in this study in an empirical enquiry. The study follows a case study approach (Yin 2009), in which the unit of analysis is an organisational field comprising of organisations as collective actors. Our theoretical attachment to institutional theory in general and institutional field analysis in particular orients our endeavour to see pension governance as a constant struggle in establishing, maintaining and losing positions in the field. A theory-driven description is well suited for examining an area of analysis that has not previously been conceptualised in field level terms. Case studies where the unit of observation is narrower than the unit of analysis enable to achieve analytic rigour that often evades descriptive approaches. In this study, the different stages in policy process, turning points in the maturing of the pension system, as well as differentiated roles and tensions attached to different organisations serve as the units of observation, which gives structure for the reporting of the findings and shifts focus towards the major changes and developments within the field.

Our case study is focused on the Finnish earnings-related pension system *TyEL*. From the perspective of benefits and contributions, Finnish TyEL pensions scheme is a mandatory, earnings-related, partially funded, defined benefit (DB), employer and employee co-sponsored pension scheme covering old-age, disability and widow's pensions for almost all Finnish private sector workers. The monthly paid benefits are by law accrued from annual incomes, and complemented progressively by the national pension scheme until a specified level of TyEL benefits. The scheme is, however, executed by different types of private pension providers: pension

insurance companies (PICs), company pension funds or industry-wide funds. The field in question is large, complex and not without historical peculiarities, and in this respect deserves attention by its own right. The TyEL pension scheme is also considered financially and socially among the most sustainable DB schemes in the world, and it has been a key factor in Finnish economic development due to its ability to provide productive capital for the economy (Kangas 2006; Jäntti, Saari et al. 2006). Yet perhaps the most important feature of the scheme is that it has been a PPP since its birth in 1962, after which plenty of European first pillar schemes have followed in adopting private elements. Understanding the governance logic of the Finnish scheme provides valuable information on how different logics of governance have been and can be in the future asserted together, in which these kinds of partially funded public-private mixes are more likely to be increased in number in Europe rather than decreased.

The data used in the empirical study consists of interviews, participant observation, archival data and previous investigation on the development of the Finnish pension system. The interviews refer to in total seventeen close dialogue interviews, which as a method is developed exactly for conditions of scarce information availability due to institutional constraints like business secrecy (see Clark 1998), conducted by one of the authors (Sorsa). The interviewees primarily consisted of pension insurance company (PIC) investment personnel, ranging from portfolio managers to Chief Investment Officers, and included five interviews on directors (ranging from division directors to CEOs) of policy coordination bodies or pension providers. The status or affiliate organisations of individual interviewees are not presented in this study due to confidential nature of the interviews. Whenever a status or name of an organisation or a person is mentioned in this study, it is based on other data than the interviews.

Participant observation refers to the mandatory education for the new board members of PICs given by The Finnish Pension Alliance TELA, and to an annual TyEL investment seminar (held at PIC *Varma*). Both the authors attended both these events in the first half of 2009. The authors also participated in a special education arranged by TELA to the *Pension Power in Finland* research team led by The Research Institute of the Finnish Economy ETLA in late 2008. This education was primarily governance-focused. The participant data includes notes on four half-day oral presentations and discussions on them, and hundreds of pages

of PowerPoint slides, other documents, and books provided in the education. The primary type of archival data refers to membership data on committees and ad hoc groups more or less formally responsible for cooperation and development of the pension system. Annual report of the cooperation and development groups (Kortesoja & Huikuri 2009) provided the frame for identifying the relevant groups, whilst the actual membership data was extracted from Hare-register maintained by the Prime Minister's Office, Centre for Pensions, and TELA, and from individual group members. Another type of archival data consists of various forms of publicly available material, including laws, regulations, media stories, reports generated in the field (by Government bodies, ETK, TELA etc.), and annual reports (of 2008 if not stated otherwise), financial statements and appendices, Articles of Association, websites, and policy documents (social responsibility, ownership policies etc.) of PICs. These sources are cited and listed if presented as empirical examples in the text. All previous investigations used in this study are cited and referenced in the text.

The sequence of the elaboration follows the theory-driven case study approach. The next chapter, Chapter 2, is dedicated to the presentation of institutional theory and the basic concepts used in the development of our theoretical model: governance, organisation fields, institutional work and institutional entrepreneurship. In Chapter 3, we explore previous academic studies and discuss the relevant logics of governance in context of PPP type pension provision. The chapter introduces the characteristics of public administration and corporate governance in field-level governance, and outlines some basic characteristics of pension governance in European countries. The Finnish case study is discussed in two consecutive chapters. In Chapter 4, we present briefly some basic characteristics and actors of the Finnish earnings-related pension regime, which need to be acknowledged in order to provide basic terminological and technical understanding needed in the analysis presented in the following chapter.

The extensive Chapter 5 is dedicated to analysing and presenting the organisation field of the TyEL pension scheme. As noted above, pension governance is an issue that calls for much attention as such. However, we also argue that organisation fields of pension provision serve as important frameworks for pension politics. As the theories on organisation fields suggest, it serves as a template of mutual relationships between key actors planning, defining and redefining pension policies. In this respect, the focus on organisation fields provides valuable information for

those scholars interested in the processes and institutional frameworks in which pensions related issues are politicised and negotiated. In order to highlight this aspect, we have divided the narrative of our analysis according to the conventional policy process model, whose usage and its limitations are discussed in more detail in the following chapters. Whereas the analysis in Chapter 5 uses the field-level institutional terminology, Chapter 6 is dedicated to summarising and discussing the results of the empirical case analysis in the context of PPPs. The purpose of the chapter is to draw conclusions on how the field-level study helps to understand the combination of public and private logics of governance in pension provision. Although the purpose of the whole book is to provide insights on pension governance in European level, we end the book to discussion on the more practical relevance of the study to the functioning of the TyEL field on presenting some points of focus for further debates on Finnish pension governance.

## 2 Institutions, Organisation Fields and Governance

The theoretical background of this study is in new institutional theory. The point of departure for institutionalist thinking is that all actions, individual and collective, are embedded in institutional forms: social structures that have reached a high degree of elasticity and resilience, and that constitute, enable and constrain actors' courses of action (Scott 2008). In institutionalist thinking, actors follow these structures that are however created and enforced only by these very same actions. Actors 'make use' of institutional forms differently, they can always choose to act otherwise, and to follow one institution instead of another (see e.g. Crouch, Streeck et al. 2007). Institutions are heuristically located in institutional environments – community-wide informal conventions, customs, norms, and social routines, and the formal structures of rules and regulations which constrain and control behaviour – and in institutional arrangements – the particular, governed organisational forms such as markets, firms, labour unions, or regulatory agencies that arise from institutional environments (Martin 2002). In neither location are institutional structures and dynamics determined functionally but they are relatively autonomous (i.e. they have their own 'laws of motion'). The patterns of economic behaviour are not exclusively determined by institutional rules nor can they be predictably manipulated through institutional change (Peck 2000).

Commitment to institutionalism implies an interest not merely in institutional forms like rules and laws but in knowing on how the forms are used and otherwise affect different actions in practice. Institutionalism is not a single theory but a variety of approaches in social theory that aims at explaining a variety of issues, e.g. why actors behave the way they do, how social structures interact, what organisations are, and why some social practices persist over time, to mention a few. There are at least three more or less separate institutionalist traditions: historical institutionalism, rational choice institutionalism, and organisation theory (see e.g. Campbell 2004; Crouch & Streeck 1997; Scott 2008; Hall & Thelen 2009; Lounsbury 2008; Streeck & Thelen 2005). Our approach to institutional thought is not exclusively limited to any of these views but rather inspired by all of them. Our approach could

be called organisational analysis that follows the sociological variant of agency theory (see Gronow 2008).

For Scott (2008), institutions ‘are comprised of regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life’. We follow Heiskala (2007) and Gronow (2008), for whom these elements don’t appear as pillars but simply as different types of institutions according to the logic of language and enforcement of different institutional forms. The three types of institutions can be heuristically summarised as follows. The regulative view concentrates on legally sanctioned and other typically formal rules, which mandate and coerce individuals to behave in line with institutional ends via instrumentally rational compliance. Essentially, this regulative view embraces institutions as the ‘rules of the game’ (North 1990). Normative theorists, classic sociologists in essence, include moral issues in the picture. These norms – expectations, values, duties and other normative things explicated to the actor or internalised in socialisation processes – weigh on actors as moral obligations. Cultural-cognitive or discursive<sup>1</sup> theorists, often inspired by phenomenology, propose that moral obligations are just one set of cultural schema, and emphasize the nature of institutions as knowledge schemas that are common beliefs about the nature of social roles and situations. The mechanism behind these institutions is mimesis, i.e. actors act in certain ways because these ways promote some understanding of the world and make actions comprehensible. Although broader versions of institutional theory exist (see Gronow 2008), we focus here on these three types of institutions for the purposes of research economy.

The institutional approach to governance looks not only at how different institutions are put in play but also where they reside. In Scott’s (2008) work, institutions are considered being embedded in different kinds of carriers of institutional arrangements. Carriers refer to repositories of institutions like symbolic systems, relational systems, routines, and all kinds of artefacts that embody institutions to different kinds of human beings, actors, resources and other

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1 Gronow (2008) has re-titled cultural-cognitive institutions as discursive institutions because cultural-cognitive institutions are not only based on knowledge or ‘culture’ in sense of a given system of meanings and their relations, but they are in nature discursively reproduced reciprocal typifications and actively typified knowledge rather than just any simply given typification or any piece of knowledge.

material objects. As it is the case with different types of institutions, taking different carriers central instead of others gives a different focus for research questions. Although other carriers have relevance in the academic fields of governance and administration studies, our study is limited to relational systems that specifically address the questions of power in terms of roles of and relationships between different actors. Relational systems primarily denote social positions and networks. In institutional terms, they refer to formal governance structures and power systems (in regulative terms), regimes and authority systems (normative), and identities and structural isomorphisms (discursive) – the usage of power via social roles, mandates, authoritative hierarchies, schema and duties, and identities of different actors in an institutional arrangement that enables, constrains and conditions collective and individual actors' behaviour.

## **Organisation Fields and Governance**

The research question of this study, what is governance in pension provision like, can be formulated as follows. Our goal is to discover the relevant regulative, normative, and discursive institutions that constitute the relational systems of a pension scheme. There are, however, various scales in which such systems can be approached from society-level institutions to meso-level organisation fields, individual organisations, or even organisational subsystems (Scott 2008). In this study, we regard these levels of analysis not as ontological commitments to some scales or organisational types but rather as pragmatic conceptual tools for comparing different units of analysis. We use the level of organisation fields in order to include a large number of actors and their mutual relationships into one consistent analysis. This is why the emphasis of our examination is on the organisational and inter-organisational level rather than on intra-organisational level.

Organisation fields are particular kinds of levels of analysis on institutional arrangements. A field constitutes a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products (DiMaggio & Powell 1983). Moreover, organisation field refers to the existence of community of organisations partaking in a common meaning whose participants interact more frequently and fatefully with one another than with actors outside of the field (Scott 2008). In another

sense, fields are networks of actors within a relatively stable alignment of material, organisational and discursive forces (Levy & Scully 2007). The concept of organisation field challenges concepts such as environment that favour a passive construction of agents. It reminds that social contexts of specific economic actors are not just random collections of resources and schemas, nor are they constructs defined by disembodied dimensions, such as complexity and munificence; rather, they are themselves organized (Scott 2008).

Fields can be conceptualised in different ways. Martin (2003) sees a tendency to view fields in three different senses. In the first sense, a field is a purely topographical construct, an analytic area of simplified dimensions in which we position persons or institutions. In the second sense, field appears as a more or less fixed organisation of forces. In a third sense, the field is a ground for contestation or a battlefield. The first sense of the field has its roots in the psychology of perception and the second in an analogy to physics. The third conception suits our governance focus best. Here, analogy to a familiar notion of game might be useful. The game provides a set of rules to orient the actions of the participants and most of the action takes place endogenously within the field itself. In our sociological variant of institutional agency theory, rules do not refer only to formal regulative rules but to many kinds of written or unwritten, formal and informal regulative, normative and discursive structures and practices that can be in principle codified as rules (Hodgson 2006). Yet, the field does not determine events, the success of different players, or even most issues in which mutual relationships (antagonistic, cooperative or otherwise) become important. Results are not determined by the rules but the game, and the events of the game are contingent despite being significant conditioned by the rules.

Drawing from debates in institutional theory, we recognise governance is present in the organisation field level in at least two different ways. Firstly, there is governance as the practiced institutional life in relational systems discussed above. Secondly, there is the issue of how the limits of this institutional life and the life itself can be changed. Returning to the analogy of game, the question is how rules of the game are (re)set, old rules disbanded, and new rules created in order to develop or maintain the game. Boundaries limit the field to a recognized set of organisations engaged in similar function that shape field activity and definitions (Delbridge & Edwards 2007). Boundaries form an essential relationship to the rules. The permeability of boundaries increases the possible institutional referents, thus



providing fertile ground for growing alternative institutional logics of action (see Lounsbury 2008) within a given institutional field. Alternative institutional logics may open up field boundaries and reconstitute its power relations and governance structures. In these terms of rules and boundaries, governance resides in frameworks more or less external to the actors of the field. The key issue here is that the field and its rules of game in specific already condition these ostensibly external mechanisms.

## **Institutional Work and Entrepreneurship**

Changes to internal logics and external boundaries can be caused by insider actions as much as external boundary-drawing. In this study, we are not proposing a strict distinction of external and internal causes for and forces of change, but rather rely on concepts that make them both observable. The first notion we use is the notion of *institutional work* in order to increase understanding on how actors purposefully act, alone or in cooperation, with aims at creating, maintaining and disrupting the field-level structures or ‘negotiated orders’ that condition their life (see Lawrence, Suddaby et al. 2009). The concept of institutional work highlights three important issues (Lawrence & Suddaby 2006). Firstly, it highlights the awareness, skill, and reflexivity of individual and collective actors. Secondly, it increases understanding of institutions as constituted in the more or less conscious actions of individual and collective actors. Thirdly, it adopts a perspective that suggests we cannot step outside actions as practices. Even those actions that are aimed at changing the institutional order of an organisational field occur in relation to the sets of institutionalised rules. The main strength of the approach is that it brings politics back to institutional analyses that have tended to be more ‘apolitical’.

Institutional work offers a viable analytical framework for highly political fields like ones related to mandatory pension provision, whose birth, reformulations, adjustments and administration include many collective efforts. This approach strips away the taken-for-grantedness from institutional research and directly addresses ‘the core problem of how man-made products and events come to be perceived and represented as natural social orders’ (Lawrence & Suddaby 2006). The concept highlights different aspects in creating, maintaining and disrupting institutions. The first one includes overtly political work in which actors reconstruct rules, property rights and boundaries that define access to material resources (in terms of Lawrence

& Suddaby 2006: vesting, defining and advocacy), actions in which actors' belief systems are reconfigured (constructing identities, changing norms and constructing networks), and actions designed to alter abstract categorisations in which the boundaries of meaning systems are altered (mimicry, theorising, and educating). Maintenance includes both maintenance of institutions through ensuring adherence to rule systems (enabling, policing and deterring) and the efforts to maintain institutions on reproducing existing norms and belief systems (valorising/demonising, mythologising, and embedding and routinising). Disruption also has many forms. Disruption includes attempts to disconnect rewards and sanctions from some set of practices, technologies or rules, to disassociate the practice, rule or technology from its moral foundation as appropriate within a specific cultural context, and to disrupt institutions by undermining their core assumptions and beliefs.

It must be noted that using the concept of institutional work does not imply that only purposeful collective efforts generate institutional change: it is only these efforts that are hypothetically most relevant. In field a level study, it is essential to understand all dynamic processes that change the rules of the game. For instance the mere existence of multiple logics of action may provide dynamic properties for governance as such. These logics are the belief systems that guide actions in field and provide a basis for legitimacy for the formation of new identities, practices and relationships within the given field (Green, Babb et al. 2008). Multiple logics highlight the field as a different kind of political arena in which entrepreneurs apply their social skills to maintain and transform some institutional practices simply by seeking legitimacy from various sources by different means. This issue is addressed by another essential concept being in strong contrast to the more political concept of institutional work: the much-discussed notion of *institutional entrepreneurship*.

Institutional entrepreneurs refer to the actors with most capabilities to affect their networks, whose actions most probably cause institutional change (e.g. Campbell 2004; Crouch 2005; in context of pensions, see e.g. Dixon & Sorsa 2009). They use mechanisms of institutional change like bricolage and translation in combining various institutional forms and non-local ideas and practices to transform current practices and create new ones. Institutional entrepreneurship represents the activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing

ones (Maguire, Hardy et al. 2004), especially ‘from the within’. The concept has been extensively theorised in organisation studies. For example, Perkmann and Spicer (2007) identify three types of projects in which institutional entrepreneurs engage themselves. In interaction projects, entrepreneurs relate to others in gathering support and building coalitions. In technical projects entrepreneurs theorise by identifying abstract categories and formulating notions of causal chains of events and in cultural projects entrepreneurs aim to frame institutions in ways that appeal to wider audiences.

Despite these broad recent debates, one of the traditional theoretical problems in institutional analyses has been the inability to incorporate change to examination. The legacy of institutional theory has emphasised continuity over change and external change over internal development, which is in contrast with the importance of endogenous actions and tensions within the field itself. What is common to both approaches of institutional work and entrepreneurship is that institutional constellations are always negotiated orders – ‘residues of conflict and structurations of power’, as Korpi (2001) puts it – that can and will be renegotiated time to time. The advocates of institutional work look directly at the negotiation practices, and the advocates of institutional entrepreneurship recognise that there are differences in capabilities of actors to produce change in different positions. Moreover, the motives for entrepreneurship can be found, for instance, in the tendency of institutions to divide negotiated benefits unevenly which encourages actors to improve their position (Streeck & Thelen 2005).

