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## Stratifying Welfare States: Class Differences in Pension Coverage in Britain, Germany, Sweden and Switzerland<sup>1</sup>

Daniel Oesch\*

### 1 Introduction

The relationship between the welfare state and the class system has occupied the social sciences for decades. The central question was – and still is – whether the extension of social rights would reduce the disadvantage stemming from unequal locations in the occupational structure. A very optimistic view was presented by Thomas H. Marshall in his lectures given shortly after the Second World War. He expected the equality implicit in the concept of social citizenship to undermine the inequality of the class system (Marshall, 1981 [1950], 19). According to Marshall, the expansion of the welfare state would loosen the link between an individual's class and his or her life chances. This idea was taken up by Gøsta Esping-Andersen and Walter Korpi (1984, 183) who conceptualized the welfare state as a means to limit the economic vulnerability of wage-earners. Social policy, by weakening individuals' reliance on market forces, was expected to "de-commodify" wage-earners. In consequence, welfare state expansion would lead to a situation where "one's status as a citizen will compete with, or even replace, one's class position" (Esping-Andersen, 1990, 21).

However, depending on the welfare state's design, this expectation appears overly optimistic. Welfare states primarily concerned with status conservation may not lessen the class divisions produced by the market, but on the contrary freeze them (Flora and Alber, 1981; Esping-Andersen, 1990). By upholding status differences between occupational groups, they possibly reproduce stratification stemming from the market. Hence, it is an open issue whether welfare states attenuate or reinforce class divisions. This paper enquires into this question by examining the class character of pension coverage. Its objective is to find out whether differences in the class structure are reflected in differences in the integration into the old-age pension system. For this purpose, we discuss class differences in pension coverage in four countries that correspond to the different welfare regimes highlighted by

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Esping-Andersen (1990, 1999): Britain's liberal regime, Germany's conservative regime, Sweden's social-democratic regime and finally Switzerland's hybrid liberal-conservative regime.

Our analysis is divided into three parts. In a first part, we discuss the conceptual relationship between welfare regimes and the class structure. Our interest lies on the question of how differences in the labour market translate into the welfare state. In a second part, we more specifically focus on differential access to pension systems in Britain, Germany, Sweden and Switzerland and discuss issues of coverage in the different countries. In a third and final part, we empirically examine the class character of pension coverage. Based on survey data, we analyze whether access to first-tier or second-tier pensions is correlated with class position. For reasons both of differences in the welfare states' design and data availability, our analysis' main focus lies on Britain's two-tier pension system, whereas analyses for Sweden and Switzerland are more tentative. We conclude our analysis by discussing the implications of unequal pension coverage in the context of ongoing change in the employment structure.

## 2 The class character of welfare regimes

Thomas H. Marshall argued that citizenship consists of civil, political and social rights that emerged in different phases of the history of capitalist democracies (1981 [1950]). 18<sup>th</sup> century civil rights established individual freedom, 19<sup>th</sup> century political rights inaugurated political freedom, and 20<sup>th</sup> century social rights provided the basis of social welfare – freedom from want. The concept of social rights is developed in opposition to the old poor laws and closely linked with the notion of *social citizenship*. Unlike the “relief of the poor within a framework of repression” (Flora and Alber, 1981, 48), social citizenship refers to rights that individuals are entitled to claim as citizens. However, only few social rights are citizen rights in a stricter sense: depending on the country, they are more closely related to *employment status* or *economic need* than to political status. Accordingly, the degree of coverage with social rights – or the extent of “de-commodification” (Esping-Andersen, 1990) – is likely to vary considerably both across countries and policies. Some policies promote equality and minimize economic differences, while others uphold social dualism and strengthen occupational differentiation. In other words, “the programs of the modern welfare state differentially advantage various social groups, and there is important variation ... in the extent to which the interests of dominant and subordinate groups are enhanced” (Orloff, 1993, 305). Depending on whether claims for social benefits are based on citizen rights, on individuals' employment records or on means tests, the class character of the welfare state will be more or less salient.

In most welfare states, entitlement to welfare provisions is closely linked to the labour market. In contrast to earlier poor relief where the main beneficiaries were women and children, modern welfare states do not focus on these categories but on the male labourer (Flora, 1986, XXVII). This applies most obviously to Germany, where Bismarck's insurance system was, initially, centered entirely on the industrial blue-collar worker. New occupational categories were gradually added and, over the decades, accorded separate insurance programs (Kocka, 1981; Korpi and Palme, 1998). Similarly in Switzerland, social insurances have historically developed from labour law and hence make most benefits conditional on individuals' employment status (Murer, 1996). Since most European post-war welfare states are the product of the 1930s depression and the "workers question", they were originally designed for men working in industrial production (Esping-Andersen, 1999, 33). As a consequence, they offer optimal welfare coverage for individuals working full-time, without interruptions and from an early age on. This sort of coverage is unproblematic as long as full-time employment, continuous working careers and family stability are the rule: by guaranteeing an income to the male breadwinner, the welfare state is able to reach virtually everyone (Bonoli 2005). However, the standard employment relationship is disintegrating at the margins. Service sector expansion, women's increased labour market participation and changes in family structure have led to an expansion of non-standard career patterns that expose individuals to the risk of insufficient social security coverage (Bonoli, 2005, 2006a; Häusermann, 2007).

