

Inequalities in pensions and retirement from a life course perspective: An introduction

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1 | ANALYSING THE LINK BETWEEN LIFE COURSES AND PENSION SYSTEMS

Life course trajectories have become increasingly important for retirement and pensions as recent reforms have strengthened the link between lifetime employment and benefits, introduced measures to lengthen working lives and increased the role of private supplementary pensions. At the same time, life courses are increasingly fragmented due to diversified and discontinuous employment, family dynamics and migration. These developments raise concerns about the adequacy of pensions as well as socioeconomic and gender inequalities in old-age income, not only for current but also for future retirees. This Special Issue focuses on inequalities in pensions and retirement from a life course and intergenerational perspective.

The interrelation of individuals' life courses and pension systems is essential for understanding the living conditions and financial well-being of older individuals. Pension benefits are the main income source of retirees in mature welfare states. While there is some variation in the degree of privatization of pension systems as well as in the relevance of occupational pension plans, statutory systems remain the main provider of income for the current generation of retirees in OECD countries (OECD, 2019). Therefore, governmental decisions on the design of pension systems directly impact the living standard of current and future elderly.

In the pension systems of developed welfare states, the level of pension benefits is mostly in some way linked to the previous employment history and/or other aspects of the individual life course. However, variation exists in how this link between old-age benefits and previous life courses is designed. Two basic options can be differentiated. According to the Bismarckian social insurance principle, pension benefits are based on contributions during working life and are thereby strongly linked to previous earnings. In contrast, Beveridge-style basic pensions are more-or-less independent from achievements during working life and provide a certain minimum standard of living for every pensioner. In most countries, pension systems are de facto a mix of both ideal types (Hinrichs & Lynch, 2010; Kuitto & Kuivalainen, 2020). Pension systems also differ with respect to the relevance of private provision which also relies on deposits during working life or, in the case of occupational pensions, is restricted to specific

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employees and requires steady careers. Therefore, the link between life course and later life income is the stronger the more pronounced the Bismarckian elements are and the more privatized a pension system is.

Social policies, as especially the pension system, operate on basis of an institutionalized “normal life course” which defines what is “standard” and what as “atypical” in terms of calculating and granting benefits (Kohli, 1985; Leisering, 2003). This “normal life course” is in many societies highly gendered as it is oriented upon a male-dominated biography of continuous full-time employment. Accordingly, eligibility criteria and level of public pension receipt are usually linked to paid employment, while informal care work or periods of unemployment are much less or not at all considered in some countries (Leitner, 2001). In the shift from industrial to service society, however, this normative orientation on continuous standard employment faces turmoil. As challenges arise from rising global competition, digitalization and automatization and volatile work histories, precarious and non-standard employment have become increasingly frequent for larger parts of the working population and are no longer a phenomenon solely restricted to women with care responsibilities (Buchholz et al., 2009).

The relationship of life courses and pension systems has been in the spotlight of empirical sociological and social policy research for a long time. This is because the relationship is of relevance for researchers from different areas: sociologists focus more on micro-level relationships within individuals' life courses while social policy and political science researchers examine how pension systems impact social inequality from a macro perspective. With respect to the first line of research, country-specific and comparative studies examine life course determinants of income and living standard of the current generation of elderly. Previous studies in this tradition reveal among others that atypical work histories and family trajectories seem detrimental with regard to *household* income of older men and women. However, for older women's *personal* incomes, long-term marriages are rather unfavourable (e.g., Fasang, Aisenbrey, & Schomann, 2013; Sefton, Evandrou, Falkingham, & Vlachantoni, 2011). The welfare state is an important mechanism of stratification for old-age incomes (Dewilde, 2012). When accounting for life course factors, pension system characteristics prove to be especially relevant for women's old-age income and reproduce inequality (Möhrling, 2015). Most studies in this line of research include older birth cohorts that have entered retirement already in the 2000s and, therefore, can only give clues about the situation of future retirees. One of the few studies delivering a more prospective picture by Meyer, Bridgen, and Riedmüller (2007) uses hypothetical “risk biographies” to examine likely distributional outcomes of pension system privatization on the financial resources of the elderly.