In brief, both these concepts have a strong commitment to relational systems and history in organisation field level studies, and they are both useful in bringing institutional change in the analysis of field governance: institutional work with focus on political bargaining and institutional entrepreneurship on gradual micro-level change. It must be noted, however, that institutional work and entrepreneurship not only function in nascent fields, but proceeds in well-established mature ones as well (Greenwood, Suddaby et al. 2002). Indeed, the advancement in the age of organisations typically increases formalisation, written rules and regulations. This is why any major power shift replacing ‘the dominant coalition’ (see Cyert & March 1963) proceeds through a change in the structure of the formative rules. In emerging fields the diffuse and ambiguous power structure makes it difficult for

individual actors to rely on the regulative power of the rules. In such setting, actors can use variety of more informal power tactics such as persuasion, agenda-setting and non-decision making (Maguire, Hardy et al. 2004).

There have been various debates concerning institutional change in the field level. For example, Greenwood et al. (2002) have proposed an institutional change process model. The essence of the process is that there is always a catalyst 'putting the field in motion', new players and institutional entrepreneurship moulding the forces in the field. Subsequently, new order with justification and legitimacy evolves into a specific form that may disseminate among the field forming a renewed institutional constitution. Hargrave and Van de Ven (2006) distinguish four perspectives of this kind of institutional change: design, adaptation, diffusion and collective action. All these answer to different questions: what is the individual actor's influence on the institutional arrangement, how organisations adapt to their institutional environments, how institutions reproduce in an organisational field, and how institutions emerge to facilitate or constrain action, respectively. Be it collective purposeful actions or individual entrepreneurship, already-made choices open up new possibilities as well as restrict future choices (Bonoli & Palier 2007). The actors within a field constantly need to reaffirm their position in the field by diverting resources, maintaining legitimacy and securing favourable rules. Although we are not directly testing these kinds of specific models in our enquiry but rely on exploratory analysis, we recognise that the current state of affairs in a field can never be taken as given but as snapshots of a process. This is why we have selected an approach that is both historically sensitive and highly actor and action centred.

### 3 Institutions and Governance in Public-Private Pension Provision

In this chapter, we discuss the question of how to study governance in the organisation field level so that it can be applied to pension provision. We argue pension provision can be best understood in these terms as the institutional organisation of pension policy, which not only implements policies but also conditions policy-making with specified relations systems. We use the conventional institutional policy process model to highlight how the field conditions different stages of pension policy. In this model, there are four somewhat self-explanatory stages: *formation*, *coordination*, *implementation* and *control*. Using more recent terminology (see Carmel & Papadopoulos 2003), the formation of the field answers to the question ‘what is to be governed’, whereas the answer to the question ‘how is it governed’ includes issues related to policy coordination, implementation and operative control within the field. We recognise institutionalists, most importantly Peters (1992), have criticised the conventional model for being too linear and top-down oriented, and for building on the idea that policies get formulated and implemented ‘technically’ in a relational vacuum. However, we are not considering this formulation a rigorous theoretical framework or even heuristic theoretical tool for policy analysis, but only a narrative tool for presenting empirical findings on how field level logics of governance frame and for instance cause tensions in different domains of pension politics. The policy process we have studied in fact diverges from the pure policy process model. We recognise a field of pension provision can always include formal and informal logics that do not always coincide, bottom-up processes that are relationally contingent, and various other relational dynamics as our theoretical framework presented in the previous section well illustrates. The policy model is thus used only to bring the narrative on field-level governance issues in PPP type pension schemes closer to the public policy narratives that have tended to dominate the research on first pillar pension scheme administration.

## Public Administration and Corporate Governance

The primary theoretical issue in this study is to address the governance of PPPs in an area that has hardly ever been analysed in those terms. The distinction of public and private forms of governance characterises many current pension policy processes and schemes well, as it was noted in the introduction. Public administration and private sector corporate governance are traditionally considered very different kinds of types of governance in terms of products, goals, ownership, mutual relationships of actors, sources of finance, political influence, coerciveness, and scopes of impacts. In these terms derived from comparative organisation theory literature, the two ideal types of organisation field frames provide quite different spaces for policy-making, which are summarised in Table 1. The differences may be quite fundamental in defining change processes in pension policies – business models and purchasing behaviour of insurance policies are very different from collective deliberation for public policy formation, price competition from budgeted collaboration in coordination, shareholder or fiduciary driven implementation from public body execution, and consumer choice from democratic supervision in control, to mention a few issues.

*Table 1. Field-level frames in the ideal types of public administration and corporate governance (inspired by Nutt & Backoff 1992).*

	<b>Public administration</b>	<b>Corporate governance</b>
<b>Markets</b>	Oversight bodies behave as markets	Purchasing behaviour defines markets
<b>Mutual relationships of key actors</b>	Collaboration among organisations offering a given service	Competition among organisations offering a given service
<b>Source of finance</b>	Financing by budgets	Financing by fees and charges
<b>Political influence</b>	Buffering to deal with influence attempts	Political influence handled as exceptions
<b>Coerciveness</b>	Mandatory funding and use	Voluntary consumption and payment on use
<b>Scope of impact</b>	Broad, considerable societal impact	Narrow, little societal impact
<b>Ownership</b>	Citizens	Stockholders
<b>Goals and performance expectations</b>	Ambiguous and changing	Clear and stable

It must be noted that there are various characteristics that may penetrate or supersede both these conceptualisations in the field level analysis, which suggests that a more nuanced approach to empirical research than mere testing of these ideal type characteristics is very likely required (and which has indeed been adopted in this study) in any research setting. Take collaboration between key actors in institutional work efforts. Collaboration is not based on price-mechanisms or hierarchical relationships but is negotiated in an ongoing communicative process (Hardy, Phillips et al. 2003). Collaborative relationships also highlight local institutional conditions as contrast to more globalised market transactions. Within institutional fields, boundary issues connect collaboration with power. The definition of issues, existing collaborative practices and political activity of the participants define outside and insider roles in the collaborative process. The collaborative process reproduces and transforms rules and resource allocations within the field. The most powerful actors equipped with formal authority, control of critical resources and discursive legitimacy are able to define the problems, interpretation of the issues, membership and legitimate practices that will privilege their own position (Phillips, Lawrence et al. 2000). This battle over normative authority can happen as much in horizontally competitive market conditions as in vertically organised agencies.

In context of mandatory pension provision, the organisations within the fields of pension provision are traditionally considered extensions of public pension policies according to the public administration framework: they function as government agencies (or other public bodies). These agencies are intended to implement, execute and administrate law, which sets them apart from privately owned firms and other non-profit organisations (Gortner, Mahler et al. 1997). The unifying features of agencies include some degree of autonomy from political direction, a pre-established strategic direction through political decision, budgeting autonomy, financing from a combination of its own revenues, earmarked contributions and subsidies from the state budget, publicly-owned assets, and public accountability defined by law and tradition (OECD 2001).

As it was noted, however, many mandatory schemes now include private elements. Pension governance in the private sector might be quite different not only from public pension provision but also from other private sector activities. It may also include a variety of logics of private governance. For example, in the Anglo-American world trust-based, fiduciary duty bound pension funds with their specific

history and tradition (see e.g. Clark 2000; Langbein 1997; Montagne 2007) are by far the essential actors in second pillar pensions rather than insurance companies to which only a part of pension savings are outsourced as annuities. Pension funds are not exactly competing mutually against each other since they execute different schemes; rather, it is the available savings schemes that are competing. This implies that pension funds are directly competing against the option of outsourcing saving to the third pillar, to personal pension savings (e.g. IRAs and mutual funds in the US) where corporate governance prevails over fiduciary management.

As noted, the presence of multiple logics of administration in a field is essential for understanding the field-level logic of governance. The example above for example suggests similar pension funds may have similar interests in terms of collective competition against other actors in the field. However, also the variety of organisational forms and the dominant organisational types in the fields are essential in characterising field relations. In our Finnish case study, the dominant actors are special-purpose insurance companies. This is the reason why we have anchored our point of comparison to a broad definition of corporate governance applicable to insurance companies than any more specific definitions of private sector governance like fiduciary management. Yet it is not to say that organisational forms exclusively characterise the field-level governance logics that are equally much influenced by the question of *what* exactly are the institutions of field that are to be governed. The frames of competition or collaboration between key actors, and budgetary or fee-based financing might for example get very different forms and meanings in defined benefit and defined contribution, or in partly and fully funded pension schemes.

One key thematic issue of formal governance in context of European PPPs in pension provision is *financialisation* of pensions (Dixon 2008; Dixon & Sorsa 2009). Especially in European countries, the institutions of private financial portfolio management have penetrated pension provision in various countries as partial and full funding has become more common. The change paths towards new administration logics have greatly differed in different institutional contexts. The new governance systems don't necessarily represent completely new institutional orders but rather are embedded in and may even reinforce the existing ones (see Dixon & Sorsa 2009). Although some scholars (notably Gordon L. Clark, e.g. 2003) have studied various aspects of pension governance of funded schemes in Europe,



pension fund governance remains an issue that has this far raised only scant attention in social sciences, not only in Europe but in Anglo-American literature as well (Monk 2009). Whilst European pension studies have mostly focused on pension regimes and politics, there have been no large-scale empirical studies on European pension governance that have taken the changes in formal governance introduced by funding or changing investment methods into account. This said, there are studies that have taken a more systematic theoretical view on investment management and regulation in context of European pension schemes (see e.g. Boeri, Bovenberg et al. 2006).

## **Pillars, Tiers, and Pension Governance**

The example of financialisation is somewhat illustrating in underlining the theoretical gaps in studies on pension governance. One possible reason behind this bias is the variety of essential institutions that are not only thought to characterise governance of pension provision in ideal type regimes but also conditions and limits the academic thinking on governance logics. Perhaps the most important one is the classic discursive framework of World Bank's three pillars, which has direct consequences for understanding governance. First pillar pension schemes (e.g. flat, means-tested, earnings-related or universal) are supposedly administered by public bodies. Second pillar schemes earnings-related schemes based on individual or collective labour market arrangements and executed by companies (e.g. in forms of book reserves), separate pension funds or outsourced financial sector actors. Third pillar pensions are about private supplementary pensions paid by individuals and administered by selected private entities. Lately, the Bank has shifted towards a model including more pillars with less clear or implicit assumptions on administrative templates (Holzmann & Palmer 2006).

Although we argue the lack of rigorous framework for addressing governance forms and practices is a central theoretical gap that makes the old three-pillar division obsolete, the pillar model has been driven to a crisis much more by empirical facts in this thematic area. The most important challenge concerning pillar typologies in Europe and the European Union, whose legislation strongly relies on the three-pillar model, is the fact that many public pension schemes include private administration and execution. This has been very problematic from the EU legislation perspective

leaving the pillar in which a scheme belongs a matter of interpretation, which has for example brought first-pillar systems not in EU competency within its interpretative horizon. Most importantly, the regulation 1408/71 is currently interpreted so that it includes all kinds of public-private mixes, which has completely blurred the first and second pillar division in respect to various schemes (see Briganti 2008). As result, there have been calls for more research attention on the governance of pensions-related PPPs (European Commission 2008).

The current trend of seeing pension systems through pillars and *tiers* at least implicitly recognizes the division of private and public administration within pillars. There is much variation in these conceptualisations. Table 2 provides one influential handbook categorisation. The division of pillars to layers or tiers has had much analytical value especially in comparative analyses, and the differentiation has been firmly tied to the research question posed. For example, in a recent review of OECD countries (excluding Malta, Cyprus, Estonia, Romania and Bulgaria), Whiteford and Whitehouse (2006) divided the first pillar only to two tiers: first tier safety nets to prevent old-age poverty and second tier arrangements that guarantee an adequate replacement rate for the earnings during the working life. These tiers included a number of differences. The first tier could take a form of basic flat rate schemes guaranteeing minimum pension (often tied to earnings-related pensions) or general social assistance for poor relief without specific connection to age (Germany until 2006). In the second tier, the most common schemes were DB plans. In these plans, the working life contributions and some measure of individual earnings defined the amount employee receives in retirement. The second most common scheme was the defined contribution (DC) plan in which employees deposit their contributions to individual accounts. The retirement income constitutes from the accumulated capital and investment returns of the contributions. Notional or non-financial DC (NDC) is a modification to pure DC scheme, and it could also be found from various schemes.

**Table 2.** *Generic description of pension systems via pillars and tiers.*

	<b>First pillar</b>	<b>Second pillar</b>	<b>Third pillar</b>
<b>Third tier</b>	(e.g. Swedish individual funded accounts)	Voluntary occupational pensions (e.g. UK)	Voluntary private pension (life insurance)
<b>Second tier</b>	Earnings-related part of pensions (e.g. French supplementary occupational pension schemes) for employees and/or self-employed	Government-subsidised occupational pension (e.g. Danish tax deductible occupational pension schemes)	Government-subsidised private pension (e.g. German Riester-Rente)
<b>First tier</b>	Basic pension (e.g. Irish flat-rate) for employees, self-employed, farmers and/or civil servants	Mandatory occupational pension (e.g. Swiss second pillar or de facto mandatory Dutch occupational pensions)	Mandatory private pension (e.g. Portuguese Plafonamento)
	Means-tested part (e.g. Swedish guarantee pension)		
	Social assistance (e.g. German social assistance substitutes for minimum pensions)		

Source: Immergut & Anderson (2007).

From a governance perspective, these kinds of conceptualisations provide us little help for choosing the starting point for analysing governance. The pillars denote the separate modes (i.e. collective public, collective or individual labour market, and individual basis) of ‘issue ownership’ but tell us little about what these ‘issues’ (e.g. investments, accounting, information exchange and mediation) are, and almost nothing about what ‘ownership’ means in terms of practices in different arrangements (e.g. centralisation vs. decentralisation, fiduciary vs. corporate management). The tiers give us more detailed view on the insurance paradigm and deepen our understanding on different locations for ‘issue ownership’ but do not address how contributions, benefits and (possibly) funding are organised, which is an essential question in defining contextual differences in governance. For example, the definition of benefits is essential in the Anglo-American institutional context (for overview and history, see Clark 2000), as DB and DC schemes differ in governance and decision-making in case of investments. Yet it tells us very little

if or how these issues are relevant in non-Anglo-American funds in general and PPPs in particular. We argue these broadly shared discourses of pension provision are rather directing the focus away from governance issues and thus cannot serve as the point of departure for governance analysis as such.

## **European Pensions and Organisation Fields: Some Hypotheses**

Despite scant attention on governance practices, the academic literature on European pension policies offers some important insights and hypotheses for organisation field level analysis besides denoting potential divisions of labour between different schemes. Firstly, pension policies have been largely a national issue in Europe, and most important policy pressures for changes in governance systems are relatively likely coming from the government than for example from the European Union. EU has played a relatively minor role in market-based second and third pillar pension schemes that are subject to community law (Eckhardt 2005). The open method of coordination in European social policy issues is likely to have a small impact on national pension policies in an area in which European integration weak as such (De la Porte & Pochet 2002). Put differently, although the European legal regime frames policies, there are few or no European wide pension policies but instead a multitude of individual state and state policy embedded fields of pension provision. Despite this lack of central coordination, recent reviews of European pension system reforms (Zaidi, Marin et al. 2006; see also Vidlund 2006) show that many EU countries have applied similar reform measures in the last fifteen years or so. Most of these reforms have been parametric, influencing the variables defining size and scope of the system, rather than systemic reforms that alter the structure of the pension system. The parametric reforms in 25 EU countries since 1995 have included changes (number of countries in parentheses) in retirement age (16), contribution rate (14), contribution requirements (12), benefit indexation (6), and pension formulae (15) (Zaidi, Marin et al. 2006).

The state-centred bias and the type of reforms suggest that national pension systems are potentially legitimate, diffused and path-dependent in different ways, implying among other things that institutional change paths are strongly conditioned

even when not necessarily path-dependent (for discussion, see Dixon & Sorsa 2009). This increases focus on the questions of what exactly are the contents of the institutional life of a particular field and what its actual capabilities for innovation with governance efforts are like. In addition, it highlights different frameworks for common problems. For example, financial challenges of European pension schemes in condition of ageing population are very well documented (see e.g. Nyce & Schieber 2005). Indeed, cost-efficiency is a crucial issue in achieving legitimacy, which has many implications for governance practices. For example, prefunding has been considered a feasible strategy to buffer increasing pension costs of the future and to manage risks via dependence of global financial markets rather than national economies (Clark 2003). It is, however, possible that poor investment management and relative returns, negative general market development, and high administrative cost of the pension funds actually decrease the level of the retirement income (DC) or increases the costs (DB). A shift in plan type does not very likely reduce the overall cost of ageing population (Thompson 2001), which implies the issue is likely present in governance of various schemes although in different forms. In brief, some internationally shared issues and change processes are important as shared macro-level institutional frames, but tend to get different articulations in a variety of more or less strongly institutionalised organisation fields whose boundaries are national or otherwise more local than these frames.

Secondly, the essential actors within pension fields are very likely the same in most European pension systems. The government and the labour market partners representing employee and employer organisations constitute the core actors forming pension policies. These are also the collective representatives of the main contributors of the costs. Whilst common cost pressures, likely institutional diffusion and potential path dependencies highlight the need to focus on the nature of institutional life, having the same key actors is very relevant concerning institutional work. However, the consequences of institutional work practiced by least surprising partners might provide most surprising outcomes in terms of governance (re)formation. Illustrative examples of these results are the German pension funds *Chemiepensionsfonds* and *MetallRente*, the former formed by social partners in the chemical industry (*IG BCE* and *BAVC*) and the latter by partners in metal industry (*IG Metall* and *Gesammetall*) (see Dixon 2008; Dixon & Sorsa 2009).

The funds compete against large financial conglomerates and other funds. Now, the social partners are for the first time ‘around the same board table’ managing and outsourcing investments, administrating pension flows, marketing, and doing other relevant everyday tasks of finance sector business management.

Before going to our case analysis we summarise this section by noting that the discussion above provides some important points of focus concerning institutional work, institutional change and deinstitutionalising pressures in pension provision. In terms of institutional work, the efforts to change pension governance are essentially tied to strongly institutionalised power relations between traditional actors (i.e. labour market partners, political parties, government, businesses) but also to new possibilities and capabilities brought by new domains like the financial sector. Secondly, the institutional change in governance cultures (i.e. identities and schema) is very likely related to significant systemic or parametric changes (e.g. prefunding) in strongly institutionalised pension schemes and regimes, or to emergence of new organisations and alliances (e.g. German funds). Thirdly, the regulative and normative deinstitutionalisation pressures of governance are mostly endogenous rather than exogenous to the governance regimes bounding the fields with the potential exception of major changes in EU regulations. In the field level this means that tensions in institutional life are more likely to serve as pressures for change than any ‘leaking’ boundaries would (again with the exception of changes in macro-level regulative frameworks). In discursive terms, however, the institutionalised ways of thinking about pension provision may provide some templates that cannot fit all existing tensions and thus give grounds for discursive deinstitutionalisation and increase potential for institutional change.