Insufficient welfare coverage thus has both a class and gender dimension. The class dimension is straightforward: routine occupations in low-skilled production, sales or service jobs are more likely to go along with low pay and precarious employment stability. They may thus result in entitlement to lower benefits. The gender aspect is closely linked. In a context of rising rates of divorce, single parenthood and non-traditional family structures, fewer women can (and want to) derive their social rights from a male bread-winner (Häusermann, 2007, 82–83). At the same time, the male bread-winner model discriminates against typical female work biographies and thus generates social insurance rights below the standard level, regardless of the institutional structure of the welfare system. Most noticeably, women are disadvantaged with respect to male bread-winners in employment- or career-based entitlement systems such as social insurance schemes or occupational benefit plans (Orloff, 1993; Esping-Andersen, 1999; Häusermann, 2007). Firstly, this is due to the *income factor*: in Western Europe, low income concentrates in routine sales and service occupations dominated by women (Oesch, 2006a, 96-98). Thus, where minimum revenue is a qualifying condition for inclusion into an (earnings-related) insurance program, it is above all women who are left out. Secondly, women's disadvantage stems from the *time factor*: access to social insurance rights is conditional on time requirements such as minimum working hours, contribution periods, dura-

tion and continuity of employment (Scheiwe, 1994, 134). Again, part-time work and interrupted careers concern above all women. In the 1990s, several countries introduced a new legislation to make up for some of these insufficiencies in pension coverage through contribution credits for care work or the extension of minimum working hours taken in account for pension entitlement. Hence, depending on a welfare state's institutional design, disadvantages in the labour market are translated more or less directly into social policy.

With respect to the four countries under study, we expect considerable variety in the extent to which different classes are covered with social rights. In Sweden's encompassing social-democratic model, citizens are endowed with similar rights irrespective of class or market position. Traditionally, flat-rate universalism and comprehensive risk coverage have minimized differences in individuals' integration into the welfare state. Esping-Andersen and Korpi maintain that "[O]ne might say that the social citizenship concept has been taken more literally here [in Scandinavia] than elsewhere; not only because coverage is universal, but also because there is a deliberate attempt to ensure that all citizens are treated on equal terms" (1987, 70).

Unlike Sweden, welfare states in continental Europe – and in Germany in particular – were never primarily motivated by egalitarian objectives. With the introduction of a social insurance system, Bismarck aimed to fragment and divide what appeared as the emerging collectivist threat of the industrial working class (Flora and Heidenheimer, 1981, 17). In effect, Kocka (1981) shows how insurance schemes in Germany succeeded in creating and consolidating new divisions among wage-earners, notably between blue-collar workers and white-collar employees. The nature of an individual's occupation determined to what extent and under what conditions life course risks were covered. Hence, the corporatist models created "socio-political communities" within the labour force and segmented citizens according to the colour of their collars (Korpi and Palme, 1998, 668). Status-differentiation is thus one of the distinguishing features of the continental welfare state: social rights are linked to class and earnings, and the capacity to reduce income inequality is small.

In contrast to the corporatist fragmentation of continental Europe, Beveridge envisioned for Great Britain a welfare state that would uniformly encompass the entire workforce: a combination of wide coverage with low flat-rate levels (as for example in the state retirement pension). Yet over the post-war decades, Britain's social policy has known a steady shift from universal to means-tested benefits (Rhodes, 2000, 172). During the conservative governments of Thatcher and Major, Britain's welfare state moved towards the residual liberal model, where good risks – the middle classes – rely on the market, while bad risks – parts of the working class – depend on means-tested assistance (Lewis, 1993, 13; Esping-Andersen, 1999). According to this image of dualist segmentation, we expect to find considerable disparity in the degree to which different social categories benefit from pension coverage in Britain.

Finally, Switzerland is a hybrid case. The importance of its earnings-related insurance schemes moves it into the proximity of the corporatist continental regime. At the same time, important elements plead for a classification alongside the liberal welfare states. The administration of several schemes is left to competing private organizations (health insurance, second-tier occupational pensions). Moreover, in social assistance, means-testing is still very widespread. Hence, most scholars agree to qualify Switzerland as a mixed conservative-liberal welfare state (Obinger, 1999; Merrien and Bonoli, 2000) – possibly with a predominance of continental characteristics (Bonoli, 2006b; Häusermann, 2007). It is then an open question whether (corporatist) status differentiation or (market) dualism is of greater importance for Switzerland in explaining differences in classes' integration into the pension system.

### 3 Access to old-age pensions in Britain, Germany, Sweden and Switzerland

Before empirically analyzing pension coverage of different classes, we briefly discuss the conditions of access to the pension systems in the four countries under study. Most comprehensive pension coverage is offered in *Sweden* where entitlement to the basic old-age pension is extended to all citizens and long-term residents, including economically inactive groups. With the abolition of means-testing in the universal “people’s pension” (*folkpension*) in 1946, eligibility has largely become divorced from work performance, marital status or sex (Esping-Andersen and Korpi, 1987). Since 1960, a second public tier complements the basic pension scheme, the mandatory earnings-related public scheme ATP (*Allmän Tilläggspension* – old-age pensions). The ATP requires relatively few years of contribution. Yet its earnings-graduated design nevertheless means that individuals with low income, discontinuous employment careers or reduced work schedules receive lower or no ATP-benefits.<sup>2</sup> Alongside the public second-tier system, Sweden also has a system of employer-provided occupational pensions, organized in four collectively bargained schemes. In comparison to the two public tiers, these occupational pensions account for a minor share of around 10 per cent of total pension income (Whitehouse, 2003, 24). Moreover, they are “quasi-mandatory” and thus cover virtually all wage-earners in Sweden (Overbye, 1996, 79).