The other line of research that this Special Issue addresses are macro level studies on the relationship of pension systems, pension reforms and well-being in old age. Previous research in this field focuses on the effects of pension reforms on old-age poverty and inequality (e.g., Grech, 2015; Zaidi et al., 2006). In particular, the privatization of pensions is seen as accelerating old-age poverty and income inequalities of retirees (e.g., Anderson 2019; Been, Caminada, Goudswaard, & van Vliet, 2017; Ebbinghaus, 2011). Further studies analyse how pension system characteristics reproduce or cushion gender differences in pensions (e.g., Betti et al. 2015; Leitner, 2001) or facilitate later retirement (e.g., Ebbinghaus, 2006; Ebbinghaus & Hofäcker, 2013).

Despite the broad range of previous research in the field, some important blind spots remain. This applies especially to the consequences of atypical life courses for well-being in later life. For example, how do unemployment and low pay impact old-age income and wealth? Does divorce or single parenthood always translate in a higher old-age poverty risk? What are the consequences of informal caregiving for example for children or fragile family members for the caregiver's pension income? These gaps partly emerge from data restrictions in empirical studies: as we are unable to observe complete life histories for younger cohorts, we are also unable to address these questions empirically.

Nevertheless, as social and economic change modifies individuals' work histories in the direction of greater volatility and a higher prevalence of atypical employment, it remains important for social scientists to address these questions – both from a micro level as well as a policy perspective. Standard employment and marital biographies that were the default assumptions underlying most of the pension systems at their outset are increasingly vanishing. Employment histories become more de-standardized in the transition from industrial to service society and are moving away from the lifelong standard employment relationship in favour of fixed-term contracts and volatile careers. Because life expectancy increases, older people need more care which, in turn, is often divided unequally between

men and women. With increasing international mobility and migration, a rising number of people also accrue their pension rights in more than one pension system, and migrants often have weaker labour market positions compared to the non-migrant population (Bridgen, Meyer & Davison, 2021; Heisig, Lancee & Radl, 2018). Lastly, we are just at the brink of seeing the consequences of a long-term dismantling of public pension systems within the OECD as, in most countries, this will not affect current retirees.

2 | THE COMPARATIVE APPROACH OF THIS SPECIAL ISSUE

Despite the societal and political relevance of the topic, comparative research on the linkage between life course dynamics and pension systems affecting retirement and old-age income is surprisingly scarce. A comparative perspective provides several important advantages that enable a better understanding of both the effects of recent pension reforms and trends in life courses for inequalities in old age. First, there is considerable institutional variation across countries with respect to pension systems providing old-age income, but also in terms of other institutions supporting labour market participation and providing social security and services throughout the life course. In part, recent reforms have also taken different paths. A comparative approach accounting for this variation helps in assessing the effects of institutions with differing design and their change on pension adequacy and retirement transitions. Second, countries also vary considerably regarding gender division in labour markets, care and incomes. This is reflected in a substantial gender gap in pensions in nearly all countries. A comparative perspective may reveal both institutional and societal factors that promote gender equality in old age. Third, a comparative perspective is also needed to assess how successfully the goals set by the European Union and promoted by other international organizations such as the OECD regarding pension adequacy, lengthening working lives and reducing the gender pension gap have been reached (European Commission, 2018; OECD, 2019). While monitoring trends using microdata is widely utilized by the EU and the OECD, comparative research offers more profound knowledge on the impacts of reforms. Lastly, comparative analysis provides methodologically more reliable ways of detecting causal relationships and covariance between pension system features, life course factors and inequalities in pension income and retirement.

The contributions of this Special Issue provide topical and important insights based on empirical cross-national comparative analyses and this way, contribute to the closing of the gaps described above. The first set of articles focuses on recent trends in pension system reforms and their main goals in affluent welfare states and points to inequalities in old age that follow from these. Two developments in particular seem crucial. First, the increasing role of private pension provision, together with cuts in public pensions, endangers the positive trend of decreasing old-age poverty of past decades. Many people with low or even average incomes are not able to make private pension savings that would accumulate adequate income in old age. Simultaneous cuts in the level public pensions tend then to harm low-to-middle income pensioners the most, increasing inequalities in old age income and well-being. Second, because of recent reforms, full and adequate pensions are increasingly dependent on longer working lives and pensions accruing from earnings throughout the life course instead of from the end part of the career. However, not everyone is capable for working longer for example because of sickness, disability or persistent unemployment, and fragile working careers with disruptions are becoming more common. This, again, further weakens the adequacy of old age income especially for those with non-standard and/or low-income careers and generates further inequalities not only in old age financial well-being, but also in the timing and voluntariness of retirement. Old-age income and retirement, therefore, in general, reflect inequalities that occur throughout the life course stronger than before.