## 4 Finnish Earnings-Related Pension Regime: Actors and Basic Characteristics

The Finnish earnings-related pension system has been called a hybrid combining some elements of the Swedish model – basic pension security for all with earnings-related benefits on top for those with an employment record – and the decentralised Central-European ‘corporatist model’ (Hinrichs & Kangas 2003). For heuristic purposes it could be argued that the second pillar of most European pension regimes is legislated in the first pillar in Finland. As result, Finland is the only European country in which also the third pillar is more popular than the second. In contrast to Sweden, the lack of ceiling in statutory pension benefits has often presented to have crowded out the need for supplementary pension arrangements in Finland (Lundqvist 1998). The Finnish earnings-related private sector workers’ pension scheme TEL was established in 1961 and enforced in 1962. Employees on short-term contracts (LEL) (1961), farmers (1974), other self-employed (YEL) (1974) and artists (TaEL) (1986) got their own separate mandatory programmes. TEL, LEL and TaEL schemes were merged into one scheme, TyEL, in 2007. The pension programmes for public employees (one for central government employees and one for municipal employees) existed already before TEL and have remained separate schemes. The TyEL scheme covers regular old-age pensions, early and deferred old-age pensions, part-time pensions, disability pensions, partial disability pensions, cash rehabilitation benefit, partial cash rehabilitation benefit, rehabilitation assistance and survivors’ pensions.

TyEL somewhat evades classification with pillars and tiers. From the perspective of a pension insurance scheme, it is a first-pillar, second tier, mandatory, defined-benefit, partly funded<sup>2</sup> – one fourth of inflowing contributions are funded and the current total funding ratio is around 36% – but primarily pay-as-you-go (PAYG) reliant pension scheme co-sponsored by employers and employees. The state funding of TyEL scheme is at best marginal. The reason that makes the TyEL scheme difficult to classify is the fact that it is executed by decentralised private

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2 The scheme can be better described partly funded than prefunded since the funds are not intended to be wound up during the baby boomer retirement but to be stabilised in size and to continue generating investment returns to lower pension contributions in longer term.

pension providers. There are three available types of authorised pension providers: pension insurance companies (PICs, *työeläkevakuutusyhtiö*, 7 in 2010), company pension funds (*eläkesäätiö*; 7 ‘B-funds’ executing TyEL and the scheme for self-employed YEL, 17 ‘AB-funds’ executing TyEL, YEL and voluntary second-pillar pensions in 2009), or industry-wide pension funds (*eläkekassa*, 8 executing TyEL/YEL in 2009). Employers select the pension provider for their employees.

Traditionally large companies have had their own company funds, whilst most companies and almost all small companies have insured their employees through PICs (Puttonen & Torstila 2003). Currently, the vast majority of insurances and assets are in PICs, the two largest PICs *Varma* and *Ilmarinen* covering policies on about one half of all the insured. In historical terms, this is an interesting peculiarity. As Pentikäinen (1997) argued, if PICs would not have been forced to the so-called automatic *premium lending* (see next section), pension funds would very likely have become the dominant actors in pension provision, as was the case still in 1950s, when company funds provided pension for twice as many employees as industry-wide funds and six times more than insurance companies. Although the success PICs was everything but obvious for instance due to loose management, they had superior technical capabilities to handle massive inflows of information the mandatory TEL scheme produced (ibid.). In this sense, the main battle over organisational forms of authorised pension providers has already been fought: only the remnants of the funds remain while PICs rule.

The mandatory nature of the TyEL scheme dictates a number of fixed issues that are typically variable in many other countries, most importantly the ‘pension product’, i.e. the insurance contract defining pension benefits and pension provider liabilities. This suggests the object of governance is perhaps more limited than in a number of other pension fields. Finnish businesses are required to take a pension insurance policy and if they fail to do so, a semi-public authority, The Finnish Centre for Pensions (*Eläketurvakeskus*, hence: ETK), takes it for the employer. The benefits are defined in a fixed and somewhat complex manner (see Hietaniemi & Ritola 2007 for a detailed account). Since 2005, the pension rights have accrued at the rate of 1.5 per cent on the earnings for each year in employment between the ages of 18 and 53, after which the accrual rate is 1.9 per cent until the age of 63 and 4.5 per cent until the age of 68 (the latter typically called ‘super accrual rate’ in



public debate). Pensions accrued during the work history and pensions in payment after retirement are automatically re-valued in line with an index that is determined on the basis of changes in the earnings level and consumer prices.

The pension providers make pension decisions but otherwise they have little or no individual effect to the pension policy implementation in the field, which is rather a matter of macro-level coordination. The assets generated by the scheme, however, bring much contingency in defining the object of field governance also in the implementation level. The authorised pension providers legally own all the assets: they are just required to collect contributions and pay benefits by the law. Investments are perhaps the most important thematic field from the perspective of governing pension provision implementation, and there are extensive regulations concerning this field as well.

The TyEL scheme administration includes many relevant primary actors, whose organisational forms and mutual relationships we discuss in the next section. The highest regulative power over the scheme is held by the parliament, which sets the laws on which the scheme is based. There have been and are various temporary and more or less permanent *ad hoc* groups, committees and other bodies that prepare reform suggestions, make statements on development needs and clarify system characteristic interpretations if needed, although ETK and pension providers are in principle responsible for preparing regulation. These groups have been often set by different actors; the parliament, The Ministry of Social Affairs and Health (hence: STM), or labour market partners. STM supervises and coordinates many variables of the scheme, and is in principle albeit not in practice, as we will see, in control of a significant number of features. The semi-public ETK is the primary body mediating and storing various kinds of information especially on pension contributions and accrued benefits. The largest central employee (SAK, STTK, AKAVA) and employer (EK) organisations are the most important labour market actors in the field.

The pension providers (PICs and both fund types) make pension decisions, and turn pension contributions into invested assets, through which they cover funded and PAYG parts of pension benefits (liabilities). The Finnish Financial Authority (*Finanssivalvonta*, hence: FIN-FSA) regulates pension provider investments and other operations. The Finnish Pension Alliance (*Työeläkevakuuttajat*, hence: TELA)

is the ‘industry association’ of pension providers and coordinates their common opinion-formation in reform committees among other tasks. *Eläkesäätiöyhdistys* is the industry association of funds, although it also belongs to TELA. The PICs collectively own a reinsurance company called Garantia Ltd, and private and public pension providers in cooperation with ETK the Arek Ltd, a developer of pension information systems. ETK, TELA and The Bank of Finland create statistics and conduct research on the scheme.

## 5 Governing Pension Provision: The TyEL Policy Process

One of the many reports (Kausto 2002) addressing the TyEL system development posed the question of where is the nexus of the system and explicitly responded: nowhere and everywhere. Indeed, no single actor in the field – the government, the parliament, ministries, administrative agencies, labour-market partners or pension providers – have an absolute say in the functioning of administration or in reforming the pension system. It is, rather, a field of intersecting forces. As we will see in this chapter, the point of gravitation is nevertheless tilted towards the labour-market side of the TyEL universe. The following subsections are divided according to the stages – formation, coordination, implementation and control – of institutional policy process model to provide a narrative for pension provision governance. The discussion of institutional life of governance is either actor or mechanism specific, depending on whether the mechanism presented concerns more than one actor. Furthermore, most actors appear in more than one process stage.

We start this chapter by presenting the historical and current institutional life of field formation. In the further process stages we focus less on historical backgrounds due to observation that there aren't that many major institutional changes in these stages relevant in leading to the current institutional life that have not been already accounted to the changes in formation. Whenever the changes have been relevant, they are discussed in more detail. Besides presenting the relational systems between different actors in each stage of the policy process, we discuss issues related to institutional boundaries, work and entrepreneurship in these stages.

### Formation

The first seeds for the TEL scheme can be found in pacts between labour market partners of previous years, but the earnings-related pensions were primarily on agenda in a national pension policy design board in mid-1950s (see e.g. Salminen 1987; Niemelä 1994). The original TEL system design was based on four-year-long committee preparation that started in 1956. It included government authorities, labour market organisations and members of parliament from

government-forming political parties. The process was slow and there was great dissent on issues like financing arrangements and more general resistance by the employers towards statutory schemes (Salminen 1987). The committee report was turned into a parliament motion but not a government bill because the agrarian minority government wasn't willing to give one. The report was directly opposed only by the extreme left (SKDL), processed very fast (in two months) in 1961, and put in effect as law from 1962 onwards. The original formation process was not simply a struggle between the right and the left with labour market organisations each taking their sides, but for instance between industry workers and agrarian population and within the left. It also included very much tactical politicking and observation of Sweden's experiences in the ATP scheme creation.

In Finnish public policy, TEL 'began an era in which the labour market organisations were actively involved in the shaping of social policy and development of social security based on the insurance principle took centre stage' (Niemelä & Salminen 1999). Within two decades from the birth of the scheme, labour market organisations consolidated their role as the main drivers of the scheme. Conflicts and collaboration between central employer and employee organisations have been the main causes for various governance reforms. Until mid-1970s, the issues were typically renegotiated in the general incomes policy settlement (TUPO, *Tulopoliittinen kokonaisratkaisu*, a tripartite economic policy-setting arena)

In the TUPO of 1974 both labour market parties agreed that labour market party representation would be negotiated in coordination with the structural predecessor of TELA (then *Työeläkelaitosten liitto*), the pension provider interest group. Investment policies and principles were to be discussed in advisory boards, both general and provider-specific. Many variables of the TEL scheme were also legally codified during the following decades. As one interviewee put it, the labour market pension agreement was only given 'legal guarantees', not a mandate for the state to intervene in scheme formation. One commentator has stated that labour market parties make the agreements but the 'notes [on these agreements] have been made in form of law' (Louekoski 1997). As Kangas (2007) puts it, this illustrates the paradigm of 'markets against the politics' in contrast to the classic understanding of Nordic welfare regimes as 'politics against markets'. The understanding of TyEL formation as a matter of labour market agreement is very broadly shared not only historically but within the current field as well.

The nature of political conflict in the original formation of TEL continues to explain many of today's governance characteristics, most importantly decentralisation. The Finnish employer-dominated solution would rely on regulated corporate governance rather than public control and on multiple alternatives for privately owned provision rather than centralised public organisation of the Swedish allied labour union and government dictated solution (Salminen 1987). Here, the example of Swedish pension policy development served as a point of learning for the employer side rather than as a source of mimetic behaviour. Indeed, also the pension providers have been reluctant to allow any state representation in their governance ever since (Louekoski 2005). Decentralisation is considered a virtue in the field compared to state control. Both the labour market actors and pension providers have regarded the attempts to increase political influence in pension policies as attempts to 'socialise' the pension system. One informant formulated this normative position well by saying that 'the most common threat to pension funds in the world is the finance ministers'. While the decentralised system served to distance pension system from political influence, the decentralisation also hindered the formation of a single large capital base, which if in hands of employees would have created 'pension socialism' – a phenomenon greatly feared by employers in all Nordic countries (Overbye 1996) – or 'pension fund socialism' (see Langley 2008b).

Nevertheless, the buffering of political influence in the TyEL scheme is selective, since some political interests get more room or are better pronounced than others. Traditionally, the largest employee association (SAK) has strong links to left-wing parties in general and the social democrat party (*SDP*) in particular, and employer peak association (EK) is connected to the conservative party (*Kokoomus*). In this way, the centre party (*Keskusta*) that has strong links to agrarian interests – and has served these by promoting a strong basic pension system – but not to general employee or employer organisations, has been excluded from the governance of pension providers. Since the three major parties have for some time had roughly equal support and number of seats in the parliament, it is very difficult for any of the three major parties to form a majority government on its own. It also seems to be a lock-in situation from the centre party perspective: they are not likely to get strong support for institutional work efforts from either social democrats or the conservatives should they try to increase their influence in pension policy by a major systemic change. To put it in institutional terms, the conservative party and

social-democratic party have an established interaction project through their labour market partners, which cannot be broken easily.

### ***Limited Institutionalisation and Differentiated Lives***

The focus on formal regulative decision-making structures of formation and coordination, according to which all preparation is made by STM and decisions made by the parliament, does not take into account that the actual preparation and key normative decisions, which have thus far dictated the parliamentary ‘rubber-stamp’ decisions, have already been made outside democratic arenas. Indeed, TyEL formation cannot be explained only in terms of parliamentary governance. However, nor can it be explained by decisions made by other static bodies. Whilst coordination, which we discuss in the next section, is now somewhat institutionalised albeit functionally divided into many coordinating bodies from macro to micro level, the policy formation level ‘meta-governance’ cannot always be located to institutionalised bodies or schema. In contrast, there have been many *ad hoc* committees or groups finding grounds for or directly preparing reforms in TEL/TyEL formation.

The best known of these *ad hoc* groups was the so-called *Puro workgroup*, named after PIC *Ilmarinen* CEO *Kari Puro* who chaired the meetings, which was more formally called the ‘Pensions negotiation group of central labour market organisations’ (*Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä*). The group was formed in early 1990s to discuss the sharing of contributions between employers and employees (which came in effect in 1993). The group comprised of all central labour market organisation representatives as primary members and the CEOs of the two biggest PICs as expert advisors. *Puro group* was powerful in setting the future agendas for TyEL scheme with its consensual outcomes that even the parliament refused to denounce. It has been often argued in popular media that ‘the politicians gave the power’ to the group that has sometimes been called ‘pensions mafia’ (Seies 2006). The group was originally based on purely informal normative mandate but then given a formal regulative role. In 1995, minister *Sinikka Mönkäre* of STM gave a mandate to create a report on how to develop TEL investments (see *Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä* 1996). The group achieved a strong status as an able institutional entrepreneur (Dixon & Sorsa 2009).

The investment rule reforms of 1997 and 2007 were both negotiated in and by the group with broader but field-insider-dominated expert group consultation.

Mr. *Matti Louekoski* of Bank of Finland has also been an important person in *ad hoc* re-formation efforts – ‘a one-man working group’ as often portrayed in public debate – but less an institutional entrepreneur. He was the responsible author of the report (Louekoski 1996) on the general legal mandate of the pension provision in mid-1990s (finished in 1997). The main mandate was to clarify the organisational independence and the endogenisation of risks to operational management in the conditions of EU membership and ambiguous corporate governance structures, which the collapse of PIC Eläke-Kansa belonging to social democratic financial block revealed (Louekoski 1997). Some parts of this process had however already been started in TUPO agreements of early 1990s. Again, this shows that there are virtually no state-led re-formation efforts that wouldn’t have been initiated by the labour market organisations.

Although there are many elements of path dependence like financial sustainability and normative legitimacy in the TyEL system, the re-formation efforts have not been characterised by overly strict discursive limitations. For example, in the preparations of the 1997 solvency and governance rule reforms, there were many potential investment governance formations on the negotiation table. There were at least four alternatives: the development of the existing system, the mutual investment fund model, the mutual PIC model, and the centralised state-led model (Louekoski 1997). Although the first option was in the end considered the best at that time, all the other models have been discursively present in debates for decades now. The mutual investment fund model has been brought up every time there’s talk about improving competition and different centralised models are discussed when competition has been seen as a problem (Rajaniemi 2007).

This said, the TyEL field governance lives very different institutional lives in the ‘liability side’ and the ‘asset side’ of the formation. The most important variables adjusting the costs of and benefits provided by the system rely on either automatic adjustments or coordination stage parametric governance. This implies the formation of the field is quite flexible in terms of payments and liabilities, which undercuts the need for system-level reformation. Indeed, Finnish pension policy reforms have been by and large parametric, but the quality and even the sheer number of

these parametric reforms have shifted the whole policy paradigm (Hinrichs & Kangas 2003). In terms of policy process, the flexible coordination mechanisms have been more accountable of policy changes in pension benefits, conditions and costs than the formation mechanisms – or, that institutional entrepreneurship on many variables has been ‘written in’ the field governance. This suggests that the discursive life of re-formation efforts might be less important than the coordination and even in implementation level discursive frames.

From the ‘asset side’ perspective of investment, however, coordination has been intentionally eliminated from the beginning so that aspired coordinative changes have always required system-level re-formation efforts. Perhaps most importantly, the 1997 investment reforms placed investments into central governance focus after a long break when previous dissent over investment governance was solved in 1970s. This change goes along a broader change in discursive understanding on investments. Prefunded PAYG was the clear choice for financing mechanism in the original design of the scheme, since shortage of financial resources was broadly considered a primary obstacle for investments and job creation in the Finnish economy, and high inflation a great incentive for borrowing. This provided an enormous incentive to create pension capital (Pentikäinen 1997). From an administrative perspective, TEL included existing company-based arrangements and insurance companies in the new statutory system over time (Lundqvist 1998). The companies were forced to so-called premium lending, the employer right to draw a large percentage of legally enforced contributions as cheap loans by paying contributions in bonds rather than cash (currently the contributions are paid and loan contracts made).

This financial innovation was the most important investment vehicle for the TEL funds from the beginning all the way to the 1990s sometimes accounting for 80–90% of all TEL investments. The main (non-premium-lending) investment method was target-specific strategic allocation of investment loans, whose goal was job creation and improvement of general employment rate according to public policy targets (Pentikäinen 1997), which was in line with the prefunded pension scheme perspective. In terms of governance, investment management had not been a major issue, because customer demand in practice dictated the investment targets – as one interviewee put it, there weren’t many people in PICs who ‘knew anything about investing’. Until 1997, the investments were controlled by tight solvency and



capital reserve rules, which was understandable in condition of joint liabilities. The popularity of premium loans vanished when the financial markets were opened in the late 1980s. This opened up a brief vacuum in investment allocation paradigm, but the deep recession of early 1990s filled the vacuum when TEL capital basically saved the state struggling with expensive bank bailouts and high unemployment from bankruptcy by buying sovereign bonds with a massive relative allocation. Financing the state was considered inconsistent with the purpose of TEL capital by almost the whole field, which led to the *Puro group* reform mandate to be drafted.