At the end of the 1990s, the Swedish pension system was thoroughly remodelled and the relationship between the two public tiers modified. In terms of priority, the earnings-related tier substitutes the basic flat rate pension. Thus, the lion’s share of earnings goes into two (defined-contribution) income pensions that

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2 In order to avoid large inequalities, supplementary pension benefits were introduced for those with no or very low ATP benefits (without any other income testing than the amount of ATP pension received).

replace the (defined-benefit) ATP scheme. The qualifying threshold remains very low for both earnings-related schemes (a yearly minimum income of about 1000 Euro).<sup>3</sup> Accordingly, coverage extends to almost the entire working population. In addition, the former backbone of the pension system, the basic flat-rate scheme, is converted into a complementary “guarantee pension”. It is only destined to complete an insufficient coverage by the earnings-related tier (Palme 2003; Palmer 2003). This reform has been interpreted as a shift from an egalitarian-redistributive pension system towards a regime where the objective of income maintenance predominates (Bertozzi, 2003, 8). However, the Swedish pension system retains strong elements of the social-democratic welfare model: benefits from the basic pension remain high, entitlement continues to be based on residence and coverage from the earnings-related scheme is extensive.

In *Germany*, coverage with public pensions is limited to the economically active population, extending to about 85 per cent of the workforce. The self-employed and, until 1999 workers with earnings below a minimum threshold, are not subject to mandatory coverage (Börsch-Supan and Wilke, 2003, 5). Due to its earnings-related system, public pensions in Germany are roughly proportional to labour income averaged over the entire life course and have thus very small redistributive properties. Yet benefit levels are very generous: in 2000, the replacement rate amounted to 70 per cent of pre-retirement earnings for an average worker with 45 years of contributions. Not surprisingly, this high replacement rate crowds out private pension plans; employer schemes and personal plans play only a very subordinate role in the German pension system. While a quarter of private-sector employees in Germany are covered by occupational pensions (Whitehouse, 2003), their contributions to total pension income are marginal: pensions from the public insurance scheme account for 80 per cent of total pension income as compared to only 15 per cent stemming from savings and 5 per cent from occupational pensions. This is slowly changing with the Riestert reform introduced in 2001: It will lead to a gradual reduction in the maximum replacement rate of public pension benefits from 70 to around 64 per cent by 2030 and to mandatory contributions into company or personal schemes (the so-called *Riester Rente*). At the same time, the reform introduces a basic pension guarantee for all residents in need (conditional on means-testing). Being financed through taxes, it provides benefits at a level slightly above social assistance (Bonoli and Palier, 2007, 564).

*Switzerland's* welfare state is often ranged alongside the corporatist-continental regime. However, with regard to pensions, the Swiss system is quite different from the German design, as it rests on three pillars or tiers. The first-tier consists of a basic pension that combines both Bismarckian and Beveridgean features. Being mainly financed through employment-related contributions, it has a universal

3 Earnings must be in excess of 24% of the base amount (the minimum level at which income must be declared for tax purposes) which was 36 900 SKR in 2001 (Palme, 2003).

coverage and includes all residents who have contributed to the scheme during at least one year. It is only weakly income-related: benefits vary between a minimum of 20 and a maximum of 40 per cent of the average wage. Since there is no ceiling on earnings-related contributions, the basic pension is strongly redistributive. People depending on this pension as their sole source of income are entitled to a (means-tested) pension supplement (Obinger, 1999). The basic first-tier pension is completed by a second-tier occupational pension, which became mandatory in 1982 and strongly reinforced the income-maintenance goal in the Swiss pension system. Finally, the third-tier consists of tax-deductible savings that primarily benefit high-income groups and the self-employed.

With respect to coverage, the inclusive character of the basic pension collides with the exclusive nature of the funded occupational schemes. In effect, employees with monthly earnings below 40 per cent of the average wage (about 1360 Euro in 2003)<sup>4</sup> do not contribute to an occupational pension fund. While this minimum earnings limit is generally exceeded by full-time workers, it proves too high for many part-time employees, most of whom are women. Moreover, employees combining several part-time jobs are also left out if none of their wages exceeds the threshold. Thus, besides the self-employed, about ten per cent of employees are excluded from funded pension schemes (Bonoli, 2003, 409). Even for those employees with wages slightly higher than the minimum earning limit, these schemes yield very small benefits as only the income share above the threshold is taken into account for savings. In 2003, the Swiss parliament decided to lower the minimum earnings threshold to 30 per cent of the median wage.<sup>5</sup> Nonetheless, the Swiss pension system shows discreet signs of a dualist system: while the basic pension and the (means-tested) pension supplements determine the earnings capacity of low-income retirees, funded pensions are gradually substituting the basic pension as the main source of income for the middle classes (Bonoli and Gay-des-Combes, 2003, 62).

In *Britain*, reforms of Thatcher's and Major's conservative governments have shifted priority from the first-tier flat-rate basic pension to second-tier occupational and personal pensions. By decoupling benefit indexation from wage increases in 1979, the Thatcher government caused far-reaching benefit cuts in the basic pension: between 1978 and 1998, it declined from 25 per cent of the average wage to only 16 per cent (Liu, 1999, 25). Parallel to the weakening of the first-tier, in 1986 the Thatcher cabinet introduced the possibility to opt out of the public second-tier (the state earnings-related pension SERPS). As a result, Britain's earnings-related tier has been split into three parallel pension programs: state pensions, occupational pensions and tax-deferred personal pensions. By the end of the 1990s, 10.5 million of the British workforce had access to an employer-provided occupational scheme, 10 million had bought personal pensions and 7 million remained with the state pen-

4 25 320 SFR per year, corresponding to 2110.— SFR per month.

5 18 990 SFR per year, corresponding to 1580.— SFR per month.