The second set of articles focuses on inequalities in late careers, retirement and old-age income that are shaped by non-standardization of life courses. The articles provide new empirical insights into how working lives and family patterns have become more de-standardized and fragmented, or how an increasing need for elderly care might reinforce gender and social inequalities in retirement and pensions.

Lastly, this Special Issue also focuses on the challenge of intergenerational inequality that gains in importance with demographic ageing. By applying a comparative perspective on public support for pro-old policies, the final

article of the collection points to the importance of perceived inequalities between generations for the legitimacy of future pension reforms.

3 | OVERVIEW OF THE ARTICLES OF THE SPECIAL ISSUE

The first article by Karl Hinrichs studies pension reforms carried out in EU countries over the last 30 years. Most of the reforms have aimed at strengthening long-term financial sustainability. Cost-containing measures have often meant lower adequacy and tighter conditions, which have brought along an increased risk of old-age poverty. The tightened contribution-benefit ratio will affect future generations of pensioners, particularly those with an atypical employment career. Hinrichs argues that, in view of changing life courses and growing inequality, preserving an effective instrument for poverty alleviation in old age becomes more important than before.

The second article by Bernhard Ebbinghaus takes a closer look at the increasingly important topic of retirement income adequacy. A comparative analysis of poverty rates and income inequality in old age reveals that substantial poverty and income inequality in old age still exist across Europe, albeit with wide cross-national variation. Minimum income provision of public pension systems contributes the most to poverty risks, while the overall pension architecture impacts on how inequality acquired during working life is reproduced in old age. In line with Hinrichs, Ebbinghaus argues that the role of non-contributory pensions will increase, given that employment careers are becoming less standardized.

Recent reforms have aimed at extending working lives and increasing the effective retirement age. The article by Kati Kuitto and Jan Helmdag investigates how policies have shaped retirement and labour market participation of older workers in OECD countries over two decades. Pension system amendments have postponed retirement in many countries, but social policies supporting labour market participation throughout the life course that are often referred to as social investment policies have been correspondingly important for extending working lives. However, the authors note that policies to extend working lives bear the danger of rising inequality. Adequate pension provision is widely achieved only if the extension of working lives becomes a reality for most people.

Non-standard work and fragmented family histories are more common today than ever. National pension systems recognize these risks to varying degrees. This is the topic of the article by Katja Möhring, using life history data for 12 European countries. Some characteristics (e.g., single parenthood and low-status employment) represent a general old-age income risk, while others (e.g., female part-time employment) are more dependent on the national context. A redistributive design of the pension system is the best way to balance differences in employment participation and working forms over the life course. If working careers and family lives remain fragmented, the need for redistributive measures will increase in the future.

In their article, Ariane Bertogg, Tiziana Nazio and Susanne Strauss investigate the effects of informal caregiving on men's and women's decision to retire or to reduce their working hours. Upward caregiving to parents is less relevant in this respect than lateral care (e.g., to siblings) and downward care (to grandchildren). The welfare model moderates the impact of caregiving on labour market participation. Similar to the conclusions by Kuitto and Helmdag, the results presented in this article highlight the importance of adapting holistic policy measures in prolonging working lives.

Generational fairness has gained a great deal of attention in recent years. The sixth and last article by Aart-Jan Riekhoff relates to the generational welfare contract and provides new comparative insight into how pension reforms relate to policy preferences of different cohorts when it comes to welfare support for old people and support for the working population and families with children. Support for pro-old welfare policies has declined particularly in countries that have introduced a greater number of pension reforms. Nonetheless, the generational welfare contract remains strong. Riekhoff's article conveys an essential message for policy makers: the sustainability of the pension system does not only depend on financial possibilities but also on the willingness of subsequent generations to retain it.

All six articles in this Special Issue point to the importance of institutional factors that arise from pension system design and reforms over time. Altogether, they contribute to a better understanding of the challenges of pension adequacy and related inequalities in contemporary welfare states and how pension policies shape them. In addition, the articles point to the importance of future research. One of the topics in need of further study is pension privatization, particularly its (re-)distributional effects and its effects on public support. Furthermore, the interdependence of social policy and labour market institutions calls for more empirical research, especially in times of changing and diverging labour markets as well as labour mobility. Adequate pension provision of migrants is one example of yet less studied areas that need more specific attention. Lastly, all articles point to the persistence or even increase of the gender gap in old-age incomes and retirement, underlining the need for further research on the ways in which policies can help reduce gender inequality in old age.

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