Although the 1997 reform was technically minor and would hardly require years of re-formation bargaining, the conventional interpretation on the goal of 1997 solvency rule reform was to change the investment paradigm by increasing international and riskier investments in order to lower the future costs of the scheme (Työmarkkinoiden keskusjärjestöjen eläkeneuvotteluryhmä 1996) – which could have hardly happened unless PICs had quickly adopted a new investment paradigm (Dixon & Sorsa 2009) – instead of using capital to implement national economic policy via privately owned pension capital. At the same time, the *Louekoski* report was directly addressing TEL governance. The reform clarified the relationship between PICs and other actors. In case of company groups, “the financial conglomerates”, pension provision was to be accounted separately from other activities and pension assets were separated from other assets. Investments could be delegated to external managers, but in every case the PICs were required sufficient internal management to ensure proper control over capital. Generally speaking, the governance of and regulation over pension provision became more investment-focused than ever before.

### ***Formation Boundaries and Institutional Change***

There are various macro-level boundaries present in the field formation. The most prevalent force in relation to pension policy environment is the European Union decision making. Although Finland gained an exception from the life insurance directive for the private implementation of TyEL in ground of execution of a public policy when the country joined EU, some of the developments within the EU and in other EU countries set the TyEL system into a new kind of scrutiny. For an example of EU development, the future of the services directive orienting the provision of services in EU countries could gradually affect the social security arrangements

such as TyEL pensions (Kari & Pakaslahti 2003). In case of the latter concern, more European countries show features of the Finnish mixed public-private system of pension provision, which provides pressures of rethinking of EU regulations. In this respect, the idiosyncrasy of TyEL scheme serves rather as an example of national 'exceptionalism' than EU integration, and it may incite new forms of EU regulation. EU legislation serves as a general deinstitutionalising threat to the field. This said, many of our interviewees considered EU regulation a rather distant threat of mainly scholarly importance.

Although distant to the practitioners in the field the threats included in the changes in EU regulations concern the very architecture of the system. The most essential thematic challenge is the unclear lines between competition and collaboration. The legislation on competition applicable to legally authorised pension providers refers primarily to the stipulations provided by the Treaty Establishing the European Union and secondarily the national Act on restriction of competition. The tension with EU is rooted in the government aims at harmonising the latter Act with EU law (Hietaniemi & Ritola 2007). Put bluntly, the competition must be carefully defined and limited so that EU regulations would not apply, although legislation in general is aligned with the regulations. The possibility of external threat in this thematic area of macro-level regulative 'rules of the game' is acknowledged in most of the reports made within the field. There have been two main types of suggested actions should there be a strong force requiring systemic change. According to the first type, a single (public or private) provider could execute pension provision (Kausto 2002). The possibility of removing competition via monopoly was recently brought to public attention by the retired head of STM insurance department, Tarmo Pukkila, who heavily criticised the current form competition between pension providers as 'waste of money' (Iivonen 2009). According to the other type, pension provision could be centralised but assets then externalised to multiple investment funds, which would clarify the boundaries for and change the actors participating in competition (Rajaniemi 2007).

The essential boundaries for and logics of governance in the field have been drawn by the labour market parties, which has created a strong normative understanding who should be 'in charge' of the system-level characteristics. In contrast to the common first-pillar second-tier classification, the TyEL scheme is by and large understood as a labour market second pillar scheme with legislated formal mandate

and guarantee, and on which decision-making can be legitimately made only by the private labour market parties. Perhaps the most important boundary is the active maintenance of immunity to state authority in the normative and regulative level. This boundary is explained in part by the legacy of fear over ‘pension socialism’ and political struggles to prevent it. As the editor in chief of the *Työeläke* magazine, the main professional magazine in the field put it: ‘[if] you regard earnings-related pension as an extension of salaries, it is in that case the money of labour market parties, of employers and of working people, which is managed by pension insurance companies. No government would in reality want to violently grab money that belongs to someone else.’ (Kalliomäki 2009, translated by VS.)

The immunisation of state authority to pension policy in general was well illustrated in 2008-09 when the government suggested, as part of ‘social TUPO’ in the financial crisis, the mandatory retirement age to be raised in following years, and set a centre party led STM committee excluding the labour market parties to prepare new legislation to do this. Since most Finns do not exactly accept this policy – 61 % of population opposed the idea in 2007 (TELA 2007) – the introduction of policy change took place in an antagonistic normative environment. The central labour market organisations in both sides have, however, endorsed the idea of rising the retirement age. In fact, the CEO of the central employer association EK has promoted the idea of raising the minimum mandatory old-age retirement age from 63 up to 67 years (Aaltonen 2009). Yet labour market parties in neither side could accept the government’s suggestion. The main employer association expressed that this was not something the government could do by its own right, and the blue-collar employer associations even gave an implicit threat of general strike in case the committee started working without labour market representation. The resolution between labour market parties and government (Keskusjärjestöjen ja hallituksen yhteisymmärrys eläkekiistan ratkaisemisesta. 2009) clearly stated that the central labour market organisation would dictate the ways in which the reforms were made and that the STM-led committee (meant to more or less permanently replace the previous *Puro* group) was unacceptable and was to be replaced by tripartite committee led by CEO Jukka Rantala of ETK (see next section) – not a ministry, PIC or labour market representative.

It is worth asking why exactly the parliamentary political system has been so incapable of breaking the boundary of labour market party dominance despite the

fact that the Finnish political regime has strengthened parliamentary power. Finnish parliamentary decision rules and the role of the president were altered in 1992 (see Mattila 1997) and 2000 (see Nousiainen 2001), respectively. The changes in parliamentary decision rules diminished the possibilities of parliamentary minorities to postpone legislation in the parliament and the constitutional change increased the decision-making powers of the cabinet in the expense of the role of the president. As a consequence a cabinet holding a majority in the parliament has more powers than before to intervene in any societal matter, including pension policies. In practice, government attempts to modify pension system have not been successful if they have not included both the labour market partners whose conflicting political connections we discussed above. The increase in state authority would require either new political alliances in institutional work or very strong entrepreneurship in order to change the prevailing discursive understanding in the field.

One development related to constitutional change has been the questioning of system parameters based on constitutional grounds. The constitution is an endogenous regulative discourse affecting the societal legitimacy of actors. The Finnish Constitution dictates that only public authorities should be allowed to take care of the tasks that include significant use of public authority. The interpretation of the significance of public authority has been that it involves the use of physical force in dealing with citizens. A possible broadening of the conceptual area of ‘significant public authority’ poses a direct challenge for the functioning of private pension providers (Louekoski 2005) as well as The Centre for Pensions that in fact possesses a mandate on the use of physical force as it holds a right to impose a search on the premises of the employer (Myllymäki 2009). The constitutional question can be considered a technical project in which institutional entrepreneurs work for the improvement of their own positions. In a broad issue such as interpretation of the Constitution, it is a matter of formation-level governance – pension system interactions in general rather than between individual actors in the field.

The combination of relative legitimacy and sustainability of the TyEL scheme is another reason for the lack of dissenting or antagonistic political intervention. If difficult decisions such as lowering benefits or raising the mandatory retirement age are to be made, politicians are not likely to claim credit for these measures but avoid blame by letting labour market partners decide on the major pension policy

issues. The development in Bismarckian pension regimes illustrates that lack of trade union and opposition participation is election-wise a risky strategy for a government-led policy (Schludi 2005). In Continental Europe the tension between government (irrespective of their political orientation) and labour movement has been the primary form of dissent in pension policies (Bonoli 2000). In the Finnish context no such controversy has been particularly strong for some time in either asset or liability side. Even the historically important issue of promoting public pressure for investing TyEL capital in the Finnish real economy has not been on labour union agenda in the field governance, albeit some central organisations have made this point ‘in their PR agenda’, as one interviewee put it. This said, it must be noted that also the employers’ interest in pension capital has dramatically decreased. As one interviewee put it, the strong interest in having ‘Finnish flagship owners for Finnish flagship companies’ in the 1997 reform preparation was quickly forgotten since the opening of financial markets did not lead to foreign investors’ dominance in the Finnish markets. The opening up of financial markets in late 1980s caused that the domestic enterprises no longer needed pension assets for their investments. The last time the topic was on table was the mandate of investment rule reform of 2007 preparation that included the question of how to increase domestic investments. For the actors in the field, the mandate was interpreted so that the issue was discussed extensively and then forgotten ‘for good’, as some of our interviewees put it. The both parties have agreed in nearly all investment-related issues.

This is not to say employer and employee interests include a static common objective in domestic investments. Employers’ major concern in the current context is the amount of pension costs that affects the overall labour cost. The employee side of the coin is not as straightforward. Currently employees’ contribution to pension costs underlines their direct interest in keeping down the total pension costs, although their part of the contributions is not variable according to PIC investment performance since the mechanism of contribution returns only concerns employer contributions. On the other hand, investments in domestic firms could directly increase employment, which would serve the interests of the employee organisations. The problem here is on the demand side: there have been adequate sources for financing the demand in nearly all sectors and in businesses in different development phases where TyEL capital could be invested in current legal

framework, which makes the positive economic impacts of increasing investment of TyEL capital to Finnish financial markets somewhat questionable insofar as the investment targets, regulations and methods are not discussed in detail.

## Coordination

The nature of coordination in the supposedly first-pillar TyEL field is something that a number of pension scholars might find peculiar. The first peculiarity is the fact that the TyEL assets are in legal terms owned by the pension providers – not the beneficiaries, insurance policyholders, contributors or the state (albeit accounted as national wealth) (Kallio 2005). The field coordination is not about deciding on how pension savings are used, but only about giving boundary conditions for private activities and about forcing private actors (albeit special entities in law) to act in accordance with a pension policy with a somewhat fixed repertoire of public means. The second peculiarity is that actors coordinating the national system are only in part public in legal statute. Indeed, a legally mandated private entity, The Finnish Centre for Pensions, coordinates some activities in the field executed by other private actors. The third issue is the role of STM in coordinating the scheme: although the ministry has a strong legal mandate to coordinate the system, it is in many respects impotent to follow its mandate without consent of all actors. The division of labour among the coordinating bodies is not altogether clear not least due to the overlapping participation of what we call the ‘power law’ situation in coordinating and development forums.

The current boundaries for coordination can be described as follows. The macro-level coordination of the TyEL scheme is debated in a tripartite committee *Eläkeneuvotteluryhmä* (literally ‘Pensions negotiation group’), led by CEO Jukka Rantala of ETK, which was born in the TUPO of 2009. The labour market negotiation group provides a high-level forum for the overall development of and handling of the disputes within the field. The primary coordination bodies of the field, STM and ETK, have a strong mandate that can control various parameters of the system with labour market organisations’ support, and they are not likely to be able cross their institutional boundaries. Nor can they coordinate assets generated by the system, which are left to the decentralised private providers, discussed in the next section. Boundary conditions ensuring pension security are drafted by

reformation-capable top authority in the field, currently the Rantala group, but the control of the implementation is given to government regulatory body FIN-FSA.

Before going to the institutional life of coordination in more detail, a few general remarks are needed. Firstly, the traditional institutional life of coordination based on *ad hoc* group formation is very likely changing. The composition of Pensions negotiation group is similar to but not the same as previous groups: it is more multi-stakeholderist and led by a coordination-related, not implementation-related body. Another important development in the field is the adoption of a temporary law relaxing the solvency criteria to prevent fire sales of assets during the financial crisis of 2007–08. The temporary law is a slight boundary crossing in current formation. The ability to implement a new boundary condition in rapid government-led project has somewhat blurred the traditional order between formation-level and coordination-level relational systems in two respects. It has shown that the relationship between STM and PICs is more immediate and potential in causing changes than the labour market organisation driven order suggests, at least when the issues on hand are considered legitimate by the social partners. But it has also shown that the central coordination mechanisms in the era of financialised pension provision have stepped in the area that was previously considered a non-coordinated but decentralised area. Hypothetically, increasing financialisation has increased the need for coordination.

Secondly, the tensions between parliamentary politics and labour market partners we discussed in the previous section often materialise between STM and organs dominated by the labour market partners. In recent years, there has been a series of incidents portraying the ‘cat and mouse behaviour’ between politics and pension system. In December 2007, STM proposed that pension providers should not pay bonuses to their clients during the poor investment returns in financial crisis because the government has temporarily eased the solvency criteria in order to help insurance providers to overcome the crisis. Despite the plea all the major pension insurers paid client bonuses in 2008. Another example is the agreement between labour market partners on changes in pension costs in January 2009. The premium for employers in the national basic pensions was abolished and the savings were used to increase the contributions in the earnings-related pensions. By their agreement, labour market partners were able to fix some of the key issues that were being formulated in committee on basic security set by STM, which couldn’t have



implemented these policies. This was seen as a proof of labour market influence in social policy, but it also coincides well with the growing importance of work-related pension benefits at the expense of universal basic pension in other EU countries (Niemelä & Salminen 2009).

### ***Self-Regulation with a Public Mandate: The Finnish Centre for Pensions and The Finnish Pension Alliance***

It is probably fair to say that The Finnish Centre for Pensions (ETK) has a system-wide or global coordination role in the Finnish pension regime as a whole, which is underlined by the fact that also public pension schemes use its employment registry services. In practice, ETK also participates in the preparation of the pension legislation. ETK is broadly considered ‘a liaison body’ (Hietaniemi & Ritola 2007), a ‘non-authority’ that has government, employer, employee, as well as pension insurance company presentation in its governing bodies. The labour market partners have a majority in the governing boards of the centre, and pension providers cater for the costs of operation.

The purely coordinating role is connected especially to the division of liabilities between pension providers. In the Finnish pension regime, the employers choose the pension provider(s), or in case of public sector employers use the nominated providers. But the PAYG liabilities are based on the accrued pension benefits that are calculated for individuals, and in effect, individual employees tend to generate liabilities for various providers during their work careers. To define the liabilities of each provider requires extensive data processing. ETK holds a registry of the pensions as well as information of the amount of the pension premiums that are used to determine the actual cost for each individual pension provider. From 2007 onwards, AREK Ltd has registered the earnings data used to award pensions. To complement its own register data, the pension provider gets the other data needed to calculate the pension from AREK and the Finnish Centre for Pensions.

One constant debate in the field concerns the definition of core functions of ETK. For example AREK was separated from ETK because technical data maintenance was considered non-core function. Research and communication with international bodies are among the core functions, but they have few immediate effects to field coordination. ETK also has a controlling role as it decisions on the application of the pension acts. Perhaps the most important core task in using coordinative power is



related to the bases of calculation of solvency borders and fund transfer obligation, the annual liability of pension providers to accumulate funds with contributions, which includes besides technical provisions also a supplementary factor dependent on average solvency of pension providers and an automatic equity return-linked provision (see Hietaniemi & Ritola 2007 for detailed description). ETK is in charge of calculation of the obligation, and STM has the opportunity to either accept or reject the calculation of the formula. It is however customary that ‘under normal circumstances’ ministry does not alter it (Huhtanen 2006). The calculation bases are significant as they in part define how much client bonuses PICs can pay and how much capital reserves pension providers need to have.

There has been a tension in the social role of ETK for some time. The tension is connected to the relationships between politics and the pension system as a whole. The coordinating role among pension providers and the influence of the social partners within the governing and financing of the centre highlight the self-administrative nature of the system. Increased government control over ETK would give politicians a much stronger say on the functioning of the pension providers. The scholarly discussion of the role of ETK has been mainly legal (Myllymäki 2009; see also Huhtanen 2006; Arajärvi 2006), but the divergent conclusions of these considerations point to political controversies beyond legal disputes. According to one legal scrutiny (Arajärvi 2006), the nature of the duties of the centre have not changed or extended to the extent that the role of the centre should be altered on practical grounds, but nonetheless so that it is possible should there be a (political) will to do so. Another report (Myllymäki 2009) suggested a change in the position of the centre arguing that the role of ETK as a non-authority has important public authority role in coordinating the decentralised scheme. The suggested solution was that ETK would be given an organisational form of public agency under the supervision of STM. Moreover, the governing board would consist of civil servant and pension experts, but not representatives of the pension providers.

In contrast to the global role of ETK, the industry association Finnish Pension Alliance TELA has local roles in coordination. It formally serves as the coordinative body of pension provider opinion formation and the representative of common interest. TELA is also a central research body in case of investments. But it also has a formal local coordination role in preparing the calculation bases. The role is related to the composition of pension contributions, in which case TELA is responsible for

one essential section in calculation bases. Currently, the section consists of insurance mathematicians of all major insurance companies as well as representatives of STM and ETK. TELA gets a mandate from insurance companies and then applies for confirmation from STM. There are also TELA-led sections for preparation of insurance terms and one for preparation of matters related to organisation and industry wide pension funds. In this sense, there are also similarities in the role of TELA and ETK: they both have dispersed local coordinative functions.

The calculation bases are important as a coordination mechanism because it hinders some aspects of the competition between pension providers. The costs allocated to the operation of the pension provider and the costs resulting from uncollected contributions form a part of the uniform pension contributions for all pension providers. This practice makes it difficult for the policyholder (i.e. employer) to evaluate the quality and efficiency of the given service. Currently, the part that is intended to cover the uncollected premiums has most often been enough to cover the losses and collection fees. Therefore pension providers lack the incentive for efficient collection of premiums (Rajaniemi 2007). In the conditions of fixed product (i.e. TyEL insurance), the coordination of these principles can be viewed as cartel type activity that potentially hinders competition among the pension providers, or at least shifts focus from price-efficiency to other issues like client bonuses (i.e. the contribution returns paid by PICs from investment returns, also in part linked to calculation bases) and supplementary services. One TELA section and the pension insurance committee of Federation of Finnish Financial Services, the Finnish financial sector lobby, have called for more pension provider specific calculation bases especially in terms of individualising scheme execution costs (Kivisaari 2007).

The coordination stage is the central phase in the pension policy process, and TyEL is no exception. In TyEL, however, centrality is not so much connected to the importance of the coordination as such, but on the overlapping borders between various process stages and among other actors. The preparatory work performed in ETK and TELA condition the formation stage in its political spaces, and their recommendations and information provision orient the implementation carried out by the pension providers. The preparatory work in ETK and TELA can be seen as vital parts in coordinating the functioning of the otherwise decentralised pension provision. It must be noted that the preparation gives little room for representative

democratic decision-making. STM has little say on the components of pension contributions. In this way, pension providers indirectly define themselves the most important parameters affecting their financial status.