Table 1: Access to and objectives of old-age pension in Britain, Germany, Sweden and Switzerland

	First-tier old age pension		Second-tier old age pension		Effect on social structure
	Access	Objective	Access	Objective	
Britain	In-between inclusive/ exclusive	Poverty reduction	Occupational pension: exclusive	Income maintenance, fringe benefit	Strong stratification (dualism)
Germany	Inclusive	Income maintenance	Occupational pensions: as yet irrelevant for pension income		Medium stratification (status segmentation)
Sweden	Inclusive	Poverty reduction	Public pension: inclusive	Income maintenance	Weak stratification (universal coverage)
			Occupational pension: inclusive	Income maintenance	
Switzerland	Inclusive	Poverty reduction	Occupational pension: in-between inclusive/ exclusive	Income maintenance	Medium stratification (status segmentation)

sion SERPS (Department for Work and Pensions, 1998). According to Liu (1999, 38) and Emmerson (2002, 18), partial privatization of the pension system has led to a “creaming off” of the country’s top earners from the SERPS to occupational pensions, and of medium earners to personal pensions. In contrast, individuals in low-pay positions – who are often excluded from employers’ occupational pensions and have savings that are too small for personal pensions – continue to depend on the state second-tier pension SERPS.

In parallel to the process of partial privatization, the pension prospects of individuals incapable of opting out from the SERPS have deteriorated significantly between 1979 and 1995. As public pensions have become gradually less important for the middle class (who have access to occupational and personal pensions), the different Conservative governments seized the opportunity to trim the benefits of both the state basic pension and the SERPS. Due to a series of steep cuts, the maximum benefit from first- and second-tier public pensions combined amounted to only 36 per cent of the average earning in 1999 (Liu, 1999, 38). The situation of increasing pension dualism was evident when Blair’s Labour government took office. As a response, it substituted the SERPS with the state second pension, a second-tier pension destined to gradually become flat-rate. It is explicitly designed to cover workers excluded from occupational and personal pensions (Bonoli, 2003, 410). Yet as the combined value of the basic pension and the state second pension remains very low, the logic of the British pension system remains unchanged. Sole coverage with public pension schemes leaves a sizeable proportion of pensioners dependent on means-tested benefits to maintain acceptable living standards.<sup>6</sup>

<sup>6</sup> The importance of targeting is illustrated by another figure: in 2003, over half of Britain’s pensioners received benefits conditional on means-testing (Hansard [official report of the proceedings of the

This discussion of the countries' pension systems shows that conditions of coverage strongly differ between the countries. These differences in access to the first-tier and second-tier pension are summarized in table 1.

#### 4 Analysing class differences in pension coverage: data and measures

Our empirical enquiry picks a few aspects of pension coverage that are country-specific: While the analysis of second-tier old-age pension is highly interesting for Britain (where the bulk of pension income stems from second-tier pensions), there is no point in examining coverage with occupational pensions in Germany, where they play a very marginal role. Our empirical analysis thus focuses on a few selected features of access and coverage.

For Britain, our analysis starts out by examining class coverage with the first-tier old-age pension. This dimension of pension access is operationalized through earnings: individuals who receive a lower annual income than 3432 £ (year 1999) fall below the earnings limit that gives access to both first and second-tier pensions. Only a small minority of the labour force does not reach this threshold. More consequential in the British pension system is the question whether individuals have access to second-tier occupational and personal pensions. Our data at hand, the British Household Panel Survey BHPS, asks individuals whether they are integrated in their employer's occupational pension scheme and whether they have set up a personal pension plan. Operationalization of these two questions is thus straightforward.

In Sweden and in Switzerland, our analysis focuses on the inclusion in earnings-related second-tier pensions. We operationalize this dimension by using information about work income: individuals gaining less than the minimum earnings limit are not covered by second-tier pensions. In Sweden, the annual minimum earnings limit for inclusion in the public second-tier is very low at about 1000 Euros (year 2000); in Switzerland, the annual minimum earnings limit for the occupational second-tier is more exclusive, amounting to about 16 250 Euros (year 1999).<sup>7</sup>

In Germany, employees working less than 15 hours per week were traditionally excluded from the state pension. Reforms at the end of the 1990s have made the first-tier state pension very inclusive with respect to the employed workforce: since 1999 employers have to pay a contribution amounting to 12 per cent of their wages for low earners, while employees remain free whether they want to contribute or not. At the same time, second-tier private pensions are still at an embryonic

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British Parliament] 25 June 2001, Col. 376). The logic of means-testing was further underpinned by the Blair government through a substantial increase in money spent in means-tested benefits, the Pension Credit.

7 In national currencies, the minimum earnings limits were annually 36 600 SKR in Sweden (2000) and 24 120 CHF in Switzerland (1999)

stage. Hence, from the existing data, notably the German Socio-Economic Panel GSOEP, we cannot derive an objective indicator for pension coverage. Accordingly, Germany is left out from our empirical analysis.

Our analysis is based on representative individual-level surveys that include detailed information about individuals' occupation, education and income. For Britain, we use the *British Household Panel Survey* (BHPS) year 1999, for Sweden, the *Level-of-Living Survey* (LNU) year 2000, and for Switzerland, the *Swiss Household Panel* (SHP) year 1999 (see table 2 for their properties). These surveys contain detailed information about the individuals' socio-economic situations. They thus enable us to precisely determine individuals' class locations and income and to shed light on certain aspects of pension coverage.

Table 2: Data sets and sample size

	British Household Panel Survey (BHSP)	Swedish Level-of-Living Survey (LNU)	Swiss Household Panel (SHP)
Year of data collection	1999	2000	1999
Total sample size: N individuals	15 625	5142	7799
Size of target population: N*	6020	2770	2550
Reference	Taylor (2001)	Jonsson and Mills (2001)	Zimmermann et al. (2003)
Web-reference	<a href="http://www.iser.essex.ac.uk">www.iser.essex.ac.uk</a>	<a href="http://www2.sofi.su.se/LNU2000/english.htm">www2.sofi.su.se/LNU2000/english.htm</a>	<a href="http://www.swisspanel.ch">www.swisspanel.ch</a>

\* Employees aged between 20 and 65 years and spending at least 20 hours per week in paid employment.