### ***The Coordination Network***

Coordination is in many parts based on *ad hoc* groups set by main coordinative bodies, STM, ETK and TELA. It could be even argued that the coordinative power of central actors in a significant scope resides in groups that operate between different actors in the field, not in bodies as such. The number of these groups is impressive. ETK lists annually all the public working groups that have something to do with pension reforms, be they macro or most micro level changes. The report of 2009 (Kortesoja & Huikuri 2009) for example lists over 60 working groups and coordinating forums set by ministry (STM), industry, and labour market partners, that have some relevance concerning parameters of the TyEL scheme or its politics (see freely translated groups and the coverage of data in Appendix 1).

The examination on the organisational interlocks between coordination groups is described in Figure 1. The data consists of 681 individual members representing 123 organisations in 56 coordination groups. Organisations with a single link in pension coordination were omitted from the graph. The network is based on the co-memberships among the organisations. In other words, there is a line between organisations if they are represented in the same coordinating group. The thicker the line, the more co-representations two organisations have in different coordination groups. In this type of analysis, the individuals representing their organisations need not be the same, that is, an interlock is established if any two individuals from different organisations are members in the same coordination group. The size of the points referring to the organisations is scaled to signify the overall number of memberships an organisation has in coordination groups. ETK was the top organisation with presence in 41 groups. The examination on the memberships of various individuals did not reveal an existence of a strong personal ‘pensions elite’. Out of 681 individuals 522 were members in only one group, representing of 77 per cent of all members. Only 20 persons held 4 or more memberships and the highest number of memberships was eight.

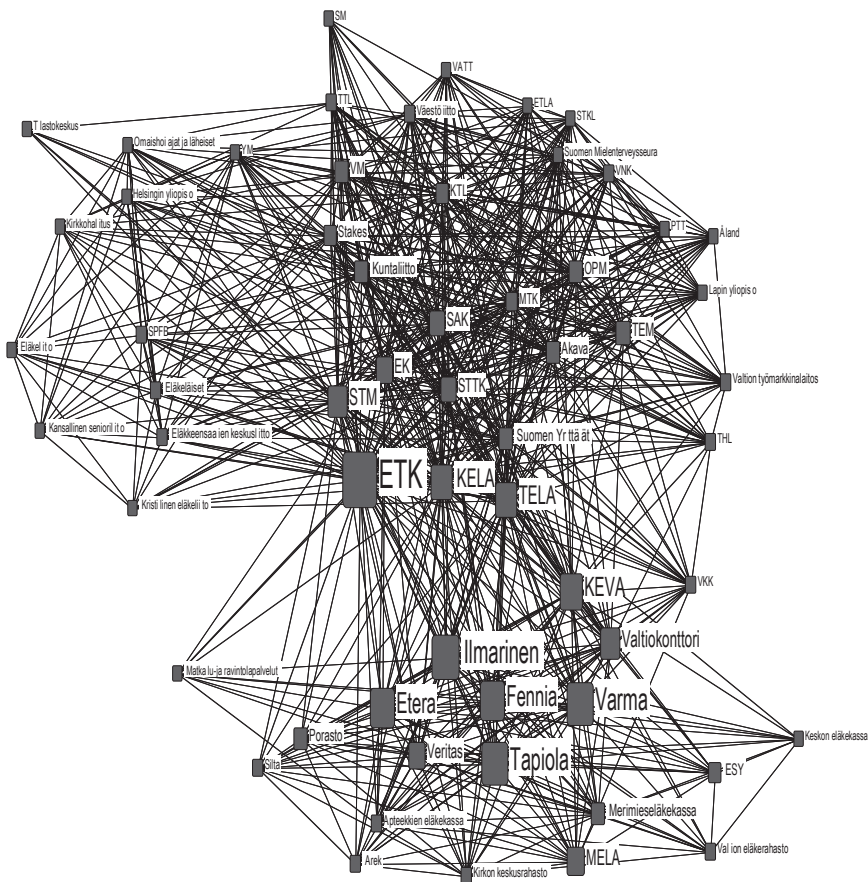
The wide composition of partners in the network suggests that the coordination network is neither an ‘iron triangle’ (Hecló 1978) in which limited number of

actors operate in a relatively closed policy area, nor is it a fluid issue network. It seems that coordination of pension policy aims at grasping large number of divergent interests into pension policy development. However, the constellation of coordination network represents a 'power law' (Barabasi 2002) in which few actors hold a central position and many actors hold a peripheral one. The overall structure of the coordination network signifies a core which is divided into two separate yet strongly interrelated blocks. The structure of network mimics the division of labour between operational pension provision and its supervision. The providers constitute one block and all supervisory actors as well as main stakeholders are situated in the other. The periphery of the coordination network consists of diffuse combination of interests-based and expert organisations. The provider block accommodates the PICs, both fund type, service providers of other pension schemes (Church, seamen, State, farmers) as well as TyEL support organisations (Silta, Porasto), but this block does not have a clear nexus. The other block accommodates multiple well connected actors (STM, The Social Insurance Institution of Finland KELA, TELA, ETK). Most notably, ETK and TELA occupy central coordinating positions between the two blocks. In other words, they are well presented in both blocks of pension coordination. It is often the case that central actors marked by multiple connections are able to set the pace for the entire network (Provan et al. 2007).

One important feature in the coordination network is the combination of representation and expertise. These two "virtues" are not necessarily easy to assemble together in the context of pension provision (Clark 2008). Indeed, all stakeholders – including labour market organisations, pension providers, STM and other ministries, ETK, TELA, KELA, and many other institutions that are considered relevant by the actors setting the groups – are represented in using voice and/or receiving knowledge from the coordination and discussion groups that are meant to develop policies and practices concerning more than one actor in the field. But in a complex field, no single actor can define all the relevant issues for debate in all thematic fields, which requires expertise, the broad acknowledgement of different system variables and perspectives to their actual functioning. These two virtues are combined in group composition in a number of working groups that consist of a narrower representative group and a very broad expert group, whose demarcation in decision-making is clear but less clear in terms of articulating normative perspectives or redefining the present discursive frameworks. The distinction between representation and expertise

is equally clearly illustrated in the overall coordination network. In addition to the main actors in either of the cores many economic expert institutions such as the Government Institute for Economic Research VATT, ETLA, Pellervo Economic Research PTT are situated in the outskirts of the coordination network. The interests of pensioners are present in the coordination, but their position is somewhat peripheral in the overall relational structure.

*Figure 1. The coordination network of the TyEL regime.*



In theory, there is a great potential for institutional entrepreneurship for those actors occupying central positions in organised interactions. We argue, however, that effective change with individual-based and more generally actor-based institutional entrepreneurship is somewhat limited in TyEL field coordination. One reason is

that coordination is strongly conditioned by past measures and strong regulative logics. There is number of mechanisms that could be called automatic adjustment factors. These adjustment factors are legacies of previous coordination actions and they significantly change various parameters in the field. For example, the so-called life expectancy coefficient is a mechanism that affects the amount of the old-age pension and a method to prepare for increasing longevity. It is applied for the first time in 2010 for those born in 1948 and after. In brief, if average life expectancy continues to increase, the life expectancy coefficient will reduce the monthly pensions. The coefficient of each age cohort is based on calculations made by Statistics Finland, drafted by ETK (or ETK-led groups) and accepted by STM annually. However pressing urges for institutional changes to this arrangement might emerge from within the field, the mechanics of the arrangement could be changed only in the tripartite Rantala group. Whilst individual institutional entrepreneurs might be able to significantly affect the discursive insights in Rantala group works, they are very unlikely able to produce new interpretations of the strong regulative institutions in practice by using mechanisms like translation or bricolage. Instead, the organised coordination network provides a fertile ground for institutional work practiced by all kinds of alliances.

## **Implementation**

In a decentralised system some of the administrative functions require central authority. ETK is a prime actor in taking care of these tasks. It is able to give recommendations on implementation to guarantee uniform standards of operation among pension providers, makes decisions on what pension scheme an employee belongs to in ambiguous cases, and is entitled to take a pension insurance for an employer in case it fails to take an insurance for its employees. Otherwise, pension provision is functionally much about implementing the pension policy. In the institutional life of an organisation field, some of the coordination tasks may come very close to implementation, as hinted in the previous section. We are not, however, addressing these issues in more detail in this section that is dedicated to the relationships of pension providers implementing the pension policy (as insurance policies), both mutually and in relation to other actors. As noted, pension providers are important in terms of governance primarily because the assets generated by

the scheme are not coordinated but decided upon in decentralised manner within given boundary conditions.

Pension providers, PICs, company funds and industry-wide funds, that is, have a clear fixed role in the field: they manage the insurance policies, collect pension contributions, allocate part of the contributions to PAYG liabilities and a part to funds, both from which they pay the pension benefits, and make pension decisions. The providers are special entities defined by a variety of different laws. The provider type and, if a PIC is chosen, the actual provider are selected by the employer. The PICs own all their assets, i.e. the contributions and the funds, under normal circumstances although their liabilities are defined legally by pension policies (Kallio 2005). In defined special circumstances, however, when assets are divided among the shareholders and the owner of the guarantee capital, the latter are entitled to their investments and reasonable investment returns (see Kallio 2008). The rest belongs to the policyholders as part of their stock of insurance, which should be used to secure the interests of the insured. The company funds are, albeit nothing like German book reserves but closer to Anglo-American pension funds that are separated from companies, traditionally protected and guaranteed by the parent company. This doesn't mean that company funds or other provider types would generate similar legacy costs, since pensions are universal, predefined and not based on job contract, scheme is collectively funded, benefits and liabilities accounted by individual employees, and all assets and liabilities are controlled by strict solvency and other rules. As one of our interviewees put it, the TyEL scheme is a 'reach of hand' to the employers, since the pensions arrangements create no competitive disadvantages and liability insecurities for individual firms: 'everything is known in advance'. This makes the implementation role of these private providers somewhat static, but as it is argued in this section, it is not one without tensions.

### ***Pension Insurance Companies***

Pension insurance companies (PICs) are based on the Act on Pension Insurance Companies (354/1997) and, in areas it doesn't cover, on the Insurance Companies Act (1062/1979). A PIC handling statutory earnings-related pension insurance has to have a concession granted by the Government, which may include special conditions meant to safeguard the interests of the policyholders and the insured.



A PIC can be founded by one or several natural or legal persons, and at least half of the founders have to be resident in the European Economic Area unless STM grants an exemption from this rule. The minimum basic capital required for a pension insurance company is 5 million euros. Foreign insurance companies may not directly engage in Finnish statutory pension insurance, but a foreign corporation or natural person may establish a PIC in Finland. The company is subject to the same restrictions as regards line of industry and concessions as a pension insurance company established by Finns. So far, no foreign insurance company is engaged in earnings-related pension insurance business in Finland.

A PIC is bound to pension provision: it cannot handle any other type of insurance than The Finnish Pension System insurance under the Employee's Pensions Act (TyEL) and the Self-Employed Person's Pensions Act (YEL) and related reinsurance. All PICs but one (*Etera*) have strong intrinsic relations or directly belong to a broader insurance group, but the statutory earnings-related pension insurance has to be kept legally separate from the group's other insurance activities. The assets of the pension insurance company have to be kept separate from the assets of companies that belong to the same company group, and the annual accounts of the PIC may not be included in the consolidated accounts of another company. The financial management and payments traffic of the PIC must be arranged so that assets are not used for arranging the financial management or payments traffic of another company that belongs to the same company group as the pension insurance company.

The administrative structure of PICs follows some ingredients of the 'traditional' Finnish model of two-tier corporate governance – albeit that currently Finnish listed companies dominantly use a one-tier governance model and only few listed companies have supervisory boards (Securities Market Association 2008) – i.e. it includes not only a Board of Directors (BoD) and general meetings but also a Supervisory Board (SB) overseeing the BoD activities. At the annual general meetings company shareholders have the voting rights in accordance with the Insurance Companies Act. The role of the Supervisory Board (SB), elected at the general meetings, is determined by the legislation on limited companies. The SB nominates the members of the Board of Directors (BoD), which on its behalf elects the managing director following normal practices in limited companies and supervises the managing director's activities.



PICs are far from other companies when it comes to the composition of these bodies the sharing of power in them. Labour market relations in the field are deeply embedded in these bodies. The SB and the BoD have to have representatives for the insurance policyholders (employers) and the insured (their employees) chosen from the candidates suggested by the central labour market organisations. There has to be an equal number of such representatives for the employees and for the employers, and their total number has to be at least half of the total number of members in the SB and BoD, respectively. The pension insurance company must have separate committees on elections, appointments, compensations, and audit. The election committee consists of persons suggested half by representatives of the policyholders and half by representatives of the insured. It makes proposals as concerns the remuneration and nomination of the members of the SB to the general meeting, and proposals concerning the remuneration and nomination of the members of the BoD for the SB.

There are various requirements for individuals in PIC governance. SB and BoD members of one company cannot be members of others'. Albeit nominated by the social partners, they are not expected represent their interest groups but are responsible for their activities fully as individuals. The managing director, the CEO, has been given a specific role in PIC governance. The CEO may not function as managing director of a credit institution or investment services company in the same company group or financial and insurance conglomerate as the insurance company. The managing director may also not be a member of the SB or the BoD of the company, or the head mathematician of the company, who in collective have much cooperation in coordinating calculation bases.

The type of PIC affects the composition of the adopted governance system. According to the law, a PIC can be a joint stock company or a mutual insurance company, or a public insurance company mentioned in the Finnish Companies Act. There are five mutual PICs and two joint stock PICs (*Veritas* and *Pensions-Alandia*, the two smallest of seven PICs). This type also affects who will profit (in very limited terms) from the insurance activity and more importantly who are the shareholders of the company. Hansman (2000) argues that the lack of clear ownership in mutual life insurance companies as in many other non-profits results in management accumulating excessive capital within the organisation. What applies to US life insurance industry does not automatically suit to the Finnish pension insurance

industry. The interesting feature in Finnish PICs is that the major companies have adopted mutual form primarily after the relaxation of investment regulations allowing more investment in stocks and allowing more foreign investments – albeit that in strong relation to other organisational changes like the separation of *Ilmarinen* from the *Pohjola* group and the fusion of *Eläke-Sampo* and two thirds of *Eläke-Varma* (one third being transformed into *Eläke-Fennia*) into *Varma-Sampo* (later *Varma*) in 1998. It could be argued that the ostensibly more prudent of the two organisational forms has balanced the riskier investment policies.

The composition of shareholders are written in the Articles of Association of each company, which and whose changes have to be confirmed by the FIN-FSA. The articles also determine whether the guarantee capital owners are among the shareholders of company or not and how many voting rights they may have, how the representatives of the insured are selected in case the legal requirements (334/2007) of selection are not met, whether the annual general meetings nominate the president and vice president of SB or not, whether the SB nominate the president and vice president of BoD, how NC is selected, composed and run, and for how long period of time the auditors of the company operate. In the limited companies, shareholders are simply all who buy company stocks through a book-entry system. Buying and selling stocks must be informed to FSA beforehand (for details, see 1062/1979, 7 §), however. The legislated shareholders of mutual companies are the policyholders (TyEL employers and YEL self-employed), the insured (employees of TyEL employers) and, if companies choose, the guarantee capital owners and the reinsured. All mutual companies have recognised the guarantee capital owners and none has recognised the reinsured as shareholders. The mutual companies can also choose to define shareholder status so that the insurance policy must have been in force, up to three years, in order to be a shareholder.

The voting rights of each mutual company shareholder in annual general meetings somewhat varies in mutual PICs (see Table 3). The companies allocate votes to the insured firms according to the amount of their pension contributions. The law prescribes that all votes per insured firm have to be shared between the policyholder and the insured representative so that it reflects the shares of pension contributions. This means that policyholders get roughly about three fourths and the insured one fourth of the votes. However, each insured firm has according to the law at minimum two votes, in which case one is allocated to the policyholder

and one to the insured representative. This rebalancing mechanism ensures social partners' representation in smaller firms. The law also states that representatives may use proxies and this right cannot be constrained, but rather interestingly that no representative or proxy can actually vote with more than 10% of total votes present in the meeting. Put differently, the centralisation of voting rights is prevented in the strictest terms.

Three mutual companies have a policy that voting rights are directly allocated according to the amount of pension contributions.. The minimum number of votes for a firm is two, in which case one is given to the policyholder and one to the representative of the insured. Two companies have decided to allocate votes so that they allocate initial votes, three for a policyholder and one for the insured representative one. The guarantee capital owners also get varying number of votes, but the share of votes guarantee capital owners have is if not marginal at least minor. *Varma* reports that their guarantee capital owners represent less than 2% of votes in annual meetings and *Eläke-Tapiola* reports this share having always been less than 5%. The vast majority of votes are held by TyEL firms.

The Anglo-American pension governance literature has found many asymmetries in the relationship between the division of pension contributions and ability to participate in governance relevant to governance prospects (see e.g. Clark 2008). In PICs, this division between employers and employees has been rebalanced during the last few decades. Until early 1990s when employee contributions were introduced, the employers sponsored the whole scheme. Currently employees contribute four fifths of the total contributions, although the amount paid is dependent on employee's age (see Hietaniemi & Ritola 2007 for details). Traditionally it has been argued that because employers pay the main share of pension contributions, they ought to be able to choose and control the provider, but because the success of both parties is at stake, they both have an equal share in operative board level governance, which we showed indeed is the case in SBs and BoDs. In this vein, the reduction asymmetry between contribution shares and participation in governance during the last few decades seems consistent. This kind of argumentation misses the point, however, because employers can also choose other pension providers that provide different avenues for control (see below) – put differently, whatever the balance in formal arrangement, it is always dependent on employer choice.

**Table 3.** Shareholder voting rights, and Supervisory Board and Board of Directors' composition and eligibility criteria in selected pension insurance companies in 2009.

	Varma	Ilmarinen	Etera	Eläke-Fennia	Eläke-Tapiola	Veritas
<i>Shareholder Meetings</i>						
Votes per guarantee capital share	420	25 (2009) 12 (2010) 5 (2011–)	10	100	1	
Guarantee capital shares	71	13.672	80–320	10	320.000	
Minimum number of votes per policyholder	1*	3	3	1*	1*	
Minimum number of votes per insured representative	1*	1	1	1*	1*	
Pension contributions (in euros), which provides one vote per insurance	2000			1700	70	
Pension contributions (in euros), which provides one vote per insurance additional to the minimum votes		750	2000			
Pension contribution giving a vote to YEL policyholder	2000	3000	2000	1700	70	
<i>Supervisory Boards</i>						
Members	28	28	28	28	5–40	16–36
Tenure and changes**	3 yrs, at most 10 changed each year	2 yrs***, half changed annually	2 yrs, half changed annually	3 yrs, at most 10 changed each year	3 yrs***, one third changed every year	3 yrs, at most 12 changed each year
Max age for nominee	–	67	67	–	66	64
<i>Boards of Directors</i>						
Members of board	12	12	12	10–12	3–16	4–12
Deputies	3	4****	4	4	3–8	3–6
Tenure and changes	3 yrs, 4 members changed each year	4 yrs	2 yrs	3 yrs, 4 members changed each year	3 yrs	1 yr
Max age	–	–	67	–	66	66
Vice presidents	1–	2	1–	1–*****	1	1

\* in case there's the minimum of votes per one insurance, i.e. two, one is given to employer firm and other to the insured – otherwise normal relative sharing applies

\*\* starting from the shareholder meeting in which nominated

\*\*\* can be shortened if necessary to manage sufficient change

\*\*\*\* deputy can be personal and nominated for specified member(s) of board

\*\*\*\*\* if more than one, the insured representative must be nominated as the first vice president.

Operationally, the SB selects the BoD, confirms their compensation fees, and supervises how the BoD and the CEO govern the company. They cannot have any other duties according to the law. All companies define the size, member eligibility criteria, and member tenure time of SBs (see Table 3). There is some variation in requirements, *Ilmarinen* for example formally requires the members to study the pension decisions and investment activities in the company. As it was mentioned, a majority or at least a half of BoD members must be chosen from the central labour relations organisation candidates, and there must be an equal number of employer and employee representatives. Although the board members do not represent their background organisations but are by law independent from them, there are no substantial obstacles for their mutual coordination, as long as they are all concerned with the success of their respective PIC. Otherwise, as long as the formal requirements are met, anyone can be a BoD member. In normative terms, the only excluded members are government actors, which brings a strong corporatist flavour to these arrangements. Labour market BoD candidates are introduced by and other candidates nominated by the nominating committee, whose selection methods slightly differs between companies.<sup>3</sup> The size of BoD has some important differences between companies (see Table 3). The BoD operates on majority decision-making protocol, but when decisions concern guarantee capital or investment plan issues, there must be a two-thirds majority of votes.

### ***Company Pension Funds and Industry-wide Funds***

Company pension funds are based on law on pension funds (*eläkesäätiölaki*, 1777/1995, directly translated as ‘pension foundation law’). A fund can be established by an individual EEA-domiciled firm operating in Finland or it can be jointly established by a company group, in which case there are some options for the method of accounting the liabilities of each employer. The basic requirement for establishing a company fund implementing TyEL (type B or type AB executing TyEL and supplementary second-pillar pensions) is that it must have at least 300 members

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3 Two companies nominate the president of SB as the president of the NC. The one additionally nominates the insured representative as the vice president of the NC and selects two other members from employer and two from employee candidates, and the other selects two to four members from either SB or BoD. One company selects four members from the SB and two from the BoD. Three companies select six members either from SB or BoD.

within two years of the establishment. In this sense, company funds are available only for large or growing companies. In analogy to PICs, all company fund assets must be kept separate from parent companies. If company funds are large, STM can decide whether the fund is run by a one-tier board structure or with two-tier SB-board structure.

The governance structure of funds follows the corporate governance models of PICs in form albeit not in content. Boards and, in case the fund rules state so, SBs are selected with the following framework. A company fund board/SB must include at least five members and five deputies. Unless stated otherwise in the articles of association, the insured (employees) nominate at least two representative members and two deputies, and all other members and deputies are nominated by the employer(s). However, when the fund is established, the employer nominates the employee representatives as well. If there are more members than five, the law requires the employee representation kept in ‘approvable’ ratio to employer representation. At least one board member has to be EEA-domiciled unless FIN-FSA grants an exception. All members are required to have a good reputation and sufficient knowledge on the nature and scope of fund activities (or at least sufficiently competent advisers), which aren’t however defined in detail. The executive management is run by a fund managing director, whose job description and relation to the board is in many respects quite similar to fund secretary and its relation to trustees in the UK (compare the company pension fund law with Ellison 2007).

The law on industry-wide funds (*Laki vakuutuskassoiista*, 1164/1992) states that industry-wide funds can be formed by employees of one or more firms or a company group, in total more than 300 members are required. As in case of company funds, the industry-wide funds must keep their assets separate from other activities, but they also need to account assets and liabilities by their sections (by employees of different companies). They must pay close attention to their liabilities, and they are bound by very extensive albeit slightly different regulations than company funds. An industry-wide fund can be established by EEA-domiciled natural persons, communities, or foundations, or basically any legal person with STM approval, as long as they have sufficient guarantee capital. The fund rules are required to be extensive and explicit – the law defines 24 areas that must be included in the rules – and approved by STM.

If the employees demand and the employers approve, the employees of specified firms must belong to the fund. This suggests employers have the veto right over whether industry-wide funds can be established to implement TyEL or not, albeit a sufficiently large group of employees can establish a fund. The fund must have at least three board members and at maximum a corresponding number deputies who are both selected by the legally regulated annual meeting, in which employers and employees participate with one vote per employee and the employer with the number of votes defined by the fund rules. The employers, who are stockholders due to paid pension contributions, have the right to nominate half of the board at most, the exact right depending on the fund rules. As in company funds, STM can order to include a two-tier governance system to the fund rules, in which case SBs have at minimum five members and the SB selects the board. As in US pension funds, the industry-wide funds have a CEO, whose duties are similar to albeit potentially slightly broader than company fund managing director's.

To sum up, in industry-wide funds, the employers can basically nominate at most half of members of board, whilst in company funds the employers nominate at least two thirds of the members. These disparities have been somewhat decreased by new regulations implying that in some fundamental issues (not including investment policy) decisions require five-sixths' majority of the votes. The governance of pension policy implementation is nevertheless dependent on employer choice, since they choose between organisational forms implementing employees' pension policy, and since large companies have the ability to use company funds primarily controlled (and risks born by) the employer (see Kallio 2008).

The funds represent dyadic a relationship between a firm and pension provider. Apart from the mandatory division of power with the employees in the company fund board, a firm does not have to pay attention on the interest aggregation with other firms in making investment decisions, but only rely on outside help in investment decision-making unless no in-house expertise is available. Employer has more say on the investment portfolio than in a PIC, but it also bears more risk for poor investment decisions. Industry-wide pension funds, in contrast, comprise of members of several firms within the same field of operation. There has to be some interest aggregation of the participating firms as well as more risk sharing in investment decision-making. The influence on the practical operation of the industry-wide fund is not as straightforward as is the case with company-based

pension funds due to multiple representational logics within governing boards, but on the other hand, pooling of resources makes it easier to control investment management internally. Yet, the most common procedure is to get a pension policy in one of the pension insurance companies, which puts employer firm in a client's position in relation to a pension provider. The possibilities to control a PIC by any single firm are very weak due to great number of the participants, but the client position provides access to other privileged financial and insurance services from the whole financial group the PIC belongs.

The reduction in the number of funds and organisation wide pension funds has been the main trend in the field. The accumulated assets covering pension liabilities cannot be transferred from pension insurance company to another in order to decrease speculative behaviour among the client firms. Instead, assets are usually transferred if employer suspends its pension fund or breaks away from industry-wide pension fund. The stipulated amount of assets to be transferred has been in general quite low so that the expenses of changing the provider to an employer would be higher than in case of upholding current contract with one of the PICs. However, the accumulated reserve capital in the existing company funds has often significantly extended the legal requirements of capital reserves needed in changing pension provider. In such instances, liquidating pension fund is financially very lucrative. An employer may move its pension policies to insurance company to pocket the excess capital accumulated in the company-based pension fund. The continuation of liquidation of the funds is likely as companies face uncertainty on the future regulations possibly restricting the use of excess capital.

### ***Competition, Collaboration and External Relations***

The existence of multiple forms for organising TyEL insurance promotes choice, and the relationship between these organisational forms creates some obstacles for competition. As we discussed above, the employer selection of the provider type is in nature dyadic, all choices illustrating different avenues of power over and benefits provided by the organisational type. Not all the organisational forms in fact compete with one another: an employer establishes a company fund or allows establishing an industry-wide fund if it chooses to, and neither entity competes with other types or other similar funds. The funds do not compete directly with PICs



either, since the organisational forms are business-bound – employers shut down the company fund or secede from the industry-wide fund if they opt for a PIC for the same employees. In recent years, the liquidation of company funds has been the main form of activity. The pension insurance companies are, however, mutually competing for employer choice, which is indeed among the most discussed logic in the field. Since the product of the field, insurance policy, is not a means for competition, there are only a limit number of domains for PIC competition.

Client bonuses, in which a PIC pays back a part of the collected contributions is the most significant tool for mutual competition of PICs. The basic idea behind the practice is that better than expected investment returns allow pension providers to return some of the premiums to the policyholders (i.e. employers). Typically the annually collected premiums extend the cost of pension and the administrative efficiency of the pension provider can also decrease costs. Even though the amount of the compensation is regulated, well performing companies are able to return more of the payment than poorly performing ones. The ability to pay client bonuses is dependent on the so-called solvency border that depends on the pension providers' investment allocation. The solvency border is dimensioned so that the probability of the pension provider going bankrupt within a year is very low. Regardless of the pension provider's investment allocation, the minimum level of the solvency border is 5 per cent of technical provisions. The rules on solvency margin are common for all pension providers but the so-called operating zones related to the solvency border differ according to type of pension provider. In the normal zone of operations, the distribution of client bonuses is based on the regular formulae. In case of PICs, the normal zone holds when the solvency margin is more than the solvency border but under four times the solvency border. Permanent exceeding of the maximum amount of the solvency margin is not permitted. If the solvency margin exceeds the maximum amount for a second year in a row, the company has to increase its client bonus transfers by one-third of the sum exceeding the maximum amount. When the solvency margin falls below the solvency border, a company cannot pay client bonuses. If the solvency margin is less than two-thirds of the solvency border the company has to file a plan to improve its financial position and if the solvency margin falls below one-third the company has to file a short-term financing plan with the FIN-FSA.

The interviewees in PICs tended to consider competition between the companies 'fierce', but client bonuses only one mechanism among others in competition. Other very commensurable means were the ability to offer supplementary and other services according to client needs. As the means for competition are limited, it was also regarded as a matter of PR and even window-dressing. PICs must try to look good in all aspects, which may incur in some more sinister areas than mere looks. There is for example a strong belief in PICs that other companies adjust their allocations and other portfolio characteristics right before field-wide gathering data for reporting in order to look better in the eyes of potential clients. Some interviewees and informants called this kind of competition waste of pension savings. Independent on the question of should we have as sinister a view on competition than the field-insiders or not, the importance of competition is highlighted by various institutions.

For example, competition is important because client-provider-relationships are very much loyalty-prized. All the PICs have for some time had typical sector or industry related customer blocks – *Varma* for example has been a primary PIC for the largest Finnish companies, *Eläke-Fennia* for small entrepreneurs, and *Etera*, the former LEL fund, for the seasonally and short-term employed like the building sector and artists. More generally speaking, the PICs used to be tightly connected to financial blocks build around major banks and insurance companies, which reflected linguistic divisions, agrarian interests, and social democratic interests (Heiskanen & Johanson 1985). The opening up of financial markets in the late 1980s together with the recession of 1990s somewhat disentangled these blocks. Social democratic capital base withered and, most importantly, its main PIC went bankrupt. The linguistic capital bases merged together and later became part of the Scandinavian financial block, whereas agrarian interest block survived to some extent. The EU accession in 1995 and the new governance rules of 1997 further separated PICs from these blocks, but did not cut down their operative ties altogether. The EU exemption to IORP directive stated that pension insurance should be kept separate from other insurance activities, and PIC assets should be kept separate from the conglomerate financing in general. Nevertheless, all except one of the current PICs are parts of a larger financial group consisting of bank and other insurance and investment activities either as subsidiaries or as active external partners. In practice, conglomerates are able to package their pension insurance

policies together with other financial services such as insurance against lost or damage, which also causes some tensions in PIC competition.

This kind of competition aside, the regulatory framework sets the pension providers in a difficult mutual relationship also in other areas, especially in case of investments. Firstly, the solvency rules set the mutual relationship that can be called, as two interviewees put it, ‘game theoretical’. Since the amount of capital reserves of PICs is dependent on the solvency of other companies, it is impossible for a PIC to formulate long-term solvency strategies in investment portfolios (not to be confused with long-term investment strategies that are according to nearly all investment-related interviewees next to impossible in the TyEL field due to short-term solvency requirements). All the PICs must include others’ actions into considerations here, which significantly curbs the possibilities for radically different investment strategies especially in terms of allocations, which is one of the key contemporary justifications for investment decentralisation. Secondly, and partly additionally, ‘the system carries the risk’ (as various interviewees put it) only in terms of equity returns. This suggests that equity investment plays a separate role from all other investments in the field, although there are essential differences in investments to other asset classes as well. This again implies that PICs must take other companies’ equity strategies into consideration in specific when creating their allocation strategies. Various interviewees said this problem could be addressed by changing the nature of solvency rules or by shifting more risk from the PICs to the system, typically by increasing the significance of the equity performance linked component in funding transfer obligation either by changing the percentages or by addressing other asset classes.

These two issues are enough to create elastic tensions in the field. But solvency rules became more problematic than before in the financial crisis of 2008, when the government, with the blessing of labour market parties, applied a temporary two-year exception law that changed the solvency rules. The government bill (HE 180/2008) was supposed to prevent fire sales of shares – especially Finnish ones, as it is stated in the bill, bringing a nationalist flavour to the decision albeit that most of the assets that would have been sold were not Finnish – in conditions of diving bear markets. The bill introduced various changes. It directly raised the stock return buffer to 10 % in contrast to original gradual change model. The fund

liabilities were increased only by the nominal 3% rate independent of solvency ratios or investment performance. Effectively, due to negative stock returns, this meant that money was transferred from the funds to pension provider capital reserves. If these measures were not taken, the pro-cyclical nature of solvency rules was feared to have had disastrous effects to TyEL investments. At the same time, however, the bill made it possible for PICs to include the so-called EMU-buffer temporarily in the solvency margin. The buffer refers to *tasaustavastuu*, the short-term buffer that hedges against changes in pension contributions and is included in the PAYG component, not the funded part. When Finland joined the European Monetary Union, the buffer was set high. Joining the union was expected to raise the short and middle term volatility in the total wage sum and, consequently, the pension contribution rates, which was hedged against with the buffer. The temporary law, which was in late 2009 continued by two more years until the end of 2012 (Rantanen 2009), set an important new variable to the “game” presented above. Now, PICs need not only to “guess” the allocations of other PICs but also whether they are planning their portfolios based on inclusion or exclusion of the buffer. The choice is crucial for defining success in the market development, but it is others’ choices and new rules that will ultimately determine how beneficial the choice was. This problem is currently being debated in the Rantala group.

There are some other institutional forms besides the equity-linked fund transfer obligations that set the pension providers to a mutual relationship with very different logics than competition. The most important feature decreasing competition is the joint responsibility of liabilities among pension insurers. The leading aim of this practice is to ensure the security of pensions at all times. It is possible for the insurers to go bankrupt, but it is not in the interest of other providers to let any of the rivalries do that, as the joint responsible requires other companies to take care all of the liabilities and possibly only part of the assets of the terminated company. Joint responsible is *ex post facto* collaborative arrangement. It does not require coordination arrangements among the pension insurers, but it most certainly diminishes the strength of competition between them. Moreover, it makes all actors ‘too big to fail’, albeit anything but equally too big.

To conclude, it can be argued that the current investment-related rules and competition schema set the pension providers to an antagonistic mutual relationship, which cannot be reduced only to competition or collaboration but rather to other problematic mutual institutional dependencies. However, it also seems that the current institutional life sets the pension providers to an antagonistic relationship also towards the field outsiders. One interviewee stated that there is ‘no way whatsoever’ a field outsider, or even all insiders like most employers, can evaluate on basis of official information whether a PIC has performed well in its investments or not. Indeed, the short-term solvency and reporting requirements create a situation in which neither investment successes nor failures are too transparent. This not only makes competition difficult but also generates much room for normative contestation and alternative justifications for activities. As one interviewee put it, the PICs are situated in environment of ‘volatile opinions’. Some interviewees also considered the ‘official expectations’ (embedded in e.g. the future projection calculations) of four percent real long-term investment returns very difficult to achieve in investments, which hardly makes these issues any less significant.

### ***Institutional Work and Entrepreneurship in Implementation***

The multiple logics of administration give in theory much room for institutional entrepreneurship and institutional work. But institutional work in this stage of the policy process is not very likely at least in terms of changing actors’ mutual relationships. This is not only due to the fixed pension product. The pension providers are already included in multi-stakeholder coordination, and they have little to achieve by acting in concert outside already institutionalised bodies. They are also controlled internally by the stakeholders and externally by the regulators so that clear alliances between PIC against others serve few purposes. For example, the mid-size PICs have little to gain attacking the large companies, because there are few if any domains in which they could form a common interest. In case of investments for instance *Eläke-Tapiola* is a conservative investor (e.g. with no hedge fund investments) whilst *Eläke-Fennia* is a more innovative investor with very active asset management and bets in alternative asset classes. As for another example, *Etera* is the only PIC with no financial group support, whilst *Eläke-Tapiola* and *Eläke-Fennia* are parts of large mutually competing groups, *Fennia*

an insurance group and *Tapiola* a financial conglomerate with insurance, mutual fund and bank services.