Our paper's focus lies on the relationship between pension coverage and occupational class. Accordingly, the class concept and its operationalization carry particular weight. To clearly differentiate between class locations, we use a class schema that has been discussed and empirically examined in great detail elsewhere (Oesch, 2003, 2006a, 2006b). The schema's construction logic is based on the combination of a *vertical axis* reflecting more or less favourable employment relationships (Erikson and Goldthorpe, 1993) with a *horizontal axis* capturing differences in the work logic (Esping-Andersen, 1993). While the vertical axis of hierarchy is theoretically well documented (Goldthorpe, 2000, chap. 10) and easily operationalized through the notion of occupational skill requirements (see Tählin, 2007), the horizontal axis must be briefly explained. Drawing on contributions from Kriesi (1989), Esping-Andersen (1993) and Kitschelt (1994), the horizontal axis separates occupations on the basis of their work context and distinguishes four work logics: (1) a interpersonal service logic typical of the helping, teaching and caring occupations; (2) a technical work logic applying to the scientific, craft and production occupations; (3) an organizational work logic characteristic of the managerial, administrative and

clerical occupations; (4) an independent work logic applying to the employers and the self-employed (see Oesch, 2006a, b). The combination of these two dimensions gives us the 15-class schema shown in table 3.

We operationalize this class measure on the basis of three criteria:

- (i) individuals employment status (in order to distinguish between employees and employers/self-employed);
- (ii) individuals present occupation;
- (iii) individuals highest educational attainment (in order to distinguish between vocationally/generally skilled workers and unskilled workers)

Among these three criteria, occupational variable provides by far the most consequential information for the allocation of individuals to the class schema. For the British and Swiss samples, we use information stemming from ISCO-88 (International Standard Classification of Occupations) at the detailed 4-digit level. For the Swedish sample, information about an individual's job is classified according to NYK-83 (Nordic Occupational Classification) at the 3-digit level. The degree of specificity is rather similar for the three data sets: 216 occupational codes are distinguished in the Swiss, 267 in the Swedish and 300 in the British sample. In addition to occupational codes, we use information about the highest level of education obtained to separate skilled craft workers from routine operatives, and skilled service workers from routine service workers. The schema's operationalization is presented in Oesch (2006a, 75–84).<sup>8</sup>

Our analysis only includes individuals aged between 20 and 65 years who spend least 20 hours per week in paid employment. Thereby, we avoid deriving a class position from the employment of individuals who are only marginally involved in the labour market. As a consequence, besides the very young and the retired, we exclude from our analysis part-time employees working less than 20 hours per week, workers on maternity leave, house-husbands and house-wives, the unemployed and students. Table A.1 in the annexe shows the distribution of economically active individuals across the 15 classes in the three countries under study. For our analysis of pension coverage, we leave aside the self-employed and employers, since they are only partially integrated in the occupational second-tier pensions in Britain and Switzerland. These restrictions still leave us with large samples of 6020 (Britain), 2770 (Sweden) and 2550 (Switzerland) individuals. While we use cross-sectional weight variables to improve the representativeness of the British and Swiss sample, there was no weighting of Sweden's LNU survey.

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8 The SPSS syntax used to construct the schema can be obtained by e-mail from the author.

## 5 Class differences in coverage with occupational and personal pension in Britain

We start our analysis with Britain, the country in our sample where segmentation in the pension system is the strongest. For income security in old-age, affiliation to an employer's occupational pension scheme is of particular importance. However, in many employer schemes, access is restricted to the core staff. Hence, among the 10.7 million employees covered by an occupational scheme in 1991, 2 million were in schemes excluding blue-collar workers and 5 million in schemes restricting access for part-time workers. Moreover, 1.1 million employees were in schemes that impose a waiting period of one year on new workers (Davis, 1997, 16). In the British Household Panel Survey, respondents were asked whether they were affiliated to an employer's occupational scheme. In table 4, we have computed for each class the share of individuals with access to such a scheme. These results clearly confirm the class character of pension coverage in Britain. Among the ranks of the privileged salaried middle class (socio-cultural professionals, higher-grade managers and technical experts), at least 70 per cent have access to an occupational pension. Coverage is highest among socio-cultural professionals and semi-professionals with between 77 and 80 per cent coverage. This high rate stands out against the situation among craft workers and routine operatives, where only a minority of between 40 and 46 per cent has access to an employer's occupational pension scheme. However, the situation is even less enviable for routine service workers where less than 40 per cent of employees are included in an employer scheme.

Table 3: The 15-class schema based on differences in marketable skills and the work logic

	Employees			Self-employed	
	Interpersonal service work logic	Technical work logic	Organizational work logic	Independent work logic	
Professional / managerial	Socio-cultural professionals	Technical experts	Higher-grade managers	Self-employed professionals	Large employers (>9)
Associate professional / managerial	Socio-cultural semi-professionals	Technicians	Associate managers	Petite bourgeoisie with employees (less than 9)	
Generally / vocationally skilled	Skilled service workers	Skilled craft workers	Office clerks	Petite bourgeoisie without employees	
Low / unskilled	Routine service workers	Routine operatives			

Source: Oesch (2006a: 68)

The alternative to coverage with an employer's occupational fund is to set up a personal pension: employees who are excluded from their employer's scheme usually opt for personal pension plans if they can afford them. Otherwise, they depend on the low benefits of the public second-tier pension, which provide at best a wage replacement rate of 20 per cent, to which the basic pension contributes another 16 per cent of the average wage (figures for 1999). Table 4 reveals that 21 per cent of the employee workforce pays into a personal pension scheme. There is an obvious gender dimension in the propensity to save in personal pension plans: men not only receive higher wages and spend more time in paid work, they also succeed in making better provisions for retirement than women. While 24 per cent of gainfully employed men pay into a personal pension, only 17 per cent of gainfully employed women have access to them. Coverage with a personal pension is lowest among the (predominantly female) categories of service workers (14%) and office clerks (17%). In contrast, managers (24%), technical experts (24%) and, above all, craft workers (28%) are overrepresented among individuals possessing a personal pension fund.