It must be noted here that the mutual normative relationships between PICs are in part antagonistic also in quite symbolic terms with long historical normative roots. The dominant large companies, *Varma* and *Ilmarinen*, have had a special role in the field, *Ilmarinen* for example as essential system developer (e.g. calculations of the effects of solvency rules reform of 1997) and *Varma* as the initiator of Finnish shareholder activism, and they continue to use their economies of scale especially in investment organisation. *Ilmarinen*, for example, has a dedicated allocation team whilst other companies more or less have intra-organisational strategic debates on these issues, which also internalises various alternative investment techniques more common to entities like hedge funds rather than most PICs. Traditionally, the two companies have been more involved than others in the reformation processes, and they still have strong opinions on how to develop the field. According to our interviews, there is still very much scepticism towards their power to affect the reformation of the field despite the more inclusive composition of the new Rantala group.

However, in terms of setting the boundaries for the field in respect to the broader society, there have been some quite successful measures of institutional work where all pension providers have been able to cooperate. TELA has played a major role here. The pension providers have for example drafted together the TELA recommendations for responsible investments (TELA 2008) and ownership policies (TELA 2006), which both have been adopted by PICs, albeit internalised in actions in likely different scopes. The responsible investment (RI) guidelines, originally drafted in 2006 and reformed in the beginning of 2008, are important in boundary setting in various terms. They seek legitimacy for the field activities from macro-level institutional frameworks (e.g. PRI and UN Global Compact) that go beyond immediate shareholders and stakeholders, define avenues through which responsibility of investment practices might be evaluated and how it should be interpreted inside the field, and even introduce some direct normative boundaries. The guidelines highlight the importance of (regulative) pension system and Finnish parliament's emphasis on RI issues during the 2006 reforms in determining pension funds' responsibilities. The guidelines enforce a certain hierarchy for external responsibilities. The hierarchy is set by legislation demanding for profitability and security, and it ought to be enforced in RI: 'investors of pension assets must place

the primary focus on expected returns and security in all investment decisions’, and the ‘costs of responsible investment must be reasonable in relation to other investment costs incurred by the pension insurer’. The one clear normative boundary for investments is that ‘[p]ension assets must not be investment in illegal activities, or activities that are either directly or indirectly in conflict with international agreements on human rights and basic freedoms’.

Institutional entrepreneurship of individual providers has also been a potent force in case of investments. After riskier and more profitable investments were sought to be enabled in 1997 and later in 2007 reform, PICs became crowded by financial professionals replacing old social insurance personnel, which was brought up by many interviewees. Their organisational paradigms changed drastically, and so did investment practices. This set the whole field, or at least its ‘asset side’, to a new relationship to other fields, most importantly the so-called ‘domain of finance’ (Langley 2008a). Whilst financialisation requires great focus and sometimes centralisation in governance and management (see e.g. Clark & Thrift 2004), it also potentially cause changes to old roles within fields connected to these changes. Currently, for example, two PICs have had internationally exceptionally large stakes in hedge funds that have performed financially quite well despite the financial crisis and, according to some interviewees, in general fit the PIC investment portfolios very well despite attacks by many public figures, whose antagonistic opinions are by many field-insiders considered ‘an intellectual bankruptcy’. The hedge fund investments have been also legitimately classified less risky than the legal default framework suggests (the PICs are required prudentially to classify assets according to their real risks instead of legal categories if the risks differ), which suggests that the innovative use of regulations has provided more room for differences in investment portfolios than in previous years, which may in the future change at least the investor-identities of PICs.

## **Control**

In principle, the preparation and implementation of laws define the overall composition of the TyEL policy scheme (Louekoski 2005). In practice, however, as we have shown, the formation of the laws, and the coordination and operations of the field are in great respects in private hands, both in individual (pension providers)



and collective (coordinative groups and bodies) organisational arrangements. However, the functioning of the field is strongly supervised and controlled by public agencies. STM and its Department of Insurance are the main actors of government supervision over the TyEL scheme. The ministry for instance gives concessions for operation for new pension providers, confirms their articles and rules, and in general hold the highest interpretative power to define how actors are fit-for-purpose to operate especially *a priori*. Operative control, which is the topic of this section, belongs to the competence of *Finanssivalvonta*, The Financial Supervisory Authority (FIN-FSA). Furthermore, pension providers have their own internal control systems required by the FIN-FSA guidelines. In addition to these actors, Finnish Competition Authority (CA) has been active in pointing out deficiencies in the competition among pension providers. The competition authority is not a specific part of the control regime of the TyEL system but holds a general national mandate in promoting competition and supervision of competition law.

### ***The Financial Supervisory Authority***

As it has been the case with numerous other countries, the Finnish financial sector has been in recent years characterised by the agglomeration of financial services. ‘Financial warehouses’ provide insurance, banking as well as investment advisory or management services. The changes in the control over the financial sector in Finland have mimicked the development in financial services. The newly established FIN-FSA oversees banking, insurance – including TyEL pension provision – and investment services. The authority was born when the Insurance Supervisory Authority (*Vakuutusvalvontavirasto*) and the old Financial Supervision Authority (*Rahoitustarkastus*) merged in 2009. Our interviewees welcomed this development warmly especially since the old insurance authority was considered to lack expertise on investment issues that the FIN-FSA is considered to have. FIN-FSA is formally organised under the Bank of Finland, but in practice it is assumed to have an independent control mandate over the financial sector, including TyEL providers. The IMF noted in 2001 that government representation in the Finnish supervisory authorities regulating insurance companies might lead to lack of clarity in the supervisory tasks in times of crisis in particular. Yet, the BoD of the new FIN-FSA consists of five members one of which is appointed by STM and one by the



Ministry of Finance (VM). Whilst the government has been in many terms excluded from formation and implementation processes, and given a more technical role in coordination, it is strongly present in the controlling bodies.

The governance of FIN-FSA, including for instance competency requirements and mutual relationship of governing bodies (Bank of Finland Bank Council, the BoD, the executive director etc.), are regulated in detail by law (878/2008). FIN-FSA has a broad mandate in controlling pension providers. In most general level, it supervises all the activities of providers and participates in regulatory development. It has a strong legal right to request and receive information from pension providers. It can also sanction non-compliance with different kinds of fines and public notices, withhold the management operations, and even temporary and permanent cancellations of operational permits. FIN-FSA has a right and a duty to budget its operations, which it covers with legislated payments by the supervised and other authorities (and taxpayers). The Bank of Finland compensates in case FIN-FSA activities cause illegitimate direct economic harm to the supervised or other actors.

The FIN-FSA guidelines concerning pension provider activities give the most accurate picture on its role in the field. The guidelines are quite extensive in content, and thus cannot be discussed here in detail. Take for instance the most general (ca. 200 pages) regulatory guidelines for insurance companies, which also include specific instructions for PICs. The guidelines concern six different domains: general principles, governance and financial statements (including e.g. competence requirements, internal supervision, risk management, auditing, accounting, and annual report disclosure), technical provisions and solvency (with dedicated chapter to PICs), financing, supervision, and special regulations. The FIN-FSA and its predecessors have conducted close inspections to governance structures of PICs in recent years. As some of our interviewees pointed out, there haven't been any major concerns or substantive hints for any non-compliance in any PIC. The regulator has been nevertheless concerned especially with longer term changes in investment management, for example with the new decision-making models in which investment managers are given broader mandates than in previous arrangements in which more investment decisions were made by hierarchically higher-level bodies like investment committees.

### ***Internal Supervision and Self-Control***

Part of the control function is internal to pension providers, which is especially strong in case of PICs. Companies are required to organise internal monitoring and control in addition to organising audit. Self-control is enhanced by more detailed legal requirements. There are for example competence criteria for the top management, internal reporting system independent of the reported actions, as well as internal monitoring of the outsourced actions. The BoDs have a special role in internal supervision and control. The BoDs are held responsible for ensuring that investment activities, risk management and internal inspections are suitably organised. Boards are expected to understand risk and restrict the company of taking excessive risks. They are expected to oversee CEO and management of the company. The FIN-FSA has stated that all major PICs should have internal inspection function including dedicated personnel to perform it. The adoption of corporate governance principles has required the establishment of election, nomination and inspection committees within boards. Moreover, CEO can no longer be a member in either board or supervisory board.

In case of investments, the ‘external’ control mechanisms like coordinated solvency rules and fixed rules preventing centralisation of investment risks have been complemented by regulations enhancing prudential self-control. For example, before 2007, all investments had to be classified according to legally defined categories, which were used not only to report investment activities but also to calculate solvency borders and reserve capital requirements. From 2007 onwards, the pension providers have been required to prudentially classify the investments, in case they differ from the legal classifications (that were also redefined and extended in 2007, see 1114/2006 for detailed rules), according actual risk properties, not their legal types. The supervisory challenge behind this change was the increase in the new types of investment vehicles like hedge funds, which are often difficult to categorise according to their risk level because of either their lack of transparency or simply rapid changes in risk profiles, investment methods and other basic characteristics. The classifications are important frameworks for investments at least two respects: they serve as the primary avenue of embedding investment risks to prefunding mechanisms, to asset-liability-mismatch and to insolvency risk management, and they create a discursive template for investment

making. The direct legal restrictions for investments (see 1114/2006 and FIN-FSA guidelines) are also based on the legal classifications, which in part amplify the prudential responsibility to assess actual risks.

There is a variety of types in self-control regarding PIC operations, which is illustrated well by the differences compliance and controller functions. Although compliance has been a central issue for TyEL providers for decades, the dedicated organisational compliance functions are quite recent. For example, *Eläke-Fennia* (according to its Annual Report 2004) started the preparation of this function in 2004. Compliance functions are usually integrated to investment organisations rather than dedicated divisions. They are meant to ensure that all investment activities comply with external and internal rules and standards in qualitative terms. Although the functions are typically implemented by lawyers, the compliance is not restricted to immediate legal regulations concerning pension provision. It can mean, for example, ensuring that investments comply with the UNPRI-required ESG policies or that Finnish investee firms have accepted the Finnish Corporate Governance standards. The controller functions, in contrast, are based on quantitative control based on risk assessments (e.g. Value-at-Risk, scenarios) and more general economic development supervision. Especially the largest PICs have quite extensive controller divisions.

### ***The Competition Authority***

The Competition Authority (CA, *Kilpailuvirasto*) has been active in trying to control the TyEL field. Its objective is to protect sound and effective economic competition and to increase economic efficiency. The tension between the pension providers and CA originates from the dual role of pension providers in implementing both legally imposed objectives of the social policy and the business activity of the PICs. CA has pointed out that PICs are private corporations aiming at generating profits and therefore subject to competition law. The primary controversy arises from the level of cooperation between competing pension providers. The PICs have been given the special legal status of pension providers, the actors of a statutory pension field, which should allow them more cooperation than in standard competitive market arrangements. Nevertheless, CA has raised issues on cooperation (albeit very limited) in defining principles for premium lending (in 1997), the cooperation in defining the fees paid to investment brokers (2000), cooperation in the principles

of calculation (2009), and it has made an initiative to increase competition among the pension providers (2005).<sup>4</sup>

The initiative to increase competition in particular had an influence to the field as one of the development projects issued by STM (Rajaniemi 2007) was related mainly to the deficiencies of competition raised by CA and finding possibilities to increase it. The line between business activity in competitive markets and cooperation within statutory-based pension provision is indeed difficult to define – and even more so to control. The history of Finnish pension provision has emphasised cooperative practices but both the decisions given by the CA and all the responses given by TELA indicate that the line between the allowed cooperation and hindering of the competition is far from clear and controlled. In part, this has much to do with the general development of the field. The mix of cooperation and competition was not considered a problem initially in a closed financial community. The sensitivity to issues hindering competition is much more recent a development in the control stages of the policy process. In this sense, the discussion of the border between cooperation and competition highlights the demarcation line between the “old” and the “new” pension field.

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4 See <http://www.kilpailuvirasto.fi>.

## 6 TyEL Field as a Public-Private Partnership and Implications for Further Research

One of the main purposes of this study has been to study how the two mixed logics of administration, public administration and corporate governance, are in play and operate in a field of pension provision combining public and private elements. If anything, the case of Finnish TyEL field has shown that a PPP in pension provision can mix these ideal type elements in a very complex way. The first noteworthy issue here is that there are some characteristics from both logics in play. The field represents public administration exclusively only in one respect: the usage and funding of the earnings-related pension scheme is mandatory – no private sector employer or employee in Finland can evade it. It represents corporate governance in three respects. Firstly, it is financed with fees and charges, not by independent budgeting. Secondly, the goals and performance expectations of the field are very clear: the stable and legally controlled provision of fixed pension insurances, and the secure and profitable investments of the generated assets. Thirdly, the scheme is owned by its shareholders, not by citizens or their representatives. Yet none of these four ideal type features quite match the ideal types in practice: the fees are legally mandatory, the competition is based on fixed product, and the composition of shareholders is legally defined highly corporatist and stakeholderist. Indeed, despite being in formation a mandatory system based on law and controlled by public bodies, employers and employees in collective own the private pension providers that own all the assets, and coordinate the field through organisations situated in a specific network.

The second noteworthy issue is that there are two areas in which both ideal types seem to be equally (ir)relevant. The nature of formal governance (‘what is to be governed’) in Finnish pension provision seems to make the division of even the ideal type logics difficult. The societal impact of the TyEL field is definitely broad and considerable: it provides earnings-related old age and other pensions for over a fifth of all Finns. On the other hand, this broad impact is currently more present in the persistently important ‘liability side’ of the field, whilst the importance and impacts of the ‘asset side’ of the entire field is highly variable according to provider size, and has in total continued to diminish during the last two decades as

the nature of TyEL as national project more generally has diminished. Although pension providers continue to play an essential role in Finnish financial markets, it is more due to institutional complementarities and recognition of importance by other actors than a coordinated effort or characteristic goal of TyEL capital. Moreover, individual acts by decentralised coordinative bodies or pension providers hardly produce large societal impacts, which is more a field-level property.

Another such issue challenging theoretical relevance of ideal types is political influence towards the field. Indeed, as in corporate governance, political influence attempts are primarily handled as expectations towards somewhat independent actors, which is in great part true for all actors and in various discourses in the field. But in stark contrast to corporate governance, these are hardly exceptional, as all the actors in the field constantly face broad societal expectations in their activities. The buffering of influence attempts typical to public administration is thus equally relevant here. However, buffering is politically selective in elastic manner, which is hardly an ideal type feature of public administration (albeit nothing extraordinary in practice). Although central government control is constantly eliminated, some political parties have strong links with the central labour market organisations that are present in all relevant bodies in the field but the FIN-FSA.

What is most typical for the TyEL field in respect to these two logics is that its logic of governance at the same time mixes elements from both logics and includes elements that fit neither of these ideal types. This is most visible in case of markets, especially when the product and its producer are analytically separated. The product of the field is politically fixed and overseen, which is typical to public administration of first pillar schemes. The producer of this product, in contrast, can be selected, either from existing corporate pension providers (PICs) or by creating a new one, either employer (company fund) or employee (industry-wide fund) driven, alone or in collaboration. This is more typical to purchase behaviour related to corporate governance although very particular in form. But neither of these aspects quite captures the agency issues: it is not the insured whose purchase behaviour or democratic public bodies whose oversight we are looking at, so the agency issues related to TyEL are ‘dislocated’ in both perspectives.

The mutual relationship of key actors is another such area. All actors that are participating in the production of the insurance collaborate with each other in one way or another. Yet one group of pension providers, the dominant PICs, also

compete between each other. Competition can be fairly called the most problematic of the mixed features, since it on one hand is consistent with the paradigm of decentralisation of both ownership and coordination, but on the other makes the field vulnerable to otherwise less relevant fields (EU regulations, competition laws etc.) and causes difficult tensions within the field. The very restricted nature of both competition and collaboration begs the question of how well either of the two ideal type governance logics actually characterise the relationship between the key TyEL actors that have variable functions.

*Table 4. Public administration, corporate governance and the TyEL field.*

	<b>Public administration</b>	<b>TyEL</b>	<b>Corporate governance</b>
<b>Markets</b>	Oversight bodies behave as markets	Selection of supervised producers	Purchasing behaviour defines markets
<b>Mutual relationships of key actors</b>	Collaboration among organisations offering a given service	Limited competition and collaboration between service providers; networked collaboration of other key actors	Competition among organisations offering a given service
<b>Source of finance</b>	Financing by budgets	Financing by fees and charges	Financing by fees and charges
<b>Political influence</b>	Buffering to deal with influence attempts	Selective buffering of influence attempts, broad and elastic expectations	Political influence handled as exceptions
<b>Coerciveness</b>	Mandatory funding and use	Mandatory funding and use	Voluntary consumption and payment on use
<b>Scope of impact</b>	Broad, considerable societal impact	Broad total societal impact, variable individual actor impact	Narrow, little societal impact
<b>Ownership</b>	Citizens	Defined stockholders	Stockholders
<b>Goals and performance expectations</b>	Ambiguous and changing	Clear but changing	Clear and stable

In conclusion, it seems that the TyEL field includes a peculiar institutional relational system that can be characterised by the ideal type division between public administration and corporate governance only in very limited sense at best (see Table 4 for overview). Instead, we can capture a variety of relevant governance logics and characteristics with a more detailed theory-driven field level analytical description. This enquiry has revealed a number of issues typical to TyEL governance that cannot be predicted by the public-private-division, including the different logics of governance in the ‘asset side’ and the ‘liability side’, the difference between the product and the providers, the peculiar agency issues like the asymmetry between sponsoring and client bonuses, the seemingly paradoxical duality of systemic centralisation and decentralised coordination and implementation, and the antagonistic mutual relationships of key actors.

Yet the combination of public and private ideal type elements is by and large central in all the elastic key relational tensions. In our case analysis, we have found at least three relevant and characteristic institutional tensions in the relational arrangement of TyEL field. These issues are not static institutions but locations of clashes between institutional forms whose usage in practice on one hand may produce difficult tensions and undercut proficiency, but may on the other also create very dynamic properties in Finnish pension provision. As the uses of some institutional forms include clashing efforts to both maintain some forms and change others, the questions of institutional entrepreneurship by individual actors and of institutional work by different kinds of alliances become essential.

The first one is the general political tension between formal regulative rules and normative-discursive practices. This is best characterised by the disparity of *de jure* hegemony of public bodies – parliamentary decision-making, the highest regulative power of STM, and the strong control mandate of government-led FIN-FSA over pension providers – that especially in case of STM turns to *de facto* impotence to use their power over private actors without labour market acceptance and initiative, and field-wide practitioner-led private preparation. The important issue here is that impotence is not just “written” in the system in informal terms but also constantly maintained – also by public bodies themselves. For example, during the financial crisis of 2007–08 the government could have indirectly taken pension providers under increased public control via FIN-FSA simply without loosening the solvency rules, but they didn’t. This suggests that there are stronger virtues than public



control in general, for example financial performance of pension providers or the development of Finnish capital markets. As we have discussed, the parity-principled labour market driven governance includes selective party political representation, lock-in situations, and all but obvious political gains arising from efforts to increase public control over privately managed governance schema.

The disparity has nevertheless many political consequences, which needs to be theoretically recognised in further studies on European pension governance. The political and normative contestation of the functioning of the scheme is typically directed to politicians (witness the public fury towards social democrats when the indexing rules were changed in 1996) and pension providers (witness the public contestation of hedge fund investments in 2008–09), although the insiders that have been given the effective capability to introduce changes in the field are neither of these actors but the labour market parties, including for example issues like the automatic adjustment mechanisms based on their past decisions and decentralised expert coordination. The diminishing political interests of social partners towards the operational aspects of the system and the diminishing employer and employee participation to the central organisations may create a political vacuum in accountability of TyEL governance, be it conceptualised in public or private terms. This in paradox makes political consequences of institutional changes difficult to predict but also leaves more room even for attempts to field-level coups.

The second one is the tension between decentralised governance and centralised presence. The TyEL field is perhaps best characterised as decentralised centralisation. The TyEL field is not centrally coordinated by any pejorative private ‘pensions mafia’, and it needs to be confirmed in future research whether even a ‘pensions elite’, a powerful network of individuals, is able to influence field coordination with entrepreneurial efforts in decentralised coordination. In our analysis, the essential aspect in this characterisation is the combination of the public administration type omnipresence of private social partners – both in individual representation (e.g. employer and employee representatives in mutual PIC annual meetings) and in collective representation through central labour market organisation nominations (e.g. in PIC BoDs) and direct representatives (e.g. ETK board, *ad hoc* groups) – and the seemingly decentralised private coordination network. Although any *ad hoc* body or pension provider can hardly produce significant field-level institutional change via institutional entrepreneurship, the combination of decentralisation and

centralised omnipresence causes a strong possibility for institutional work attempts. This potential is essential in the tensions between public and private control. Most importantly, the strong presence of the private ‘non-authority’, ETK, in almost all bodies handling pension benefits and costs (but not assets left outside funding transfers) gives an incentive to bring the coordination network under public supervision or even control without large efforts since it is in regulative terms simply very easy to do, not least on constitutional grounds.

The benefit of this kind of ‘decentralised but centralised’ governance in a mature field such as Finnish TyEL scheme is that it provides dynamism for change and adaptation despite possible tensions and inconsistencies. The demands for expertise in a complex area of governance usually facilitate planning but at the same time create structural rigidities. In other words, a technocratic ethos cannot explain the seemingly successful changes within pension governance. Here, the consensual and centralised bargaining culture probably plays a role, but it is the decentralised field coordination that is able to offer multiple negotiation forums both formal and informal in which divergent interests and controversies can be handled somewhat effectively. Furthermore, the relatively weakly institutionalised overall composition level ‘meta-governance’ provides much room for mutual adjustment procedures among the actors as well as allows changes in the positions of individual actors. These findings have theoretical significance in the discussions on the emergent and mature institutional fields in institutional theory as well as on the discussion of parametric and systemic changes within the examination of pension policies. Based on our examination of a mature field of Finnish pension field, the diffuse power structure and formally ambiguous roles for the actors might be more important in maintaining dynamism for change than the age of the field would suggest. In other words, the field may well retain its emergent properties if the constituting rules encourage actors to constitute and reconstitute their positions in perpetuity.

The third tension is the incompatibility of change in institutional goals in the field level and in the level of individual pension providers. In the liability side, the publicly set goal of the field functioning has been despite parametric institutional changes quite static, to provide primary pension security for private-sector workers in Finland, whilst in the asset side the function has changed much over time. The initial function, the provision of pension capital to Finnish national economy, was a bricolage combining the previous goals of the national funds to existing insurance

company and fund based architecture. In the early days of TEL, investments were supposed to enhance national real economic competitiveness, in 1970s the closely investment related client bonuses were thought in terms of counter-cyclic economic policy, and in 1990s the funds were subjected to the mission of saving Finland from the recession. Since the late 1990s, the goal of investments has simply been the permanent long-term lowering of pension contributions. Yet the institutional forms with which pension providers are controlled are anything but based on long-term investment management. The PICs cannot too easily build long-term portfolios suitable to such publicly pursued function because they are controlled by in content different from but in form similar to private sector insurance company regulations. There are a number of tensions related to investment activities, including the need to meet solvency requirements even daily if necessary, the fact that strategy choices are dependent on others' (due to equity-linked and EMU buffers, and fund transfer obligations), the competitive pressures to enhance window dressing, and so on.

It could be argued that the difference in institutional life of control in (private) asset and (public) liability sides of the field in general generates some tensions between the field and individual actor levels. Yet it must be noted that it is exactly these kinds of tensions and inconsistencies that may give a multi-actor field flexibility to accommodate new purposes to previous practices (i.e. conversion, see Crouch 2005). This is another essential feature that needs to be recognised in further studies. Yet there might be a great price to be paid for this kind of dynamism. While the decentralised TEL system served to divide the pension assets to multiple smaller capital bases defined by domestic interests and a means not to build a single large capital base for 'pension socialism', the current aim of the same decentralised system is connected to getting extra revenues and better risk management out of divergent and competing portfolios of the pension insurers. The unsolved challenge here is that the investment portfolios of pension providers have diverged only during the recent financial crisis, and there are no guarantees that the game theoretical setting of mutual relationships enables the production of permanently different portfolios. If roughly similar investment strategies are followed the likely gains in upholding a decentralised system are bound to be small, and the cost-containment pressures caused by financialisation may become imminent. The development of organisational forms is a closely related issue. The market has continued to be dominated by the two largest insurance companies. The relatively weak role of

the company funds and industry-wide funds has further weakened via political and economic incentives to close down the establishments. From a power perspective, this is a curious development since company pension funds and organisation-wide funds give more control over the organisation as well as investments. The withering away of alternative organisation forms combined with high concentration of pension insurance industry provides in paradox a platform for political attempts both to radically strengthen the competition between PICs and to centralise the system.

All in all, these three tensions suggest that even the ideal types of public administration and corporate governance are relevant in understanding the governance of PPP type pension provision, and thus should not be abandoned but elaborated with further empirical research from two ideal types to broad institutional frameworks that can address pension governance in various different schemes and regimes. What the particular field logics in TyEL provision more generally provides us is one important lesson on all institutional analyses on pension systems: all the institutional changes are bound to alter the roles and positions of a number of actors within the fields of pension provision. The analogue to a game is again useful here. A game of rugby, football and American football share a family resemblance as they all involve a plain field with goals, which is populated by players involved in the struggle over a possession of a ball. The differences in rules delegate these games into different species. If the initial composition of the pension game has allowed enough room for players to change their behaviour in the field, we do not have a clear understanding of the game to begin with. This is how the game of decentralised and only partly institutionalised Finnish pension governance is played. The players change slowly and the loyal (or in Finnish case, forced) fans come to see every match. But it is not that obvious how the game is played in each match. Sometimes it is played with muddy feet, sometimes in shiny armour, and sometimes you are not even allowed to touch the ball with your hands (unless you happen to be the goalkeeper that day). The existence of two balls and goals, the pigskin and the goal line (the assets), and the football and the soccer goal net (the contributions and liabilities), is not too helpful for analysing the relationships between the players either. What makes the Finnish case important is that despite these curious fluctuations in the game it has been able to continue and that the players have learned to play the game and to relate themselves to other players.

The semi-public, quasi-private, pseudo-centralised management of Finnish earnings-related pension institutions provides some implications for research questions in further examination of the pension fields in other European countries. The PPP form of pension provision has recently gained popularity in many EU countries. It may be that the Finnish exceptionalism is turning into European business as usual. This raises interesting questions on the purpose of public-private arrangements in other European countries. Are they meant to be government protected safe havens for businesses to evade international competition, or do they represent new competition-prized paradigms in European pension provision? Whatever the answer is to this and other such questions, our case study shows that these kinds of goals can be combined, possibly without excluding all the virtues or including all the vices of the other, but more than likely not without difficult tensions and compromises with very local institutional characteristics. Furthermore, whatever the purpose of new arrangements is, the big question is how these emerging partnerships will handle the tension between public and private interests in practice. Who bears the risks within these arrangements: do the institutions increase risks of individuals in securing their own pensions, and what is the role of the government guarantees, or corporate and financial sector institutions? The answer to these questions is not only of academic interest in comparative studies, for the diffusion of new practices might very well incite new supra-national regulation which could also affect already well established PPPs in pension provision.

## 7 Discussion

More or less independent on the question of how public and private logics are put in play, the field level analysis on the institutional governance of Finnish TyEL pension provision has provided us some new insights on its past, present and future. The dual life in the asset side and benefits and costs side is one such conceptual division that helps to understand time and change in the field. However, some raised issues are of great practical relevance on the field. There is a number of aspects in the past of the field that indicate a path dependence on its origins, including reliable public pension provision, private decentralisation of ownership, and the ability to coordinate capital to national economic projects without central planning. Yet all these essential path dependencies can be questioned as viable forces of explanation for future changes in governance while regarded as important contexts for understanding the current state of TyEL governance.

When it comes to reliable pension provision, the current flexible governance structure with automatic adjustments and expertise-prized coordination has its advantages when cost constraints or long-term economic adjustments are made. But should there be broad dissent towards the benefits provided by the pension scheme, there are no guarantees the parity-powered and party politically locked labour market parties are willing or even able to reply to public contestation. If the government is not willing to adjust other pension schemes, the political incentive of taking more control over TyEL scheme is substantial. The long-term underdogs in the pension field, the democratic political institutions, that have had a limited role in the field despite constitutional changes strengthening the decision-making capacity of the parliament, might find their field status rising in one way or another.

In case of decentralisation, the legacies of diverse organisational forms in provider choice and coordination efforts have given the mature field vibrant dynamism and adaptation capabilities beyond theoretical expectations. The TyEL scheme has ostensibly enjoyed the two worlds of collaboration and competition. But in some cases, it has also adopted typical problems from both these worlds. The penetration of competition to all aspects of PIC operations has occurred although the regulative-normative framework in which competition happens has not substantially changed in many areas. This is why boundary crossings and relations to other fields

of economic activity become essential. This puts the smaller PICs with no economies of scale in investments and the one group-independent company without broader PR machinery in very difficult positions. Although financial conglomerates are supposed to keep the pension insurance activities separate from other conglomerate functions, it seems evident that in selling new insurance policies with marketing channels through banks and in combination with other insurance policies gives a competitive edge to large financial warehouses.

*Ex post facto* collaboration arrangements like equity-linked and EMU buffers in fund transfers and joint liabilities also make *de facto* collaboration difficult: all decisions are tied not only to all providers but also their existing mutual relationships. In this way, collaboration cannot easily break institutional legacies and boundaries but rather focus on limited maintenance and minor exclusions in coordination. Should the ‘game theoretical’ and antagonistic relations become too infected, it is unlikely they can be resolved without addressing the current field formation. Furthermore, the dependency on international financial markets shows that effective institutional change in times of crisis requires collaboration and leadership hard to grasp without able centralised coordination. In this respect, the virtue of decentralisation may have turned to the vice of its institutional goals (e.g. party political independence of capital, financial performance).

Despite TEL/TyEL having been from day one a national project with political and institutional compromises, this nature has eroded year after year. This is mostly due to the position of the field in the broader society. There is no more need for exclusive independent capital base, coordinated or not, to finance the Finnish economy, which is fuelled by the global financial markets. Now, the TyEL capital plays the intrinsic role as a local source for emergency financing (via premium lending), as the heavy capital for complementary financing including public and other guarantors, and as the central normative and discursive authority in the best network position in the whole Finnish financial sector – but still far from anything resembling a national project. The pension benefits hold their national regulative position, as the second and third pillar pension savings arrangements remain somewhat low. Yet an important feature here is the decrease in discursive understanding and political interest in considering the field as a national project among labour market parties. Although there are still some highly political questions like the mandatory retirement

age or the composition of the top authority in the field, which are enough to raise a struggle over authority in TyEL scheme, the consistent political programme-level demands towards using the scheme to some political purposes, either in asset or liability side, have become scarce. The main political issues are related to more parametric sharing of costs and risks.

Perhaps the most intriguing path dependency related to the scheme is the need to follow the EU regulations in demarcating the line between collaboration and competition. The external threat endangering the basic structure did not materialise when Finland joined EU, but Finnish exceptionalism continues to require re-affirmation in the EU-level decision-making. This said, the external threat of EU has also been used as a tool to influence the internal borders within the system. In particular, the original exemption to the Life Insurance Directive is instrumental in promoting more government influence in pension policy to emphasise its legally mandated nature. Another type of EU influence is related to the strengthening of the competition to promote functioning of single market. The domestic watchdog for promoting competition has pointed out deficiencies in competition and suggested ways to enhance it. This way, EU regulation has given more voice to actors with divergent goals of the field.

One of the most characteristic features in the history of the field is the fact that technically minor changes produce major impacts on the functioning of the system, best illustrated by the asset side changes like the 1997 solvency rule reform (Dixon & Sorsa 2009) and the constant parametric changes in benefit and cost formulae accumulating to paradigmatic changes in social policy paradigms (Hinrichs & Kangas 2003). In political terms, this gives the TyEL field odd characteristics. Some parametric changes like changes in retirement age have generated public interest, but numerous other changes haven't. One recent change, the introduction of life expectancy coefficient, is one belonging to the latter category. It will significantly curb the monthly pension benefits of future pensioners as they live longer. There has been a lot of public debate concerning the mechanism but only after it was introduced – with almost no broad debate when it was drafted and negotiated. The technocratic decision-making strictly within the field boundaries likely decreases trust towards the scheme. For one thing, individual voluntary third pillar schemes are likely to gain more popularity, as the level of mandatory benefits is perceived



to be cut. The future changes are as result more connected with the combination of the earnings-related DB scheme and the voluntary third-pillar DC schemes. The technocratic ethos of creating as sustainable a mandatory earnings-related system as possible, both in terms of economic sustainability and field-wide legitimacy, may produce controversial results by actually eroding the popularity of the TyEL scheme and creating a large third pillar pension system. Thus we conclude that the famous idea of Teivo Pentikäinen, one of the portrayed “fathers” of the TEL scheme, that the main threats of the earnings-related scheme are not economic but political is true but only if we think that the maintenance of the economic sustainability of the scheme is actually one of the key political risks.

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## Appendix 1. The working and development groups of Finnish pension regime in 2008

	Temporary Working Groups	Permanent Working Groups
Ministry-set groups	<ul style="list-style-type: none"> <li>- Pensions Forum*</li> <li>- Regulation of Centre of Pensions*</li> <li>- Development of church pension scheme*</li> <li>- Negotiation group on Rehabilitation*</li> <li>- social security of immigration and emigration*</li> <li>- Depression prevention project (MASTO)*</li> <li>- Social Security reform committee (SATA-committee)*</li> <li>- Coordination group of labour market coordination*</li> <li>- Development of social security for the self-employed*</li> <li>- Elderly and Pensions issues negotiation group*</li> <li>- Elderly and pensioners negotiation group*</li> </ul>	<ul style="list-style-type: none"> <li>- EU-issues Committee, preparatory section 25*</li> <li>- EU-issues Committee, preparatory section 27*</li> <li>- Industry-wide fund and company fund group</li> </ul>
Groups internal to pension system	<ul style="list-style-type: none"> <li>- Pension Record coordination group (OTEKO)*</li> <li>- VILMA-record follow-up group*</li> </ul>	<ul style="list-style-type: none"> <li>- EC transfer law special bases following group*</li> <li>- Calculation bases negotiation group (in TELA)*</li> <li>- Calculation bases section (in TELA)</li> <li>- Investment issues negotiation group (in TELA)*</li> <li>- T-group (the pension providers' general discussion group)*</li> <li>- Insurance supervision negotiation group (in ETK)</li> <li>- The negotiation group of self-employed (YNK)</li> <li>- Insurance condition section (in TELA)</li> <li>- Pension information group (ELNA, in TELA)*</li> <li>- EU and international affairs negotiation group (in TELA)*</li> <li>- JENKKA-group (ETK and KELA mutual communications group)*</li> <li>- KAIHO working group (EU pension issues discussion group)*</li> <li>- Rehabilitation issues working group (in TELA)*</li> <li>- Supplementary benefits group (in ETK)*</li> <li>- Part-time pensions group (discussion group between ETK, pension providers and Porasto)*</li> <li>- Pension decisions section (in TELA)*</li> <li>- Legislation Interpretation Group*</li> <li>- TyEL supervision coordination group (TYKO-group)</li> </ul>

	<b>Temporary Working Groups</b>	<b>Permanent Working Groups</b>
(Groups internal to pension system)		<ul style="list-style-type: none"> <li>- Unemployment pensions group (between ETK and pension providers)*</li> <li>- Paid-up pension group*</li> <li>- Responsibility division group</li> <li>- TILMO-working group*</li> <li>- YHELLA support group*</li> <li>- Insurance IT services group*</li> <li>- IT Processing group (TKT)*</li> <li>- EU technical group*</li> <li>- EU Information system group*</li> </ul>
Labour market organisation set groups		<ul style="list-style-type: none"> <li>- Labour Market Central Organisations' Negotiation Group (so-called Rantala group)*</li> </ul>
Other groups	<ul style="list-style-type: none"> <li>- The Negotiation Group for Pension Issues (set by KELA board)*</li> <li>- Work/life-balance -programme steering and follow-up group*</li> </ul>	<ul style="list-style-type: none"> <li>- Nordic Social Statistics Committee*</li> <li>- Social and Health Sector statistics cooperation group*</li> </ul>

\* Included in the data in Figure 1.

\*\* Some of the ICT-related groups omitted from the list.

Source: Kortesoja & Huikuri (2009).





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