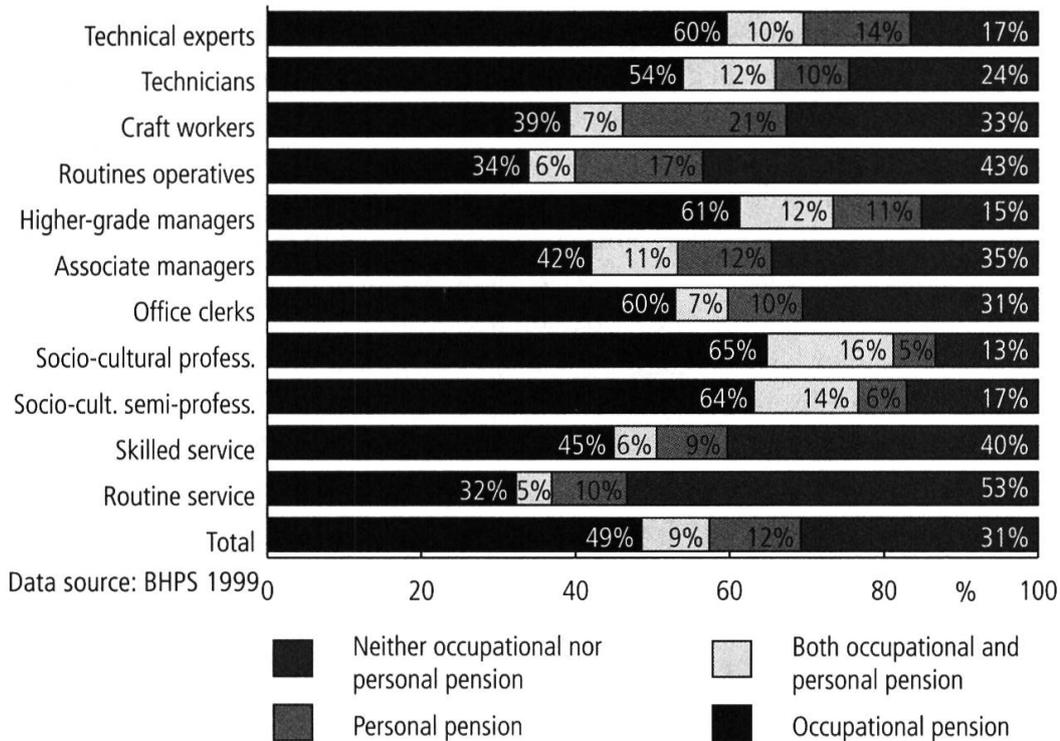
Table 4: Share of individuals covered with an employer's occupational pension scheme within each class in Britain 1999, employee classes only (in %)\*

	% of class covered with an occupational pension			% of class covered with a personal pension plan		
	All	Men	Women	All	Men	Women
Socio-cultural professionals	80.7	80.0	80.7	21.8	24.4	20.0
Socio-cultural semi-professionals	76.7	70.5	78.1	19.8	19.0	19.9
Skilled service	50.6	61.4	41.2	14.6	15.8	14.0
Routine service	36.8	43.0	33.7	14.4	13.7	14.5
Technical experts	69.5	70.2	67.5	23.9	25.6	14.6
Technicians	66.5	68.4	62.4	21.3	22.4	20.0
Skilled craft workers	46.0	46.0	45.8	28.2	29.6	12.2
Routine operatives	39.9	44.6	24.3	22.7	24.1	18.4
Higher grade managers	73.4	72.4	75.7	23.5	25.8	19.1
Associate managers	53.3	55.4	50.8	23.5	29.4	16.5
Office clerks	59.9	63.8	57.9	16.6	15.9	17.0
Total share	57.4%	58.4%	56.1%	20.7%	23.7%	17.1%

Data source: BHPS 1999; Number of observations: 6017.

The finding that (mainly male) craft workers are strongly overrepresented among the categories having a personal pension may come as a surprise. It is explained by the fact that craft workers (and, to a lesser extent routine operatives) make up for

Figure 1: Coverage with an occupational and/or a personal pension in Britain 1999 (N = 6017)



fragmentary coverage with an employer scheme by exclusively saving into a personal pension. This is evident from figure 1 which shows coverage with both occupational and personal second-tier pensions. It reveals a close link between the class location and access to second-tier pensions in Britain: among higher-grade managers, technical experts and socio-cultural (semi-)professionals, less than 20 per cent possess neither an occupational nor a personal pension. Associate managers, office clerks and craft workers take an intermediate stance, with roughly 30 to 35 per cent left out from either occupational or personal pensions. In contrast, the situation is less enviable for routine operatives and skilled service workers, where 40 per cent lack coverage with occupational or personal pensions. Finally, occupational and personal pension funds remain largely beyond the reach of routine service workers, with less than 50 per cent covered by either one of the two schemes. These results effectively suggest that in Britain, *public* second-tier pensions have been reduced to a rudimentary backup for those excluded from employer schemes and unable to save in personal pensions.<sup>9</sup>

9 Blair's reform of gradually transforming the earnings-related state pension (SERPS) into a flat-rate State Second Pension must be understood in this context: the middle class having abandoned the SERPS, what remains of the second-tier pension primarily caters to low earners. Accordingly, fighting poverty becomes the top priority and a flat-rate pension the obvious answer. At the same

Other determinants besides class are likely to have an influence on pension coverage. Hence, factors such as being young, female, working part-time in a small business set in the private sector are all expected to reduce the probability of an individual to be covered by an occupational or a personal pension. For this reason, we resort to multivariate analysis and control for the influence of these six determinants: age, gender, occupational class, employment status, establishment size and sector ownership. As our dependent variable 'coverage with an occupational or a personal pension' is dichotomous (not covered = 0/covered = 1), we use binary logistic regressions. Table 5 displays the result of two regressions run separately for men and women. They clearly confirm the relevance of class for the explanation of differences in pension coverage. For men, evolving in the routine services massively reduces the probability of pension coverage in comparison to all other classes. In contrast, women employed as craft workers and routine operatives have pension prospects that are as bleak as those of their colleagues working in the routine services. Besides class, the public-sector setting of an organization and the size of an establishment significantly increase the probability of pension coverage. Finally, age and full-time employment both have a strong positive influence on coverage. Albeit present for both sexes, their effect is somewhat weaker for women than for men.

In multi-tier pension systems, access to second-tier pensions is often barred to low earners. This lies, to some degree, in the logic of the system: while the first-tier pension normally provides a flat-rate minimum benefit that is sufficient to cover basic needs, the second-tier is supposed to replace income at a level that allows the maintenance of accustomed consumption capacities. In Sweden and Switzerland, the basic pension provides a comparatively high replacement rate for low earnings. As a consequence, the exclusion of individuals with low (or very low) wages from the earnings-related tier may not appear very unsettling. However, two trends make it increasingly problematic: firstly, gradual shifts in priority and benefit levels from the flat-rate basic pension to earnings-related schemes; secondly, the expansion of non-standard types of work typical of much – mostly female – service employment. Thus, the increase in the share of low-earners (due to part-time and limited-duration contracts) and the simultaneous decrease in basic pension benefits may sharpen the poverty risk for the elderly in Western European welfare states. At the same time, minimum earnings limits vary strongly as to their exclusive character: from a very low threshold of around 1000 Euro per year in Sweden to a high threshold of 16 250 Euro (1999) per year in Switzerland. The British minimum earnings limit lies in-between at 5560 Euro per year, but has the specificity of restricting access not only to the second-tier but also to the first-tier pension.

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time, by providing low flat-rate benefits, the reform leads to even greater incentives for middle and high earners to join a private scheme and thus cements the pension system's dualist structure (Emmerson, 2002).

Table 5: Estimates for the odds of coverage with an occupational or a personal pension in Britain 1999 (odds ratios of binary logistic regressions)

		Men	Women
Age		1.05	1.03
Status	Part-time	r	r
	Full-time	8.34	1.83
Class	Socio-cultural professionals	4.66	4.41
	Socio-cultural semi-professionals	3.92	3.86
	Skilled service workers	1.93*	1.75*
	Routine service workers	r	r
	Technical experts	6.77	6.60
	Technicians	4.17	4.04
	Skilled Craft workers	3.14	(1.75)
	Routine operatives	2.00	(1.08)
	Higher-grade managers	6.63	6.28
	Lower-grade managers	4.24	2.85
	Office clerks	2.62	3.09
Ownership	Private sector	r	r
	Public sector	7.36	5.28
Establishment	Less than 25 employees	r	r
Size	25–99 employees	1.46	1.50
	100 and more employees	2.50	2.45
(Constant)		0.01	0.05
Pseudo R <sup>2</sup> (Nagelkerke)		0.273	0.319
N observations		3113	2821

Figures show for each variable the odds ratios [Exp(B)] of the chance to be covered by an occupational or a personal pension as compared to the chance of not being covered by an occupational or a personal pension.

All coefficients are statistically significant at  $p=0.001$  or more, except: \*: significant only at 0.01; ( ): not significant; r = reference category.

Data source: BHPS 19996. Falling below the Minimum Earnings Limit in Britain, Sweden and Switzerland

We have calculated the share of employees falling below the minimum earnings limit in the year when the different datasets were compiled. Our results show that the Swedish threshold is of very little importance and excludes only very few individuals from coverage with the earnings-related pension tier. In effect, less than 0.1 per cent of employees working 20 hours or more per week do not qualify for second-tier pensions in Sweden. Therefore, results in table 6 are only displayed for Britain and Switzerland. In Britain, the lower earnings limit has a very limited impact, excluding less than one per cent of the employed labour force from contributions to the

basic pension and the state second pension. Among routine service workers, this share increases to 4 per cent. If we extend our analysis to the population spending *at least 10 hours* (instead of 20 hours) per week in paid employment, British figures become more preoccupying. Among employees working 10 hours or more per week, 4 per cent receive earnings below the minimum limit. This is mostly due to the high share of routine workers not reaching the minimum earnings limit (19%). Not surprisingly, there is a strong gender dimension: while more than 7 per cent of women remain below the minimum earnings limit, this applies to only 0.7 per cent of men.

The earnings threshold is of greatest consequence for the Swiss pension system. Table 6 shows that in Switzerland, 6 per cent of all employees working at least 20 hours per week earn wages that are too low for inclusion in occupational pension funds. Among women, 12 per cent of wage-earners do not reach the minimum earnings limit. Gender differences are striking: 71 per cent of employees falling below the minimum earnings limit are women. With respect to class differences, Switzerland presents a picture similar to that revealed for coverage in Britain with occupational and personal pensions: the largest share of individuals excluded from second-tier pensions in Switzerland are found among skilled service workers (10%), routine

Table 6: Share of individuals earning wages that do not qualify for integration in the second-tier pension system (in %) In parentheses, share of women earning wages that do not qualify for integration in the second-tier (in %)

	Britain 1999				Switzerland 1999			
	Working at least 20 h per week		Working at least 10 h per week		Working at least 20 h per week		Working at least 10 h per week	
	All	(women)	All	(women)	All	(women)	All	(women)
Socio-cultural professionals	0	(0)	0	(0)	5.7	(8.6)	11.0	(20.2)
Socio-cultural semi-professionals	0.5	(0.5)	1.8	(2.2)	4.5	(6.5)	9.8	(14.3)
Skilled service workers	2.0	(2.3)	6.3	(8.6)	10.0	(18.2)	15.0	(26.2)
Routine service workers	4.0	(3.1)	19.3	(23.3)	16.9	(24.8)	31.6	(43.5)
Technical experts	0	(0)	0	(0)	1.0	(0)	1.0	(0)
Technicians	0	(1.3)	0.4	(1.1)	4.3	(12.9)	5.4	(17.1)
Skilled craft workers	0.3	(3.5)	1.0	(9.4)	3.1	(5.9)	3.3	(10.5)
Routine operatives	0	(0)	0.8	(1.4)	10.1	(17.8)	12.0	(22.5)
Higher grade managers	0	(0)	0.1	(0.4)	1.4	(3.9)	2.0	(6.3)
Associate managers	0.2	(1.2)	0.6	(1.2)	3.2	(5.5)	6.5	(12.7)
Office clerks	0.4	(0.7)	3.2	(4.4)	7.2	(10.8)	13.1	(18.7)
Total share	0.7	(1.2)	4.1	(7.3)	6.0	(12.0)	10.6	(22.0)
N observations	5951		6586		2558		2803	

Data source: BHPS 1999, SHP 1999.

operatives (10%) and, above all, low-skilled service workers (17%).<sup>10</sup> In contrast, among technical experts (1%), higher-grade (1%) and lower-grade managers (3%) only a very small minority does not reach the minimum earnings limit.

In Switzerland, the situation also grows more worrying if we enlarge the population taken in account to employees working at least 10 hours per week. When taking this larger target population, the share of individuals not reaching the minimum earnings limit rises to almost 11 per cent, 3 per cent among men and 22 per cent among women. With respect to class, the share of individuals excluded from second-tier pensions is highest in female categories with low wages and a high proportion of part-time jobs, notably routine service workers (32% of all employees excluded), skilled service workers (15%) and office clerks (13%).

## 7 Conclusion

Since the 1950s when T. H. Marshall held his lectures on social citizenship, social rights have largely penetrated Western European societies. Both in terms of government spending and the extent of program coverage, welfare states and pension systems have undergone a process of considerable expansion. At the same time, Western European countries still make pension income, to a large extent, conditional on previous earnings. As a result, interrupted work careers, part-time employment and low pay increase the risk of insufficient pension income. Depending on the welfare regime, disadvantage in the labour market spills over, to a smaller or larger degree, to the retirement situation.

Albeit tentative, our empirical evidence suggests that social rights are distinctly correlated with class location in the two multi-tier pension systems of Switzerland and, above all, Britain. In the British two-tier pension system, inequality in the employment structure is amply echoed in inequality in pension coverage. While fewer than 40 per cent of routine operatives and routine service workers have access to an occupational pension, more than 70 per cent of managers and 80 per cent of socio-cultural professionals are covered by their employer's occupational pension scheme. Albeit at a much lower level, the same pattern of inequality emerges for coverage with second-tier pensions in Switzerland. Women working part-time in a routine service job are much more likely than other categories to miss the minimum earnings threshold. In contrast, men employed in the technical professions and in higher management are very unlikely to be excluded from Swiss second-tier pen-

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10 It is noteworthy that for more than 10 per cent of the individuals not covered, the earnings threshold is missed by a derisory amount. This suggests that in some cases, employers deliberately avoid the extra-costs of occupational pensions (consisting of employer contributions and administrative charges) by setting the wage, or the corresponding working hours, just below the mandatory contribution limit.

sions. This situation contrasts with that of Sweden where both first and second-tier pensions were still strongly inclusive in 2000.

Our enquiry into pension coverage only allows us to draw very cautious conclusions. The socio-economic surveys at our disposition strongly limit the possibility of an in-depth-analysis. Hence, more detailed research into different classes' pension situation is needed to obtain authoritative evidence about the (de-)stratifying character of welfare regimes. Nonetheless, our analyses produce one result that is both unmistakable and unsettling: fragmentary pension coverage affects in the first place the growing female personnel employed in low-skilled services jobs, associated with low pay, part-time employment, fixed-term contracts and interrupted work careers. As Bonoli (2005) points out, these new career profiles imply – if pension systems are not adapted – the translation of the labour market problems of today into a poverty problem for older people in thirty or forty years time. This situation is all the more preoccupying if looked at in a dynamic perspective. Goos and Manning (2007) show for Britain that over the last thirty years, there has not only been a spectacular increase in the number of advantageous jobs in management and the professions, but also much growth in low-skilled service occupations. Hence, we do not need a crystal ball to see that the pension problem of precarious service employment will remain acute for the near future. Here, the idea of social citizenship still has some distance to go.

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## Annexe

Table A.1: Distribution of economically active individuals across the class schema (in %)

	Britain 1999	Sweden 2000	Switzerland 1999
Socio-cultural professionals	4.4	5.1	6.2
Socio-cultural semi-professionals	5.9	7.9	6.9
Skilled service	6.1	9.4	3.7
Routine service	9.3	10.8	9.3
Technical experts	3.8	5.9	6.0
Technicians	3.6	6.0	5.5
Skilled craft workers	9.9	8.6	9.7
Routine operatives	10.0	9.6	10.1
Higher grade managers	12.2	7.7	9.4
Associate managers	7.5	8.2	8.2
Office clerks	15.9	5.9	9.8
Large employers	0.8	1.2	1.1
Self-employed professionals	1.6	2.0	2.8
Petite bourgeoisie with employees	2.7	3.4	4.0
Petite bourgeoisie w/o employees	6.4	8.4	7.3
Total %	100.0	100.0	100.0
Number of observations	6851	3304	3869

Data source: Britain: BHPS 1999; Sweden: LNU 2000; Switzerland: SHP 1999.